Stock Code:3704

Unizyx Holding Corporation and Subsidiaries

Consolidated Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018

Address: 3F, No. 363, Section 2, Gongdao 5th Rd, Hsinchu City, Taiwan
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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

Representation Letter

The entities that are required to be included in the combined financial statements of Unizyx Holding Corporation as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Unizyx Holding Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Unizyx Holding Corporation
Chairman: Shun-I Chu
Date: March 9, 2020

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Independent Auditors' Report

To the Board of Directors of Unizyx Holding Corporation:

Opinion

We have audited the consolidated financial statements of Unizyx Holding Corporation and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (" IFRSs"), International Accounting Standards (" IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee (" IFRIC") and the former Standing Interpretations Committee (" SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Emphasis of Matter

As stated in Note 3(1) to the consolidated financial statements, the Company has initially adopted the IFRS 16, "Leases" from January 1, 2019, and has applied the modified retrospective approach with no restatement of comparative period amounts. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Based on our judgment, the key audit matters that should be disclosed in this report are as follow:

1. Valuation of Accounts Receivable

   Please refer to Note 4(7) "Summary of significant accounting policies－Financial instruments" Note 5(1) " Major sources of accounting judgments, estimations and assumptions of uncertainty" , Note 6(5) "Explanation of significant accounts－Notes and accounts receivable, net" of the consolidated financial statements, and Note 7(2) " Significant related-party transactions".

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Description of key audit matters:

The Company has its customers spread throughout the globe, wherein they are vulnerable to various changes, such as environmental, economic as well as legal matters. Therefore, the customer credit control is considered to be more complex. When assessing the recoverability of its receivables, it is necessary to consider any changes in the credit quality of the receivables from the original grant date of credit limit to the reporting date. For those receivables that have not been withdrawn within the credit term, the balance of the estimated valuation allowance for bad debts is calculated by reference from the transaction in the past and current financial status. The management has subjective and significant judgments on the balance of allowance for impairment loss of receivables that involves uncertainty and may have material impact on the valuation of receivables, which is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: Testing the completeness and accuracy of the aging analysis; testing the key control of the management for the credit limits and supervision process to assess the appropriateness of the sales when it goes over of the credit limits; understanding and evaluating the management' s consideration and the rate of lifetime expected credit losses relating to receivables that are overdue, vouching the receipt of cash after the year end and understanding the possibility of remaining receivables collection suggested by historical trends; testing the adequacy of the Company' s provisions against the receivables by assessing the relevant assumptions, examining and reviewing legal documents, discussing with the management the probability of collecting the remaining receivables from related parties, as well as recalculating and evaluating the adequacy of the Company's disclosures.

2. Valuation of Inventories

Please refer to Note 4(8) "Summary of significant accounting policies – Inventories", Note 5(2) "Significant accounting judgments, assumptions, and major sources of estimation uncertainty" , and Note 6(6) "Explanation of Significant Accounts – Inventories" to the consolidated financial statements.

Description of key audit matters:

The Company mainly engages in the research and development, as well as the production of networks communication products. Inventories are stated at the lower of cost or net realizable value. The Company used judgment and estimate to determine the net realizable value of inventory at the end of each reporting period. However, the rapid evolution of technology and the fluctuation of market may lead to obsolete inventories and unmarketable items. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time frame, which could result in significant adjustments. As a result, the valuation of inventories is one of the key audit matters of our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: Obtaining the inventory aging report and testing the completeness and the accuracy of the aging of inventory based on acceptable documents from the last valid transaction; understanding and evaluating the management's judgment on the calculation of net realizable value, testing the relevant documents to assess the rationality for slow moving inventories, making an assessment of their adequacy and reasonableness for slow moving inventories and discussing with the management about the reasonableness for slow moving inventories; as well as understanding the management's assumption on the completeness of inventory provisions and evaluating the adequacy of provision to write down slow moving or obsolete inventories; and evaluating the adequacy of the Company's disclosures.

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Other Matter

Unizyx Holding Corporation has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unqualified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including audit committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are An-Chih Cheng and Shing-Hai Wei.

KPMG

Taipei, Taiwan (Republic of China)
March 9, 2020

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

Assets	December 31, 2019 Amount	%	December 31, 2018 Amount	%
Current assets:				
Cash and cash equivalents (note 6(1))	$ 3,219,348	21	1,500,532	9
Financial assets at fair value through profit or loss－current (note 6(2))	2,051	-	1,854	-
Financial assets at amortized cost－current (note 6(3))	221	-	364,584	2
Notes and accounts receivable, net (note 6(5))	4,715,847	30	7,004,816	41
Accounts receivable－related parties, net (note 7)	19,991	-	3,304	-
Other accounts receivable－related parties (note 7)	1,732	-	1,732	-
Inventories (note 6(6))	3,485,268	23	4,735,982	28
Other financial assets－current	69,573	-	65,584	-
Other current assets (note 7)	791,593	5	626,162	4
	12,305,624	79	14,304,550	84
Non-current assets:				
Financial assets at fair value through other comprehensive income－non-current (note 6(4))	8,669	-	35,482	-
Financial assets at amortized cost－non-current (notes 6(3) and 8)	19,224	-	24,661	-
Investments accounted for using the equity method (note 6(7))	32,373	-	45,585	-
Property, plant and equipment, net (note 6(9))	1,639,267	11	1,763,447	10
Right-of-use assets (note 6(10))	475,036	3	-	-
Intangible assets, net (note 6(11))	124,792	1	117,081	1
Deferred income tax assets (note 6(18))	609,085	4	636,446	4
Refundable deposits (note 8)	155,955	1	76,799	-
Net defined benefit assets (note 6(17))	85,000	1	87,879	1
Long-term rent prepayments (note 6(16))	-	-	7,752	-
Other non-current assets	30,799	-	19,590	-
	3,180,200	21	2,814,722	16
Total assets	$ 15,485,824	100	17,119,272	100

Liabilities and Equity	December 31, 2019 Amount	%	December 31, 2018 Amount	%
Current liabilities:				
Short-term borrowings (note 6(12))	$ 1,626,803	11	1,950,119	11
Short-term notes and bills payable (note 6(13))	-	-	200,000	1
Financial liabilities at fair value through profit or loss－current (note 6(2))	2,469	-	-	-
Contract liabilities－current (note 6(22))	89,595	-	259,836	2
Notes and accounts payable	3,349,407	22	5,097,037	30
Accounts payable－related parties (note 7)	79,840	-	6,333	-
Payroll and bonus payable	680,582	4	532,102	3
Royalty payable	280,526	2	204,318	1
Other payables－related parties (note 7)	-	-	5,072	-
Income tax payable	7,502	-	36,617	-
Provision for warranty obligations－current (note 6(14))	575,449	4	540,742	3
Lease liabilities－current (note 6(15))	44,021	-	-	-
Other current liabilities (note 6(8))	901,820	6	696,086	4
	7,638,014	49	9,528,262	55
Non-current liabilities:				
Deferred income tax liabilities (note 6(18))	153,279	1	280,128	2
Lease liabilities－non-current (note 6(15))	448,832	3	-	-
Net defined benefit liability (note 6(17))	3,192	-	3,649	-
Guarantee deposits received	539	-	899	-
	605,842	4	284,676	2
Total liabilities	8,243,856	53	9,812,938	57
Equity (note 6(19)):				
Equity attributable to the shareholders of the parent company:				
Common stock	4,411,773	29	4,411,773	26
Capital surplus	3,755,876	24	3,725,204	22
Retained earnings	(362,370)	(2)	(439,594)	(2)
Other equity	(463,227)	(3)	(335,286)	(2)
Treasury stock	(120,861)	(1)	(120,861)	(1)
	7,221,191	47	7,241,236	43
Non-controlling interests	20,777	-	65,098	-
Total equity	7,241,968	47	7,306,334	43
Total liabilities and equity	$ 15,485,824	100	17,119,272	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars , except for earnings per share)

	2019		2018	
	Amount	%	Amount	%
Operating revenues (notes 6(22) and 7)	$ 24,026,346	100	22,222,727	100
Cost of goods sold (notes 6(6) and 7)	18,935,820	79	18,052,949	81
Gross profit	5,090,526	21	4,169,778	19
Operating expenses (note 7)**:**				
Selling and marketing	2,203,757	9	2,274,901	10
General and administrative	870,134	3	773,302	3
Research and development	1,839,885	8	1,754,540	8
Expected credit loss (note 6(5))	940	-	125,827	1
Total operating expenses	4,914,716	20	4,928,570	22
Operating income (loss)	175,810	1	(758,792)	(3)
Non-operating income (expenses):				
Other income (notes 6(23) and 7)	61,341	-	193,999	-
Other gains and losses (notes 6(23) and 7)	(45,816)	-	66,498	-
Share of loss of associates accounted for using the equity method, net (note 6(7))	(18,283)	-	(25,647)	-
Interest expense (note 6(23))	(38,443)	-	(30,487)	-
Foreign exchange loss (note 6(25))	(172,623)	(1)	(81,533)	-
	(213,824)	(1)	122,830	-
Income (loss) before income taxes	(38,014)	-	(635,962)	(3)
Income tax expenses (benefits) (note 6(18))	(139,992)	-	(34,579)	-
Net income (loss)	101,978	-	(601,383)	(3)
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss				
Gains (losses) on remeasurements of defined benefit plans (note 6(17))	(3,122)	-	11,506	-
Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(19))	(26,813)	-	(21,452)	-
Total items that will not be reclassified subsequently to profit or loss	(29,935)	-	(9,946)	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign financial statements	(116,868)	-	(98,441)	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(18))	13,166	-	26,494	-
Total items that may be reclassified subsequently to profit or loss	(103,702)	-	(71,947)	-
Other comprehensive income for the year	(133,637)	-	(81,893)	-
Total comprehensive income for the year	**$ (31,659)**	**-**	**(683,276)**	**(3)**
Net income (loss) attributable to:				
Shareholders of the parent	$ 106,753	-	(596,490)	(3)
Non-controlling interests	(4,775)	-	(4,893)	-
	$ 101,978	**-**	**(601,383)**	**(3)**
Total comprehensive income attributable to:				
Shareholders of the parent	$ (24,310)	-	(679,743)	(3)
Non-controlling interests	(7,349)	-	(3,533)	-
	$ (31,659)	**-**	**(683,276)**	**(3)**
Earnings per share (New Taiwan Dollars) (note 6(21))**:**				
Basic earnings per share	**$ 0.25**		**(1.38)**	
Diluted earnings per share	**$ 0.24**		**(1.38)**	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to the shareholders of the parent												
			Retained earnings				Total other equity interest						
	Common stock	Capital surplus	Legal reserve	Special reserve	Accumulated deficits	Total	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Total	Treasury stock	Subtotal of equity attributable to the shareholders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2018	$ 4,411,773	3,720,573	279,833	200,347	(353,931)	126,249	(221,386)	-	(221,386)	(120,861)	7,916,348	67,019	7,983,367
Effects of retrospective application of new accounting standards	-	-	-	-	19,141	19,141	-	(19,141)	(19,141)	-	-	-	-
Balance at January 1, 2018 after adjustment	4,411,773	3,720,573	279,833	200,347	(334,790)	145,390	(221,386)	(19,141)	(240,527)	(120,861)	7,916,348	67,019	7,983,367
Net income (loss) for the period	-	-	-	-	(596,490)	(596,490)	-	-	-	-	(596,490)	(4,893)	(601,383)
Other comprehensive income (loss) for the period	-	-	-	-	11,506	11,506	(73,307)	(21,452)	(94,759)	-	(83,253)	1,360	(81,893)
Total comprehensive income (loss) for the period	-	-	-	-	(584,984)	(584,984)	(73,307)	(21,452)	(94,759)	-	(679,743)	(3,533)	(683,276)
Compensation expense of employee stock options	-	3,243	-	-	-	-	-	-	-	-	3,243	-	3,243
Issuance of common stock in cash to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	3,000	3,000
Changes in ownership interests in subsidiaries accounted for using the equity method	-	1,388	-	-	-	-	-	-	-	-	1,388	(1,388)	-
Balance at December 31, 2018	4,411,773	3,725,204	279,833	200,347	(919,774)	(439,594)	(294,693)	(40,593)	(335,286)	(120,861)	7,241,236	65,098	7,306,334
Effects of retrospective application of new accounting standards	-	-	-	-	(23,664)	(23,664)	-	-	-	-	(23,664)	-	(23,664)
Balance at January 1, 2019 after adjustment	4,411,773	3,725,204	279,833	200,347	(943,438)	(463,258)	(294,693)	(40,593)	(335,286)	(120,861)	7,217,572	65,098	7,282,670
Net income (loss) for the period	-	-	-	-	106,753	106,753	-	-	-	-	106,753	(4,775)	101,978
Other comprehensive income (loss) for the period	-	-	-	-	(3,122)	(3,122)	(101,128)	(26,813)	(127,941)	-	(131,063)	(2,574)	(133,637)
Total comprehensive income (loss) for the period	-	-	-	-	103,631	103,631	(101,128)	(26,813)	(127,941)	-	(24,310)	(7,349)	(31,659)
Compensation expense of employee stock options	-	19,641	-	-	-	-	-	-	-	-	19,641	-	19,641
Changes in ownership interests in subsidiaries accounted for using the equity method	-	4,486	-	-	(2,459)	(2,459)	-	-	-	-	2,027	(2,027)	-
Changes in ownership interests in associates accounted for using the equity method	-	6,545	-	-	(284)	(284)	-	-	-	-	6,261	-	6,261
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(34,945)	(34,945)
Balance at December 31, 2019	**$ 4,411,773**	**3,755,876**	**279,833**	**200,347**	**(842,550)**	**(362,370)**	**(395,821)**	**(67,406)**	**(463,227)**	**(120,861)**	**7,221,191**	**20,777**	**7,241,968**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

		2019	2018
Cash flows from operating activities:			
Income (loss) before income tax	$	(38,014)	(635,962)
Adjustments:			
Adjustments to reconcile profit (loss):			
Depreciation expense		290,340	254,308
Amortization expense		77,858	80,279
Expected credit loss		940	125,827
Provision for warranties and after service cost		116,648	413,879
Provision of allowance for sales discounts		42,712	59,863
Net profit on financial assets or liabilities at fair value through profit or loss		(197)	(37,180)
Interest expense		38,443	30,487
Interest income		(13,478)	(18,738)
Share-based compensation expense		19,641	3,243
Share of loss of associates accounted for using the equity method		18,283	25,647
Loss (gain) on disposal of property, plant and equipment		600	(15)
Loss on disposal of intangible assets		353	-
Loss on liquidation of subsidiaries		36,942	-
Provision for inventory obsolescence		275,936	199,603
Others		(86)	858
Total adjustments to reconcile profit (loss)		904,935	1,138,061
Changes in operating assets and liabilities:			
Changes in operating assets:			
Financial assets or liabilities at fair value through profit or loss		2,469	36,980
Notes and accounts receivable (including related parties)		2,353,745	(2,372,892)
Other accounts receivable－related parties		-	151,344
Inventories		1,065,929	(1,693,577)
Other financial assets and other current assets		(33,370)	(350,811)
Total changes in operating assets		3,388,773	(4,228,956)
Changes in operating liabilities:			
Notes and accounts payable (including related parties)		(1,741,949)	1,537,520
Other payables－related parties		(5,072)	5,072
Contract liabilities and other current liabilities		14,841	(47,887)
Net defined benefit assets and liabilities		(700)	(9,874)
Total changes in operating liabilities		(1,732,880)	1,484,831
Total changes in operating assets and liabilities		1,655,893	(2,744,125)
Total adjustments		2,560,828	(1,606,064)
Cash inflow (outflow) generated from operations		2,522,814	(2,242,026)
Interest received		14,865	18,105
Dividends received		1,193	1,593
Interest paid		(38,853)	(29,796)
Income taxes paid		(127,246)	(85,955)
Net cash flows from (used in) operating activities		2,372,773	(2,338,079)

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Unizyx Holding Corporation and subsidiaries

Consolidated Statements of Cash Flows (continue)

For the years ended December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

	2019	2018
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	-	(26,561)
Acquisition of financial assets at amortized cost	(4,679)	(1,603,880)
Proceeds from repayments of financial assets at amortized cost	375,092	1,249,589
Net cash flow from acquisition of subsidiaries	(26,010)	-
Acquisition of property, plant and equipment	(140,338)	(110,060)
Proceeds from disposal of property, plant and equipment	1,138	2,275
Increase in refundable deposits	(78,248)	(34,316)
Acquisition of intangible assets	(11,692)	(30,308)
Proceeds from disposal of intangible assets	4,385	-
Increase in other financial assets	-	(341)
Increase in other non-current assets	(45,844)	(33,557)
Net cash flows from (used in) investing activities	73,804	(587,159)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(314,104)	1,367,615
Decrease in short-term notes and bills payable	(200,000)	-
Increase (decrease) in guarantee deposits received	(352)	195
Payment of lease liabilities	(50,466)	-
Issuance of common stock in cash to non-controlling interests	-	3,000
Change in non-controlling interests	(34,945)	-
Net cash flows from (used in) financing activities	(599,867)	1,370,810
Effect of exchange rate changes on cash and cash equivalents	(127,894)	(126,471)
Net increase (decrease) in cash and cash equivalents	1,718,816	(1,680,899)
Cash and cash equivalents at beginning of period	1,500,532	3,181,431
Cash and cash equivalents at end of period	$ **3,219,348**	**1,500,532**

See accompanying notes to consolidated financial statements.

1. Company history

Unizyx Holding Corporation (the "Unizyx") was incorporated on August 16, 2010. Unizyx was set up through a share swap with Zyxel Communications Corp. ("Zyxel"). The shares of Unizyx have been authorized by the Financial Supervisory Commission, R.O.C. ("FSC") and are traded on the Taiwan Stock Exchange (TSE). The address of its registered office and principal place of business is 3F, No. 363, Sec. 2, Gongdao 5th Rd., Hsinchu City, Taiwan. Unizyx's main activity is investment.

As approved by the Unizyx's and Zyxel's Board of Directors' meeting on October 15, 2010, MitraStar Technology Corp. ("MitraStar"), an OEM/ODM Business Unit of Zyxel, was spun off from Zyxel and became a 100%-held subsidiary of Unizyx on January 1, 2011. Zyxel and MitraStar will focus on and optimize their operations in different areas of the communication product value chain, with one focusing on Zyxel brand communication product marketing and sales, and the other concentrating on communication technology development and product manufacturing. The focused and optimized operation of each subsidiary is expected to increase the overall efficiency of the Zyxel group. Zyxel spun off net operating assets amounting to $3,530,734 to MitraStar and exchanged one share of MitraStar's common stock valued at New Taiwan Dollars (TWD) 10 per share for each share of Zyxel's stock valued at TWD 10.51 per share. Unizyx acquired 336,081 thousand shares of MitraStar's new issued common stock, and Zyxel and MitraStar became 100%-held subsidiaries of Unizyx.

Zyxel was incorporated on August 16, 1989, at the Hsinchu Science-based Industrial Park. The shares of Zyxel were traded on the TSE beginning on August 12, 1999. Zyxel's main activities include the research, development, production and sale of high-speed multi-mode modems and application-specific chipsets (ASICs), secure telephones, network modems, digital video coders and decoders, wide area networks (WANs), local area networks (LANs), and integrated service digital network (ISDN) equipment. In addition, it provides related consulting and design services and imports and exports related products. The stock of Zyxel stopped being publicly traded on September 2, 2010, as approved by the Securities and Futures Bureau.

MitraStar was incorporated on November 12, 2010, at the Hsinchu Science-based Industrial Park. MitraStar's main activities included manufacturing of wired communication equipment and apparatus, electronic parts and components, restrained telecom radio frequency equipment and materials, computer and computing peripheral equipment, data storage media and duplicating, wholesaling of computer software, restrained telecom radio frequency equipment and materials importing, software design services, digital information supply services, etc.

(Continued)

As approved by Unizyx's and Zyxel's Board of Directors' meeting on February 26, 2019, in order to improve market competitiveness and increase the overall efficiency of the Company, Zyxel Networks Corporation ("ZNet") and its subsidiary Zyxel Networks A/S ("ZNet AS") were spun off from Zyxel and its subsidiary to become 100%-held subsidiaries of Unizyx on April 1, 2019. Zyxel spun off its channel business related net operating assets amounting to $1,200,000 to ZNet, and exchanged one share of ZNet's common stock valued at TWD 10 per share for each share of Zyxel's stock valued at TWD 16.56 per share. Unizyx acquired 72,450 thousand shares of ZNet's new issued common stock in total, and Zyxel and ZNet became 100%-held subsidiaries of Unizyx.

The consolidated financial statements as of December 31, 2019 and 2018, included Unizyx and its subsidiaries (hereinafter refer to as the "Company").

2. Approval date and procedures of the consolidated financial statements:

The consolidated financial statements were authorized for issue by the Board of Directors on March 9, 2020.

3. New standards, amendments and interpretations adopted:

(1) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019. The related new standards, interpretations and amendments of International Accounting Standards Board ("IASB") are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of significant changes are as follows:

A. IFRS 16"Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(Continued)

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below:

(a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(11).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

(b) As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Company decided to apply recognition exemptions to short-term leases and low-value assets, such as transportation equipment and offices.

Leases classified as operating leases under IAS 17:

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to measure its right-of-use assets;
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.

(Continued)

— Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.

— Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

(d) Impacts on financial statements

On transition to IFRS 16, the Company recognized additional $519,293 of right-of-use assets and $535,205 of lease liabilities, while recognizing the difference in retained earnings amounting to $23,664 and long-term rent prepayments amounting to $7,752. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.18%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of balance sheets at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's consolidated financial statements	$ 289,408
Recognition exemption for:	
short-term leases	(7,398)
leases of low-value assets	(15,101)
Extension and termination options reasonably certain to be exercised	334,913
	$ 601,822
Discounted using the incremental borrowing rate at January 1, 2019	$ 535,205
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	**$ 535,205**

(Continued)

(2) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019. The related new standards, interpretations and amendments of IASB are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

(3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the IASB, but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Company completes its evaluation.

4. Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all the periods presented in the consolidated financial statements.

(1) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China (hereinafter referred to as the Regulations), International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as "IFRS endorsed by the FSC").

(Continued)

(2) Basis of preparation

A. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated statement of balance sheets:

(a) Financial assets at fair value through other comprehensive income are measured at fair value;

(b) Financial assets at fair value through profit or loss are measured at fair value (including derivative financial instruments);

(c) The net defined benefit liability (asset) is recognized based on the fair value of the plan assets, less, the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of each entity is determined based on the primary economic environment in which the entity operates. TWD is Unizyx's functional currency, which is also the Company's presentation currency. Unless otherwise noted, all financial information presented in TWD has been rounded to the nearest thousand.

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise Unizyx and its subsidiaries.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements. The Company attributes the profit or loss and each component of other comprehensive income to the owners of Unizyx and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Company prepares consolidated financial statements using uniform accounting policies for alike transactions and other events in similar circumstances.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Company will attribute it to the owners of Unizyx.

(Continued)

B. List of subsidiaries in the consolidated financial statements

The consolidated entities were as follows:

Name of Investor	Name of Subsidiary	Business Nature	Percentage of Ownership (%) December 31, 2019	Percentage of Ownership (%) December 31, 2018	note
Unizyx	Zyxel	Development, manufacturing and sales of communications and networking products	100 %	100 %	
Unizyx	MitraStar	Development, manufacturing and sales of communications and networking products	100 %	100 %	
Unizyx	ZNet	Development and sales of communications and networking products	100 %	-	
Unizyx	Black Cat Incorporation (Black Cat)	Development and sales of information security products, and consultant management services	77 %	77 %	
Zyxel	ZyChamp Investment Co., Ltd. (Zychamp)	Investment activities	100 %	100 %	
Zyxel	Zyxel Communications Inc. (ZyUSA)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Communications A/S (ZyAS)	Sales and marketing	100 %	100 %	
Zyxel	Sphairon GmbH (a Zyxel Company) (Sphairon)	Development of communications and networking products	100 %	100 %	
Zyxel	Zyxel Iletisim Teknolojileri A.S. (ZyTR)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Communications Do Brasil Ltda. (ZyBR)	Sales and marketing	100 %	100 %	
Zyxel	Zyxel Middle East FZE (ZyME)	Sales and marketing	100 %	100 %	
Zyxel	Ardomus Networks Corporation (Ardomus)	Development and sales of network digital control products	61 %	64 %	

(Continued)

Name of Investor	Name of Subsidiary	Business Nature	Percentage of Ownership (%) December 31, 2019	Percentage of Ownership (%) December 31, 2018	note
Zyxel	Ecowork Inc. (Ecowork)	Service of database of Chinese studies, cross-platform mobile applications and global network construction	-	60 %	note 2
Zyxel	Zyxel Singapore Private Ltd. (ZySG)	Sales and marketing	-	100 %	note 2
Zyxel	VICTOR BLUE LIMITED (VICTOR)	Investment activities	-	100 %	notes 1 and 2
Zyxel	Zytpe Communications Corporation (ZyTPE)	Development and sales of communications and networking products	-	100 %	note 1
Zyxel	Zyxel Technology India Pvt Ltd. (ZyIN)	Sales and marketing	-	100 %	note 1
Zyxel	Zyxel Online OU (ZyEE)	Sales and marketing	-	100 %	note 1
Zyxel	Zyxel Korea Co., Ltd. (ZyKR)	Sales and marketing	-	65 %	note 1
Zyxel	Zyxel (Thailand) Company, Ltd. (ZyTH)	Sales and marketing	-	51 %	note 1
MitraStar	Bluebell Overseas Ltd. (Bluebell)	Investment activities	100 %	100 %	
MitraStar	Wuxi Genezys Technology Ltd. (Genezys)	Development of communications and networking products	100 %	100 %	
MitraStar	Shanghai Monetics Telecommunications Corporation (Monetics)	Sales of communications, networking products and network technology transfer service	100 %	50 %	note 3
ZNet	ZyTPE	Development and sales of communications and networking products	100 %	-	note 1
ZNet	Zyxel Technology India Pvt Ltd. (ZNet IN)	Sales and marketing	100 %	-	note 1
ZNet	Zyxel Online OU (ZNet EE)	Sales and marketing	100 %	-	note 1

(Continued)

Name of Investor	Name of Subsidiary	Business Nature	Percentage of Ownership (%) December 31, 2019	Percentage of Ownership (%) December 31, 2018	note
ZNet	Zyxel Communications (Shanghai) Co., Ltd. (ZNet SHA)	Sales of communications, networking products and technical consulting service	100 %	-	note 1
ZNet	Zyxel Networks A/S (ZNet As)	Sales and marketing	100 %	-	note 1
ZNet	Zyxel (Thailand) Company, Ltd. (ZNet TH)	Sales and marketing	100 %	-	notes 1 and 4
ZNet	Tianjin Huagin Communications Equipment Co., Ltd. (Tianjin Huagin)	Manufacturing and sales of communications and networking products and technical consulting service	95 %	-	note 1
ZNet	Zyxel Korea Co., Ltd. (ZNet KR)	Sales and marketing	65 %	-	note 1
VICTOR	Zyxel Malaysia Sdn Bhd (ZyMY)	Sales and marketing	-	100 %	note 2
VICTOR	ZySHA	Sales of communications, networking products and technical consulting service	-	100 %	note 1
VICTOR	Tianjin Huagin	Manufacturing and sales of communications and networking products and technical consulting service	-	95 %	note 1
Bluebell	Wuxi MitraStar Technology Co., Ltd. (Wuxi MSTC)	Manufacturing and sales of communications and networking products and technical consulting service	100 %	100 %	
Bluebell	Monetics	Sales of communications, networking products and network technology transfer service	-	50 %	note 3
ZyAS	Zyxel Deutschland GmbH (ZyDE)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications UK Ltd. (ZyUK)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications Czech s.r.o. (ZyCZ)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications Iberia S.L (ZyES)	Sales and marketing	100 %	100 %	

(Continued)

Name of Investor	Name of Subsidiary	Business Nature	Percentage of Ownership (%) December 31, 2019	Percentage of Ownership (%) December 31, 2018	note
ZyAS	Zyxel Communications Italy S.r.l (ZyIT)	Sales and marketing	100 %	100 %	
ZyAS	Zyxel Communications B.V. (ZyBNL)	Sales and marketing	-	100 %	note 1
ZyAS	Zyxel Communications RU LLC (ZyRUS)	Sales and marketing	-	100 %	note 1
ZNet AS	Zyxel Communications B.V. (ZNet BNL)	Sales and marketing	100 %	-	note 1
ZNet AS	Zyxel Communications RU LLC (ZNet RUS)	Sales and marketing	100 %	-	note 1
ZNet AS	Zyxel France (ZNet FR)	Sales and marketing	100 %	-	
ZyUSA	Flatworld Networks LLC (Flatworld)	Sales and marketing	-	-	note 5

Note 1: Zyxel and ZyAS spun off its channel business related net operating assets to ZNet and its subsidiary ZNet AS on April 1, 2019. Based on the spin-off, Zyxel spun off its channel business related subsidiaries, including VICTOR、ZyTPE、ZyIN、ZyKR、ZyTH、ZyEE、VICTOR's subsidiaries, ZySHA and Tianjin Huagin, to ZNet. ZyAS spun off its subsidiaries, including ZyBNL and ZyRUS, to ZNet AS.

Note 2: ZySG and ZyMY were liquidated in January 2019; VICTOR was liquidated in July 2019; Ecowork was liquidated in August 2019.

Note 3: Due to the adjustment of group investment structure, MitraStar acquired 50% shares of Monetics by carrying value from its subsidiary, Bluebell, in May 2019.

Note 4: For the purpose of expanding communication products sales and marketing business in Thailand, ZNet purchased 49% shares of ZNet TH from non-controlling shareholders in the third quarter of 2019, resulting in an increase in ownership percentage of ZNet TH from 51% to 100%.

Note 5: Flatworld is a structured entity. The entity is established only with nominal capital, with its main source of funding from ZyUSA. It is controlled by ZyUSA, providing sale and marketing of obsolete stocks for ZyUSA. As a result, it is considered as a subsidiary of ZyUSA.

C. Subsidiaries not included in the consolidated financial statements: None.

(Continued)

D. Change in subsidiaries included in the consolidated financial statements:

For the purpose of expanding its e-commerce business, Zyxel set up a new 100% owned subsidiary, ZyEE, in December 2018. Therefore, the new owned subsidiary was included in its consolidated financial statements since its inception.

In order to improve market competitiveness and increase the overall efficiency of the Company, Unizyx set up a new 100%-held subsidiary, ZNet, in January, 2019. It was included in the consolidated financial statements since its inception.

For the purpose of expanding channel business in France, ZNet purchased 100% shares of ZNet FR in October 2019. It was included in the consolidated financial statements since then.

(4) Foreign currencies

A. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of consolidated entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period (hereinafter referred as "the reporting date"), monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Exchange differences are generally recognized in profit or loss, except for an investment in equity securities designated as at fair value through other comprehensive income, which are recognized in other comprehensive income.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into TWD at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into TWD at the average rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reclassified to non-controlling interests. When the Company disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(Continued)

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future. Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(5) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

A. It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;

B. It is held primarily for the purpose of trading;

C. It is expected to be realized within twelve months after the reporting period; or

D. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

A. It is expected to be settled in the normal operating cycle;

B. It is held primarily for the purpose of trading;

C. It is due to be settled within twelve months after the reporting period; or

D. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Time deposits with maturities of less than three months are used for short-term cash commitments instead of investment and are subject to an insignificant risk of changes in their fair value, and are classified as cash and cash equivalents.

(Continued)

(7) Financial instruments

Accounts receivable are recognized when they are originated. All other financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A accounts receivable without a significant financing component is initially measured at the transaction price.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and unrecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI – equity investment, or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(a) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(b) Fair value through other comprehensive income (FVTOCI)

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Continued)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established.

(c) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

(d) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, financial assets at amortized costs, notes and accounts receivable (including from related parties), other accounts receivable (including from related parties), refundable deposits and other financial assets).

The Company measures loss allowances at an amount equal to ECL, except for the following which are measured by 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date；and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

(Continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 180 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVTOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data：

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

(Continued)

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Furthermore, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(e) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

Debt and equity instruments issued by Unizyx are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(b) Equity instruments

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received less the direct cost of issuance.

(c) Treasury shares

When Unizyx' s shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(Continued)

(d) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(e) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(f) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

C. Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. The costs of inventories include expenditure incurred in acquiring the inventories, production or conversion costs, and other costs (weighted-average method). In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(Continued)

(9) Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Company, from the date on which significant influence commences until the date on which significant influence ceases. The Company recognizes any changes of its proportionate share in the investee within capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual significant influence.

Gains and losses resulting from transactions between the Company and an associate are recognized only to the extent of unrelated Company's interests in the associate.

When the Company's share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

(10) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

B. Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

C. Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

(Continued)

Land is not depreciated. The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

(a) Buildings: 25 to 40 years.

(b) Building improvements: 5 to 15 years.

(c) Machinery, and research and development equipment: 3 to 12 years.

(d) Office equipment and others: 3 to 10 years.

(e) Buildings and building improvements constitute mainly buildings and their related facilities, air-condition systems etc. Each such part depreciates based on its useful life of 5 to 40 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(11) Leases

Applicable from January 1, 2019

A. Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

(a) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

(b) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(c) the Company has the right to direct the use of the asset throughout the period of use only if either:

- the Company has the right to direct how and for what purpose the asset is used throughout the period of use; or
- the relevant decisions about how and for what purpose the asset is used are predetermined and:
  - the Company has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or

(Continued)

- the Company designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

B. As a leasee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

(a) fixed payments, including in-substance fixed payments;

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) amounts expected to be payable under a residual value guarantee; and

(d) payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

(a) there is a change in future lease payments arising from the change in an index or rate; or

(b) there is a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee; or

(c) there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or

(Continued)

(d) there is a change of its assessment on whether it will exercise a extension or termination option; or

(e) there is any lease modification

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of transportation equipment and offices that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

C. As a lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset.

Applicable before January 1, 2019

A. Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

B. Lessee

Other leases are operating leases and the related assets are not recognized in the Company’s statement of balance sheets.

Payments made under an operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

C. Long-term prepayment for rentals

The charges for land use rights are recorded at acquisition cost. Based on the shorter of the contract period or estimated benefit duration, the cost of land use rights is amortized using the straight-line method over a term of 50 years.

(Continued)

(12) Intangible assets

A. Recognition and measurement

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Intangible assets of the Company, including intellectual property, trading rights and computer software, are measured at cost less accumulated amortization and any accumulated impairment losses.

B. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

C. Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated agreed royally during the patent or 5~10 years from the date that they are available for use.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(13) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, deferred tax assets and employee benefits, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset' s recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

(Continued)

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

For non-financial assets except for goodwill, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(14) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(15) Revenue recognition

A. Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

(a) Sale of goods

The Company manufactures and sells wired and wireless broadband communications network products. The Company recognizes its revenue when control of the products has been transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(Continued)

When the Company offers volume discounts to its customers, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

The average credit period for the sales of wired and wireless broadband communications network products is 90 to 180 days.

The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision for warranty; Please refer to note 6(14).

A receivable is recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

(b) Rendering of services

The Company recognizes revenue from providing services in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. The proportion of services provided is determined based on the rendered services to date as a proportion of the total estimated rendered services of the transaction.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by the management.

(c) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods, or services to the customer and payment by the customer, exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

B. Rental income

Income from subletting real estate is recognized as non-operating income and expense.

C. Government grants

A government grant is not recognized until there is reasonable assurance that the Company will comply with the conditions attached to it, and that the grant will be received. The grants shall be recognized in profit or loss on a systematic basis over the periods in which the related costs intended to compensate are recognized as expenses.

(Continued)

(16) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

B. Defined benefit plans

The Company’s net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(Continued)

(17) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The Company's grant date of a share-based payment award is the date which the Company informs its employee of the exercise price and number of exercised shares.

(18) Income tax

Income taxes comprise current taxes and deferred taxes. Except for items related to business combinations or items recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

A. temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction; and

B. temporary differences related to investments in subsidiaries and associates to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reserve, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

A. the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and

(Continued)

B. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(a) the same taxable entity; or

(b) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

In accordance with the Article 40 of Business Mergers and Acquisitions Act, the Company has adopted its parent company, Unizyx, as the taxpayer to file a combined corporate income tax return and the 5% surtax on undistributed earnings from 2011.

Unizyx, Zyxel and MitraStar firstly calculated their respective income tax provision according to IAS 12 Income Taxes and reconciled the difference between the separate income tax returns and the combined final business income return. The differences were allocated to all combined entities on a reasonable, systematic and consistent basis and consequently to current year's income tax expense and deferred income tax expenses.

(19) Business combination

The Company accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of (i) the consideration transferred (which is generally measured at fair value) and (ii) the amount of non-controlling interest in the acquiree, both over the identifiable net assets acquired at the acquisition date. If the amount calculated above is a deficit balance, the Company recognized that amount as a gain on a bargain purchase in profit or loss immediately after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

All acquisition-related transaction costs are expensed as incurred, except for the issuance of debt or equity instruments.

For each business combination, the Company measures any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, if the non-controlling interests are present ownership interests and entitle their holders to a proportionate share of the Company's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by the IFRSs endorsed by the FSC.

(Continued)

(20) Earnings per share

The Company discloses Unizyx' s basic and diluted earnings per share attributable to ordinary shareholders of Unizyx. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of Unizyx divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of Unizyx divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible preferred shares, convertible notes, employee stock options, unvested restricted stock awards, and employee bonus.

(21) Operating segment information

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company). Operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

5. Major sources of accounting judgments, estimations and assumptions of uncertainty:

The preparation of the consolidated financial statements based on the IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amount of assets, liabilities, income and expense. Actual results may differ from these estimates.

Management continues to monitor the accounting assumptions, estimates and judgments. Management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

The Company determines the lease term as the non-cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the lessee is reasonably not to exercise that option. In assessing whether a lessee is reasonably to exercise the options, the Company considers all relevant facts and circumstances that create an economic incentive for the lessee. The Company reassesses whether it is reasonably certain to exercise an extension option or not to exercise the option upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. If there is a change in the lease term, the Company recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Please refer to note 6(10)&(15).

(Continued)

Information about critical assumptions and estimates in applying accounting policies that may have significant impact on the consolidated financial statements in the following year is as follows:

(1) Valuation of Accounts Receivable

The Company has its customers spread throughout the globe, wherein they are vulnerable to various changes, such as environmental, economic as well as legal matters. Therefore, the customer credit control is considered to be more complex. When assessing the recoverability of the Company’ s receivables, it is necessary to consider any changes in the credit quality of the receivables from the original grant date of credit limits to the reporting date. For those receivables that have not been withdrawn within the credit term, the balance of the accounts receivable is calculated by reference from the transaction in the past, current financial status, and expected credit losses, in order to estimate the amount of allowance for bad debts. Please refer to note 6(5) “ Explanation of significant accounts－ Notes and accounts receivable” to the consolidated financial statements and note 7(2) “Significant related-party transactions”.

(2) Valuation of Inventories

The Company mainly engages in the research and development, as well as the production of communication and network products. Inventories are stated at the lower of cost or net realizable value. The Company used judgment and estimate to determine the net realizable value of inventory at the end of each reporting period. However, the rapid evolution of technology and the fierce market competition may lead to obsolete inventories and unmarketable items. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments. Please refer to note 6(6) “ Explanation of significant accounts－Inventories, net” to the consolidated financial statements.

Accounting policies and disclosures of the Company include the fair value measurement for financial or non-financial assets and liabilities. The Company determines the fair value using the independent data sources which reflect the current market condition and confirming the data available are independent, reliable, in consistent with other sources and represent the exercisable price. The Company also periodically assesses the evaluation model, performs retrospective tests, and updates inputs with any other necessary fair value adjustment for the evaluation model in order to ensure the reasonableness of the valuation.

The Company evaluates its assets and liabilities using the observable market inputs. The hierarchy of the fair value depends on the valuation techniques used, and the different levels have been defined as follows:

(1) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.

(2) Level 2: inputs (other than quoted prices) included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(3) Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

When there is a transfer between levels of the fair value hierarchy, the Company recognizes the transfer at the reporting date. For the assumptions used in fair value measurement, please refer to note 6(25) of the financial instruments.

(Continued)

6. Explanation of significant accounts

(1) Cash and cash equivalents

		December 31, 2019	December 31, 2018
Petty cash, demand deposits, and checking accounts	$	2,208,037	1,303,673
Cash equivalents－time deposits		1,011,311	196,859
	$	**3,219,348**	**1,500,532**

Please refer to note 6(25) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(2) Financial assets at fair value through profit or loss

A. Financial assets measured at fair value through profit or loss

		December 31, 2019	December 31, 2018
Financial assets held for trading:			
Beneficiary certificates – open-end fund	$	**2,035**	**1,854**

Gains (losses) of open-ended beneficiary certificates were as follows:

		2019	2018
Unrealized gain (loss)	$	**181**	**(344)**

B. Sensitivity analysis－equity market price risk

If the securities market price had changed, the impact on other comprehensive income would have been as follows (if calculated on the same basis for both years and assuming that all other variables remained the same):

	2019		2018	
Securities market price at reporting date	**Other comprehensive income (loss), net of taxes**	**Net income (loss)**	**Other comprehensive income (loss), net of taxes**	**Net income (loss)**
Increase 10%	$ **-**	**204**	**-**	**185**
Decrease 10%	$ **-**	**(204)**	**-**	**(185)**

C. Non-hedging derivative financial instruments

The Company uses derivative financial instruments to hedge certain foreign exchange risks that the Company is exposed to throughout its operating activities. Based on the accounting standards, the Company's derivative financial instruments do not qualify for hedge accounting. As of December 31, 2018, the forward exchange agreements were settled. The forward exchange agreements not settled as of December 31, 2019 were as follows:

(Continued)

December 31, 2019				
Financial instruments	**Notional amount (in thousands of EUR)**	**Currency**	**Duration of contract**	**Fair value**
Sell forward foreign currency exchange contract	1,000	Sell EUR/ Buy USD	2019.11.04~2020.06.08	$ 14
Sell forward foreign currency exchange contract	1,000	Sell EUR/ Buy USD	2019.10.31~2020.06.04	2
Financial assets measured at fair value through profit or loss－current				**$ 16**
Sell forward foreign currency exchange contract	8,160	Sell EUR/Buy USD	2019.12.30~2020.08.03	$ (906)
Sell forward foreign currency exchange contract	2,820	Sell EUR/ Buy USD	2019.12.17~2020.07.20	(490)
Sell forward foreign currency exchange contract	3,000	Sell EUR/ Buy USD	2019.12.31~2020.08.03	(308)
Sell forward foreign currency exchange contract	3,000	Sell EUR/ Buy USD	2019.12.27~2020.08.03	(265)
Sell forward foreign currency exchange contract	1,500	Sell EUR/ Buy USD	2019.12.18~2020.07.20	(258)
Sell forward foreign currency exchange contract	2,240	Sell EUR/ Buy USD	2019.12.13~2020.07.17	(90)
Sell forward foreign currency exchange contract	1,020	Sell EUR/ Buy USD	2019.11.05~2020.06.08	(88)
Sell forward foreign currency exchange contract	500	Sell EUR/ Buy USD	2019.11.04~2020.06.08	(42)
Sell forward foreign currency exchange contract	1,000	Sell EUR/ Buy USD	2019.10.30~2020.06.01	(22)
Financial liabilities measured at fair value through profit or loss－current				**$ (2,469)**

(Continued)

Gains (losses) of the forward exchange agreements were as follows:

	2019	2018
Unrealized gain (loss)	$ (2,453)	-
Realized gain (loss)	2,469	37,524
	$ 16	**37,524**

The Company' s financial assets at fair value through profit or loss mentioned above were not pledged as collateral.

(3) Financial assets at amortized cost－current and non-current

	December 31, 2019	December 31, 2018
Time deposits (over 3 months)	$ 221	364,584
Pledged time deposits	19,224	24,661
	$ 19,445	**389,245**
Current	**$ 221**	**364,584**
Non-current	**$ 19,224**	**24,661**

The Company assessed that the above financial assets are held to maturity to collect contractual cash flows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets at amortized cost.

A. The Company held domestic time deposits, at an interest rate ranging from 0.01% to 1.015% and from 0.15% to 1.065% during the year ended December 31, 2019 and 2018, respectively; with maturity date between September 13, 2020 and December 31, 2020 and between January 3, 2019 and December 25, 2019.

B. For credit risk, please refer to note 6(25).

C. The Company' s financial assets at amortized costs mentioned above were pledged as collateral; please refer to note 8.

(4) Financial assets at fair value through other comprehensive income

	December 31, 2019	December 31, 2018
Non-publicly traded stocks (domestic companies)	$ 7,271	31,057
Non-publicly traded stocks (foreign companies)	1,398	4,425
	$ 8,669	**35,482**

The Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term strategic purposes.

A. For fair value and market risk; Please refer to note 6(25).

B. The Company's financial assets at fair value through other comprehensive income mentioned above were not pledged as collateral.

(5) Notes and accounts receivable, net

A. Notes and accounts receivable, net

	December 31, 2019	December 31, 2018
Notes receivable	$ -	87,940
Letters of credit receivable	-	8,712
Accounts receivable	4,857,217	7,052,271
	4,857,217	7,148,923
Less: Provision for loss allowance	(141,370)	(144,107)
	$ 4,715,847	**7,004,816**

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information.

The loss allowance provision were determined as follows:

	December 31, 2019		
	Gross carrying amount	**Weighted-average loss rate**	**Loss allowance provision**
Current	$ 3,998,739	0.10%	4,041
Overdue 1~30 days	388,586	-	-
Overdue 31~60 days	194,982	-	-
Overdue 61~90 days	47,526	4.94%	2,349
Overdue 91~180 days	101,744	13.64%	13,877
Overdue 181~360 days	28,653	84.70%	24,268
Overdue more than 361 days	96,987	99.84%	96,835
Total	**$ 4,857,217**		**141,370**

(Continued)

	December 31, 2018		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 5,889,011	0.01%	411
Overdue 1~30 days	615,759	0.33%	2,059
Overdue 31~60 days	375,402	0.08%	284
Overdue 61~90 days	57,495	3.12%	1,794
Overdue 91~180 days	45,849	15.84%	7,264
Overdue 181~360 days	92,255	64.34%	59,357
Overdue more than 361 days	73,152	99.71%	72,938
Total	**$ 7,148,923**		**144,107**

B. The movements in the allowance for impairment with respect to notes and accounts receivables were as follows:

	2019	2018
Balance at January 1	$ 144,107	88,624
Impairment loss recognized	940	60,739
Amounts written off	(1,176)	(5,115)
Effect of movements in exchange rates	(2,501)	(141)
Balance at December 31	**$ 141,370**	**144,107**

C. Financial assets pledged as collateral

The Company's notes and accounts receivable mentioned above were not pledged as collateral.

(6) Inventories

A. The details of inventories were as follows:

	December 31, 2019	December 31, 2018
Raw materials	$ 821,405	1,133,439
Work in process and semi-finished goods	251,183	403,536
Finished goods and merchandises	2,412,680	3,199,007
	$ 3,485,268	**4,735,982**

(Continued)

B. The details of the cost of goods sold were as follows:

		2019	2018
Inventories that has been sold	$	18,543,236	17,439,467
Provision for inventory obsolescence for the period		275,936	199,603
Provision for warranties and after service cost for the period		116,648	413,879
	$	**18,935,820**	**18,052,949**

For provision for warranties and after service cost for the period, please refer to note 6(14).

C. The Company's inventories mentioned above were not pledged as collateral.

(7) Investment accounted for using the equity method

There is no individually significant associate of the Company. The following table summarizes the amounts recognized by the Company and included in the consolidated financial statements:

		December 31, 2019	December 31, 2018
Summarized information of the carrying amount of associates that are not individually material	$	**32,373**	**45,585**

		2019	2018
Net gain (loss) attributable to the Company	$	**(18,283)**	**(25,647)**

The Company' s investment accounted for using the equity method mentioned above were not pledged as collateral.

(8) Business combination

As approved by the Board of Directors' meeting on July 1, 2019, for the purpose of expanding sales channel in France, the Company acquired 100% shares of ZNet FR, which is a sales service company for network products.

From the acquisition date to December 31, 2019, the revenue and net loss of ZNet FR amounted to $102,040 and $18,054, respectively. If the acquisition had taken place on January 1, 2019, the management estimated that the Company' s revenue and net profit would be $24,321,579 and $102,144, respectively. To determine the abovementioned amounts, the management hypothesized the acquisition occurred on January 1, 2019, and the adjustment of fair-value was the same with that at the acquisition date.

(Continued)

The major categories of considerations transferred, assets acquired and liabilities assumed on the acquisition date, were as follows:

A. Fair value of considerations transferred

The Company acquired 100% of the equity of ZNet FR in cash amounting to $122,449. As of December 31, 2019, the Company had paid $28,421, and unpaid payment amounting to $94,028 was recognized in other current liabilities.

B. Acquired identifiable assets and assumed liabilities

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

Cash and cash equivalents	$	2,411
Accounts receivable, net		74,821
Inventories		73,767
Property, plant and equipment, net		3,585
Intangible assets		48,724
Other current assets		2,710
Other non-current assets		908
Other current liabilities		(84,477)
	$	**122,449**

(9) Property, plant and equipment

The cost, depreciation of the property, plant and equipment of the Company were as follows:

		Land	Building	Machinery and equipment	Research and development equipment	Office and other equipment	Construction in progress and inspection equipment	Total
Cost:								
Balance at January 1, 2019	$	35,027	2,187,949	535,286	283,318	917,794	638	3,960,012
Additions for the period		-	18,572	2,994	45,675	67,682	5,415	140,338
Disposals for the period		-	(3,131)	(7,405)	(31,202)	(70,575)	-	(112,313)
Acquisition of subsidiary through mergers		-	-	635	-	2,950	-	3,585
Reclassification		-	215	-	-	(215)	-	-
Effect of movements in exchange rates		(838)	(30,493)	(16,784)	(2,999)	(26,926)	76	(77,964)
Balance at December 31, 2019	**$**	**34,189**	**2,173,112**	**514,726**	**294,792**	**890,710**	**6,129**	**3,913,658**
Balance at January 1, 2018	$	33,938	2,196,152	542,945	277,236	909,382	4,482	3,964,135
Additions for the period		-	10,190	1,641	24,454	69,373	4,402	110,060
Disposals for the period		-	(120)	-	(17,838)	(51,389)	-	(69,347)
Reclassification		-	300	275	1,207	4,506	(8,187)	(1,899)
Effect of movements in exchange rates		1,089	(18,573)	(9,575)	(1,741)	(14,078)	(59)	(42,937)
Balance at December 31, 2018	**$**	**35,027**	**2,187,949**	**535,286**	**283,318**	**917,794**	**638**	**3,960,012**

(Continued)

	Land	Building	Machinery and equipment	Research and development equipment	Office and other equipment	Construction in progress and inspection equipment	Total
Depreciation:							
Balance at January 1, 2019	$ -	932,107	353,737	163,736	746,985	-	2,196,565
Depreciation for the period	-	68,183	48,118	37,985	83,848	-	238,134
Disposals for the period	-	(3,131)	(7,405)	(30,899)	(69,140)	-	(110,575)
Reclassification	-	215	-	-	(215)	-	-
Effect of movements in exchange rates	-	(10,424)	(12,630)	(2,373)	(24,306)	-	(49,733)
Balance at December 31, 2019	**$ -**	**986,950**	**381,820**	**168,449**	**737,172**	**-**	**2,274,391**
Balance at January 1, 2018	$ -	865,916	304,738	147,328	716,003	-	2,033,985
Depreciation for the period	-	71,219	55,102	34,831	93,156	-	254,308
Disposals for the period	-	(120)	-	(17,185)	(49,782)	-	(67,087)
Reclassification	-	-	239	-	(239)	-	-
Effect of movements in exchange rates	-	(4,908)	(6,342)	(1,238)	(12,153)	-	(24,641)
Balance at December 31, 2018	**$ -**	**932,107**	**353,737**	**163,736**	**746,985**	**-**	**2,196,565**
Carrying amounts:							
Balance at December 31, 2019	**$ 34,189**	**1,186,162**	**132,906**	**126,343**	**153,538**	**6,129**	**1,639,267**
Balance at December 31, 2018	**$ 35,027**	**1,255,842**	**181,549**	**119,582**	**170,809**	**638**	**1,763,447**
Balance at January 1, 2018	**$ 33,938**	**1,330,236**	**238,207**	**129,908**	**193,379**	**4,482**	**1,930,150**

The Company's property, plant and equipment mentioned above were not pledged as collateral.

(10) Right-of-use assets

The Company leases land, buildings, vehicles and office equipment. Information about leases for which the Company as a lease was as follows:

	Land	Building	Transportation equipment	Office equipment	Total
Cost:					
Balance at January 1, 2019	$ -	-	-	-	-
Effects of retrospective application of new accounting standards	404,433	106,746	2,010	6,104	519,293
Additions for the period	-	10,477	2,391	-	12,868
Disposal for the period	-	(2,118)	(716)	-	(2,834)
Effect of movements in exchange rates	(289)	(3,278)	(26)	-	(3,593)
Balance at December 31, 2019	**$ 404,144**	**111,827**	**3,659**	**6,104**	**525,734**
Depreciation:					
Balance at January 1, 2019	$ -	-	-	-	-
Depreciation for the period	16,813	32,181	1,611	1,601	52,206
Disposal for the period	-	(371)	(394)	-	(765)
Effect of movements in exchange rates	(8)	(731)	(4)	-	(743)
Balance at December 31, 2019	**$ 16,805**	**31,079**	**1,213**	**1,601**	**50,698**

(Continued)

	Land	Building	Transportation equipment	Office equipment	Total
Carrying amount:					
Balance at December 31, 2019	$ 387,339	80,748	2,446	4,503	475,036

(11) Intangible assets

The costs of intellectual property, trading rights and computer software were presented under intangible assets, the cost and amortization of intangible assets of the Company were as follows:

	Intellectual property	Trading rights	Computer software	Total
Costs:				
Balance at January 1, 2019	$ 980	175,104	150,056	326,140
Additions for the period	500	1,266	9,926	11,692
Acquisition of subsidiary through mergers	-	48,724	-	48,724
Disposal for the period	-	(1,562)	(12,970)	(14,532)
Reclassification	-	(395)	(1,180)	(1,575)
Effect of movements in exchange rates	-	(8,552)	(2,600)	(11,152)
Balance at December 31, 2019	$ 1,480	214,585	143,232	359,297
Balance at January 1, 2018	$ 980	151,855	155,119	307,954
Additions for the period	-	24,945	5,363	30,308
Disposal for the period	-	-	(10,389)	(10,389)
Reclassification	-	(300)	300	-
Effect of movements in exchange rates	-	(1,396)	(337)	(1,733)
Balance at December 31, 2018	$ 980	175,104	150,056	326,140
Amortization:				
Balance at January 1, 2019	$ 980	108,063	100,016	209,059
Amortization for the period	29	23,410	20,338	43,777
Reclassification	-	928	(2,503)	(1,575)
Disposal for the period	-	(1,562)	(8,232)	(9,794)
Effect of movements in exchange rates	-	(4,759)	(2,203)	(6,962)
Balance at December 31, 2019	$ 1,009	126,080	107,416	234,505
Balance at January 1, 2018	$ 980	80,682	91,121	172,783
Amortization for the period	-	28,448	19,362	47,810
Disposal for the period	-	-	(10,389)	(10,389)
Effect of movements in exchange rates	-	(1,067)	(78)	(1,145)
Balance at December 31, 2018	$ 980	108,063	100,016	209,059

(Continued)

	Intellectual property	Trading rights	Computer software	Total
Carrying amounts:				
Balance at December 31, 2019	$ 471	88,505	35,816	124,792
Balance at December 31, 2018	$ -	67,041	50,040	117,081
Balance at January 1, 2018	$ -	71,173	63,998	135,171

The Company's intangible assets mentioned above were not pledged as collateral.

(12) Short-term borrowings

The details of the Company's short-term borrowings were as follows:

	December 31, 2019	December 31, 2018
Unsecured borrowings	$ 1,626,803	1,950,119
Range of interest rates at year end	0.63%~4.70%	1.04%~4.79%

As of December 31, 2019, the unsecured borrowings were from Zyxel, ZNet, MitraStar and Wuxi MSTC, with ZNet's and MitraStar's borrowings being endorsed by Unizyx; As of December 31, 2018, the unsecured borrowings were from MitraStar and Wuxi MSTC, with MitraStar's being endorsed by Unizyx.

(13) Short-term notes and bills payable

The details of the Company's short-term notes and bills payable were as follows:

	December 31, 2019	December 31, 2018
Commercial papers payable	$ -	200,000
Range of interest rates at year end	-	1.18%

The Company's commercial papers payable mentioned above belonged to MitraStar, which were endorsed by Unizyx.

(14) Provision－current

Provisions for warranty and after service cost were as follows:

	2019	2018
Balance at January 1	$ 540,742	214,791
Provision for the period (note)	116,648	413,879
Write-off for the period	(76,742)	(86,299)
Effect of movements in exchanges rates	(5,199)	(1,629)
Balance at December 31	$ 575,449	540,742

Note: Quality issue arising from one of the chip suppliers on partial products having abnormal chips was detected in the third quarter of 2018. Thus, after conducting an individual assessment, the Company recognized a provision for warranty amounting to $319,695 for the replacement.

The Company's provision for warranty and after service cost mentioned above was for sales of networking products. Provision for warranty and after service cost was estimated based on the historical warranty information for similar products or services. The Company expected that most of the cost would occur within 1 or 2 years after sales.

(15) Lease liabilities

Carrying amounts of lease liabilities were as follows :

	December 31, 2019
Current	$ 44,021
Non-current	$ 448,832

For the maturity analysis, please refer to note 6(25).

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	$ 5,847
Expenses relating to short-term leases	$ 35,666
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	$ 15,755

The amount recognized in the statement of cash flows for the Company was as follows:

	2019
Total cash outflow for leases	$ 106,558

A. Real estate leases

The Company leases land and buildings for its office space and factories. The leases typically run for a period of 20 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Some leases provide for additional rent payments that are based on the fluctuation in local price, plus the expense adjusted for public facilities constructions in each area. Such expense normally occurs once a year.

B. Other leases

The Company leases transportation and office equipment with contract terms of one to five years. These leases are leases of low-value items. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

(Continued)

(16) Operating lease

A. Lessee

As of December 31, 2018, non-cancellable operating lease rentals payable were as follows:

		December 31, 2018
Less than 1 year	$	65,010
Between 1~ 5 years		142,876
More than 5 years		81,522
	$	**289,408**

The Company entered into 20 years renewable operating agreements for land and operating facilities with the Science-based Industrial Park Administration (SIPA) expiring on December 31, 2024, and December 31, 2032, with an annual rental subject to SIPA adjustments. In addition, certain subsidiaries leased their offices.

Operating leases recognized in expenses were $91,388 for the year ended December 31, 2018.

B. Long-term rental prepayment

The Company leases land under operating leases. The leases typically run for a period of 50 years, and all rental amounts are paid in advance. For the year ended December 31, 2018, rental expenses were $231. As of December 31, 2018, unamortized long-term rental prepayments were $7,752.

(17) Employee benefits

A. Defined benefit plans

The Company's reconciliations in the present value of the defined benefit obligations and fair value of plan assets were as follows:

		December 31, 2019	December 31, 2018
Present value of defined benefit obligations	$	218,707	204,982
Fair value of plan assets		(300,515)	(289,212)
Net defined benefit assets	**$**	**(81,808)**	**(84,230)**

(Continued)

Details of recognized liabilities (assets) were as follows:

		December 31, 2019	December 31, 2018
Net defined benefit asset	$	(85,000)	(87,879)
Net defined benefit liabilities		3,192	3,649
	$	**(81,808)**	**(84,230)**

The Company's domestic subsidiaries make defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

(a) Composition of plan assets

The Company's domestic subsidiaries contribute to pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Fund, Ministry of Labor. Minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to $300,515 at the reporting date. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Fund.

The accumulated employee retirement reserve provided by Zyxel and MitraStar is sufficient to support the payment, therefore, the Company ceased to contribute to its pension fund from September 1, 2017 to August 31, 2020 and from January 1, 2019 to December 31, 2020 after obtaining an approval from the authority, respectively. Thus, Zyxel and MitraStar does not expect to make any defined benefit plan contribution to its pension fund in the following year after the reporting date.

(Continued)

(b) Movements in present value change of defined benefit obligation

The movements in present value of the defined benefit obligation of the Company were as follows:

		2019	2018
Defined benefit obligation at January 1	$	204,982	220,626
Current service cost		894	1,192
Current interest cost		2,734	3,449
Remeasurements of the net defined benefit assets (liabilities)			
—Actuarial losses (gains) arising from changes in experience adjustment		6,163	6,069
—Actuarial losses (gains) arising from changes in financial assumptions		6,368	(10,515)
Past service cost-curtailment gains		-	(6,641)
Paid from pension		(2,434)	(9,198)
Defined benefit obligation at December 31	**$**	**218,707**	**204,982**

(c) Movements of defined benefit plan assets

The movements in present value of the defined benefit plan assets of the Company were as follows:

		2019	2018
Fair value of plan assets at January 1	$	289,212	283,476
Interest income		3,812	4,508
Remeasurements of the net defined benefit assets (liabilities)			
—Actuarial gains (losses) arising from changes in experience adjustment		9,409	7,060
Contribution to the plan		516	3,366
Paid from pension plan		(2,434)	(9,198)
Fair value of plan assets at December 31	**$**	**300,515**	**289,212**

(d) Effect of the asset ceiling

There was no effect on the asset ceiling for the years ended 2019 and 2018.

(Continued)

(e) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	2019	2018
Current service cost	$ 894	1,192
Net interest on the net defined benefit liability (assets)	(1,078)	(1,059)
Past service cost-curtailment gains	-	(6,641)
	$ (184)	**(6,508)**

(f) Remeasurement of net defined benefit liability (asset) recognized in other comprehensive income

The Company's remeasurement of net defined benefit liability (asset) recognized in other comprehensive income were as follows:

	2019	2018
Accumulated amount at January 1	$ 4,323	(7,183)
Recognized during the period	(3,122)	11,506
Accumulated amount at December 31	**$ 1,201**	**4,323**

(g) Actuarial assumptions

The Company's key actuarial assumptions at the reporting date were as follows:

	December 31, 2019	December 31, 2018
Discount rate	1.00%~1.125%	1.125%~1.375%
Future salary increase rate	2.00%~3.00%	2.00%~3.00%

The Company is expecting a contribution of $200 to its defined benefit plans in the following year after the reporting date.

The weighted-average duration of the defined benefit obligation is 16.03 years.

(Continued)

(h) Sensitivity analysis

If there was a change in the actuarial assumptions, the impact on the present value of the defined benefit obligation would be as follows:

		Impact on present value of defined benefit obligations	
		Increase 0.25%	**Decrease 0.25%**
December 31, 2019			
Discount rate	$	(7,024)	7,339
Future salary increase rate		7,125	(6,858)
December 31, 2018			
Discount rate	$	(6,856)	7,164
Future salary increase rate		6,978	(6,716)

Reasonably possible changes at the reporting date in one of the relevant actuarial assumptions, assuming all other variables remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the consolidated balance sheets.

There were no changes in the method and assumptions used in calculating the sensitivity analysis for 2019 and 2018.

B. Defined contribution plans

The Company's domestic company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance, Ministry of Labor (the Bureau of Labor Insurance) in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations thereafter.

The pension costs of the Company's domestic company under the defined contribution method were $78,886 and $80,767 for 2019 and 2018, respectively. Payment was made to the Bureau of Labor Insurance.

The total pension costs of the Company's overseas subsidiaries under the defined contribution method were $69,903 and $70,121 for 2019 and 2018, respectively.

(Continued)

(18) Income tax

A. Income tax expense (benefit)

The amounts of income tax expense (benefit) of the Company were as follows:

	2019	2018
Current tax expense (benefit)		
Current period	$ (80,700)	81,934
Adjustment for prior periods	27,030	(376)
	(53,670)	81,558
Deferred tax expense		
Origination and reversal of temporary differences	(86,322)	(116,137)
Income tax expense (benefit)	**$ (139,992)**	**(34,579)**

The amounts of income tax expense (benefit) recognized in other comprehensive income of the Company were as follows:

	2019	2018
Exchange differences on translation of foreign financial statements	**$ (13,166)**	**(26,494)**

Reconciliations of income tax and profit (loss) before income tax expense (benefit) were as follows:

	2019	2018
Profit (loss) before income tax	$ (38,014)	(635,962)
Income tax using the Unizyx's domestic tax rate	(7,603)	(127,192)
Effect of tax rates in foreign jurisdiction	36,324	(15,470)
Investment (gain) loss of foreign subsidiaries recognized using the equity method	(93,538)	(11,140)
Prior-year adjustments	27,030	(376)
Adjustment in tax rate	-	(44,859)
Effect of unrecognized deferred tax assets and liabilities	(102,926)	151,975
Others	721	12,483
	$ (139,992)	**(34,579)**

(Continued)

B. Deferred tax assets and liabilities

(a) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2019	December 31, 2018
Loss on overseas investment accounted for using the equity method	$ 193,788	130,284
Loss carryforward	192,223	186,074
Allowance for inventory obsolescence	28,931	105,902
Gain on overseas investment accounted for using the equity method	(95,608)	-
	$ 319,334	422,260

The Company is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries. Also, it is probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax assets and liabilities.

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

Deferred tax assets:

	January 1, 2018	Recognized in income statement	Recognized in other comprehensive income	December 31, 2018	Recognized in income statement	Recognized in other comprehensive income	December 31, 2019
Allowance for inventory obsolescence	$ 99,992	(27,551)	-	72,441	48,446	-	120,887
Provision for warranties and after service cost	16,432	80,499	-	96,931	5,987	-	102,918
Loss carryforward	112,294	57,525	-	169,819	(92,329)	-	77,490
Exchange differences on translation of foreign financial statements	39,036	-	24,484	63,520	-	13,166	76,686
Unrealized profit on inter-company sales	70,120	10,577	-	80,697	12,818	-	93,515
Loss on overseas investment accounted for using the equity method	7,089	7,264	-	14,353	23,537	-	37,890
Temporary difference of subsidiary	44,827	2,210	-	47,037	(274)	-	46,763
Others	44,979	46,669	-	91,648	(38,712)	-	52,936
	$ 434,769	177,193	24,484	636,446	(40,527)	13,166	609,085

(Continued)

Deferred tax liabilities:

	January 1, 2018	Recognized in income statement	Recognized in other comprehensive income	December 31, 2018	Recognized in income statement	Recognized in other comprehensive income	December 31, 2019
Gain on overseas investment accounted for using the equity method	$ (200,646)	(31,816)	-	(232,462)	93,699	-	(138,763)
Net defined benefit assets	(16,414)	(3,459)	-	(19,873)	11,000	-	(8,873)
Exchange differences on translation of foreign financial statements	(2,010)	-	2,010	-	-	-	-
Unrealized gain on foreign currency exchange	-	(847)	-	(847)	847	-	-
Others	(2,012)	(24,934)	-	(26,946)	21,303	-	(5,643)
	$ **(221,082)**	**(61,056)**	**2,010**	**(280,128)**	**126,849**	**-**	**(153,279)**

According to the R.O.C. Income Tax Act, the previous 10 years' losses of the Company's domestic subsidiaries as assessed by the tax authorities can offset the current year's net income for income tax purposes.

As of December 31, 2019, the unused loss carryforwards and related expiration years of the Company's domestic subsidiaries were as follows:

Year of loss	Expiration year	Unused loss carryforward
2011 (assessed)	2021	$ 2,547
2015 (assessed)	2025	626
2016 (assessed)	2026	4,293
2017 (assessed and filed)	2027	245,420
2018 (filed)	2028	176,098
2019 (estimated)	2029	25,131
		$ 454,115

In accordance with the tax law of each region where the foreign subsidiaries of the Company are located, losses on foreign subsidiaries as assessed by the tax authorities can be carried forward to offset the future years' taxable profits. As of December 31, 2019, the tax effects of the unused loss on carryforwards amounted to $178,890.

C. Examination and approval

The income tax returns of Unizyx, Zyxel, and MitraStar had been examined and assessed by the tax authority through year 2016.

(Continued)

(19) Capital and other equity

A. Common stock

On August 16, 2010, Unizyx was set up through Zyxel share swap, and the total share capital was $5,170,483. As of December 31, 2019 and 2018, Unizyx's authorized common stock amounted to $7,000,000, of which $520,000 was for use as employee stock options, convertible preferred stock, or convertible corporate bonds. The issued common stock amounted to $4,411,773, with par value of $10 TWD per share.

B. Capital surplus

The details of Unizyx's capital surplus were as follows:

		December 31, 2019	December 31, 2018
Additional paid-in capital	$	3,489,819	3,489,819
Treasury share transactions		204,503	204,503
Employee share options		49,135	29,494
Changes in equities of subsidiaries accounted for using the equity method		5,874	1,388
Changes in equities of associates accounted for using the equity method		6,545	-
	$	**3,755,876**	**3,725,204**

(a) When Unizyx was set up through Zyxel's share swap on August 16, 2010, the amount of net assets in excess of the par value calculated by the share swap method was $4,089,976, which was recorded as additional paid-in capital.

(b) According to Article 30 of the Business Mergers and Acquisitions Act, the unappropriated retained earnings of a company that has a share swap with other companies that are transferred as additional paid-in capital of the holding company are not affected by the restriction of Article 241(i) of the Company Act. According to Article 47 of the Financial Holding Company Act and Ruling No. 0910003413, if the additional paid-in capital due to the share swap is from previous unappropriated earnings of subsidiaries, it can be appropriated as cash dividends or capitalized in the current year; also the capitalization ratio is not restricted by Article 8 of the Securities and Exchange Act Enforcement Rules. Further, according to Ruling No. 0910016280, since this additional paid-in capital is not generated from the holding company's operations, there is no remuneration of the Board of Directors and bonus to employees. As of December 31, 2019 and 2018, the additional paid-in capital generated from Zyxel's unappropriated earnings before the share swap was $1,139,082.

(Continued)

(c) In accordance with the ROC Company Act, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be reclassified under share capital shall not exceed 10 % of the actual share capital amount.

C. Retained earnings

(a) Legal reserve

If the Company generated profit for the year, the distribution of the legal reserve, either by new shares or by cash, shall be decided at the shareholders' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 % of the paid-in capital.

(b) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special reserve during earnings distribution. The amount to be reclassified should be equal to the current-period total net debit balance of other equity components of the shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special reserve (and does not qualify for earnings distribution) to account for cumulative changes to other equity components of the shareholders' equity pertaining to prior periods. Any subsequent reversals pertaining to the net debit balance of other equity components of the shareholders' equity shall qualify for additional distributions.

(c) Distribution of earnings

Pursuant to regulations promulgated by the FSC, a special reserve equivalent to the total amount of items that are accounted for as deductions from stockholders' equity shall be set aside from current earnings, and not distributed. The special reserve shall be made available for appropriation to the extent of reversal of deductions from stockholders' equity in subsequent periods.

According to the articles of incorporation, in years of earnings, Unizyx has to offset any accumulated deficit, pay income tax, and appropriate 10% of the balance as a legal reserve before distribution of earnings, unless the amount in the legal reserve is already equal to or greater than the total paid-in capital. Thereafter, an amount shall be set aside or reversed as a special reserve in accordance with related laws, regulations, or provisions of the competent authorities. Distribution of the remaining profit after setting aside the abovementioned amounts, together with the balance of the unappropriated retained earnings of the previous year, shall be proposed by the Board of Directors to be approved at the shareholders' meeting.

(Continued)

The dividend policy of Unizyx is based on Unizyx's profit condition, future operating development, and assurance of stockholders' equity. Considering the common stock, capital structure, operating status, and earnings, Unizyx may distribute dividends in the form proposed by the Board of Directors, including stock issuance based on retained earnings and/or cash dividends. The dividend distribution must be through a resolution passed by the Board of Directors that complies with Unizyx's balanced and stable dividend policy.

The appropriated earnings will preferably be distributed in the form of cash dividends, with distribution of stock dividends being the other alternative. Distribution of stock dividends should be no more than 50% of total dividends.

On June 12, 2019 and June 13, 2018, the resolutions of loss off-setting proposal for the years of 2018 and 2017 have been approved by shareholders' meeting, respectively.

On March 9, 2020, the loss off-setting proposal for the year of 2019 has been approved by the Board of Directors' meeting of Unizyx. The plan to offset the 2019 operation loss will need to be approved in the shareholders' meeting of Unizyx. The information will be available on the Market Observation Post System website.

D. Treasury stock

As of December 31, 2019 and 2018, Unizyx's shares held by Zychamp amounted to 9,391 thousand shares, and original costs were both $120,861; the market values were $189,698 and $117,857, respectively.

E. Other equity

(a) Exchange differences on translation of foreign financial statements

		2019	2018
Balance at January 1	$	(294,693)	(221,386)
Foreign exchange differences (net of tax)		(101,128)	(73,307)
Balance at December 31	**$**	**(395,821)**	**(294,693)**

(b) Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

		2019	2018
Balance at January 1	$	(40,593)	-
Effects of retrospective application of new accounting standards		-	(19,141)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax)		(26,813)	(21,452)
Balance at December 31	**$**	**(67,406)**	**(40,593)**

(Continued)

(20) Share-based payment

A. Unizyx

Unizyx registered and issued 19,018 thousand units of employee stock options in November 2018. Each unit can be exercised to purchase at one share of Unizyx. The duration of the plan is 5 years, and the plan was approved by the FSC. As of December 31, 2019, the information related to the employee stock option was as follows:

Type	Authorization date	Grant date	Issued units (in thousands)	Grant period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD)
Employee stock options in 2018	Nov. 20, 2018	Nov. 21, 2018	19,018	Service periods between 2 to 3 years	12.2	12.2

The estimated fair value of the options granted ranges from \$2.1~\$3.1 (TWD) at the date of grant using the Black-Scholes option pricing model. Unizyx granted to the Company's employees 19,018 thousand units of employee stock options, and the Company recognized compensation cost amounting to \$17,816 and \$3,243 in the years of 2019 and 2018, respectively. Weighted-average assumptions were as follows:

Expected dividend yield	3.08%
Expected volatility	36.108%~44.619%
Risk-free interest rate	0.608%~0.688%
Expected life	2~3 years

Information related to employee stock options was as follows:

	2019		2018	
Employee stock options	**Options (in thousands)**	**Weighted-average exercise price (TWD)**	**Options (in thousands)**	**Weighted-average exercise price (TWD)**
Outstanding at beginning of year	18,678	$ 12.20	-	-
Granted	-	-	19,018	$ 12.20
Exercised	-	-	-	-
Forfeited	(1,350)	-	(340)	-
Outstanding at end of year	**17,328**	$ 12.20	**18,678**	$ 12.20
Exercisable at end of year	-		-	

As of December 31, 2019 and 2018 the weighted-average remaining contractual life for outstanding option awards were 3.83 and 4.83 years, respectively.

(Continued)

B. ZNet

As approved by the Board of Directors' meeting in November, 2019, ZNet issued 6,000 thousand units of employee stock options. Each unit can be purchased at one share of ZNet. The duration of the plan is 5 years. As of December 31, 2019, the information related to the employee stock option was as follows:

Type	Grant date	Issued units (in thousands)	Grant period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD)
Employee stock options in 2019	Nov. 8, 2019	5,618	Service periods between 2 years	14.0	14.0

The estimated fair value of the options granted ranges from $3.9 (TWD) at the date of grant using the Black Scholes option pricing model. ZNet granted the Company's employees 5,618 thousand units of employee stock options, and the Company recognized compensation cost amounting to $1,825 in the year of 2019. Weighted average assumptions were as follows:

Expected dividend yield	-
Expected volatility	40.408%
Risk-free interest rate	0.5432%
Expected life	2 years

Information related to employee stock options was as follows:

	2019	
Employee stock options	**Options (in thousands)**	**Weighted-average exercise price (TWD)**
Outstanding at beginning of year	-	-
Granted	5,618	$ 14.00
Exercised	-	-
Forfeited	(15)	-
Outstanding at end of year	**5,603**	$ 14.00
Exercisable at end of year	**-**	

As of December 31, 2019 the weighted-average remaining contractual life for outstanding option awards was 4.83 years.

(Continued)

(21) Earnings per share

Basic earnings per share

	2019	2018
Net income (loss) attributable to ordinary shareholders of Unizyx	$ **106,753**	**(596,490)**
Weighted-average number of shares outstanding during the year (in thousands of shares)	**431,786**	**431,786**
Basic earnings per share (TWD)	$ **0.25**	**(1.38)**

Diluted earnings per share

	2019	2018
Net income (loss) attributable to ordinary shareholders of Unizyx	$ **106,753**	**(596,490)**
Weighted-average number of shares outstanding during the year (in thousands of shares)	431,786	431,786
Effect of potential dilutive ordinary shares (in thousands of shares)	5,521	-
	437,307	**431,786**
Diluted earnings per share (TWD)	$ **0.24**	**(1.38)**

The diluted earnings per share was the same as basic earnings per share due to the anti-dilutive effect of the net loss incurred for the year ended December 31, 2018.

(22) Revenue from contracts with customers

A. The details of revenue were as follows:

	2019			
	Brand	**Product**	**Investment**	**Total**
Primary geographical markets:				
United States	$ 3,039,445	1,482,694	-	4,522,139
China	34,968	3,530,775	-	3,565,743
France	345,034	2,483,754	-	2,828,788
Brazil	322,640	1,241,634	-	1,564,274
Other countries	7,984,885	3,553,917	6,600	11,545,402
	$ **11,726,972**	**12,292,774**	**6,600**	**24,026,346**

(Continued)

		2019		
	Brand	Product	Investment	Total
Major products lines:				
Broadband	$ 7,510,364	11,084,710	-	18,595,074
Business	2,846,833	95,618	-	2,942,451
Others	1,369,775	1,112,446	6,600	2,488,821
	$ 11,726,972	12,292,774	6,600	24,026,346

		2018		
	Brand	Product	Investment	Total
Primary geographical markets:				
United States	$ 3,513,277	1,279,044	-	4,792,321
China	29,569	2,733,677	-	2,763,246
Brazil	504,663	1,726,279	-	2,230,942
France	289,560	1,534,757	-	1,824,317
Other countries	7,291,717	3,313,584	6,600	10,611,901
	$ 11,628,786	10,587,341	6,600	22,222,727
Major products lines:				
Broadband	$ 7,430,594	9,600,375	-	17,030,969
Business	2,836,977	106,520	-	2,943,497
Others	1,361,215	880,446	6,600	2,248,261
	$ 11,628,786	10,587,341	6,600	22,222,727

B. Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Notes Receivable	$ -	87,940	208,244
Letters of credit receivable	-	8,712	58,891
Accounts receivable	4,857,217	7,052,271	4,516,252
	4,857,217	7,148,923	4,783,387
Less: Provision for loss allowance	(141,370)	(144,107)	(88,624)
Allowance for sales discounts	-	-	(28,222)
	$ 4,715,847	7,004,816	4,666,541
Contract liabilities	$ 89,595	259,836	60,784

(Continued)

For details on accounts receivable and allowance for impairment, please refer to note 6(5).

The contract liabilities primarily relate to the advance consideration received from customers for the sales contracts, for which revenue is recognized when products are delivered to customers. The amounts of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balances at the beginning of the periods were 255,638 and 50,412, respectively.

(23) Non-operating income and expenses

A. Other income

The details of other income of the Company were as follows:

		2019	2018
Obligation waived due to expiration of claim rights	$	34,569	-
Interest income from bank deposits		13,478	18,738
Compensation income		9,048	92,262
Rental income		4,246	3,794
Recovery of written-off accounts receivable		-	79,205
	$	**61,341**	**193,999**

B. Other gains and losses

The details of other gains and losses of the Company were as follows:

		2019	2018
Net gains on financial assets (liabilities) at fair value through profit or loss (note 6(2))	$	197	37,180
Gain (loss) on disposal of property, plant and equipment		(600)	15
Loss on liquidation of subsidiaries		(36,942)	-
Others		(8,471)	29,303
	$	**(45,816)**	**66,498**

C. Interest Expense

The details of interest expense were as follows:

		2019	2018
Interest expense from bank borrowings	$	32,596	30,487
Interest expense from lease liabilities		5,847	-
	$	**38,443**	**30,487**

(Continued)

(24) Employee compensation and directors' and supervisors' remuneration

In accordance with Unizyx's articles of incorporation, Unizyx shall accrue its remuneration to employees and directors based on a certain percentage of the current-year's profit (profit before income tax, excluding remuneration to employees and directors) less, accumulated deficit as follows: not less than 0.01% as employee remuneration and no more than 2% as directors' and supervisors' remuneration. The aforementioned employee remuneration will be distributed in cash or in the form of shares to the employees of the controlling company and subsidiaries who meet certain criteria approved by the Board of Directors. For the years ended December 31, 2019 and 2018, Unizyx incurred accumulated deficits; therefore, no remuneration to employees and directors and supervisors was accrued for the years then ended.

(25) Financial instruments

A. Credit risk

(a) Credit risk exposures

As of December 31, 2019 and 2018, the Company's maximum exposure to credit risk was mainly from the carrying amount of financial assets amounting to $8,201,891 and $9,042,012, respectively.

(b) Disclosures of the concentration of credit risk

The Company's potential credit risk is derived primarily from deposits with banks, cash equivalents, financial assets measured at amortized cost, notes receivable and accounts receivable (including related parties), etc. The Company maintains its cash and cash equivalents and financial assets measured at amortized cost in various creditworthy financial institutions. Credit risk exposure to each financial institution is controlled by the Company. As a result, the Company believes that there is no significant concentration of credit risk of cash, cash equivalents and financial assets.

The main customers of the Company are multinational companies within the network communication industry or companies with good credit ratings. From time to time, the Company monitors customers' credit condition, and hence has not encountered any significant loss due to credit risk.

The Company sets a loss allowance for expected credit losses to reflect the estimated loss on accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(c) Receivables and debt securities

For credit risk exposure of note and accounts receivables, please refer to note 6(5).

(Continued)

Financial assets at amortized cost include investments in time deposits and pledged time deposits. For the details on investments, please refer to notes 6(3). All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses.

B. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Cash flow of contract	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
December 31, 2019							
Non-derivative financial liabilities							
Short-term borrowings	$ 1,626,803	(1,631,803)	(1,631,803)	-	-	-	-
Notes and accounts payable	3,349,407	(3,349,407)	(3,349,407)	-	-	-	-
Accounts Payable－related parties	79,840	(79,840)	(79,840)	-	-	-	-
Royalty payable	280,526	(280,526)	(280,526)	-	-	-	-
Lease liabilities (current and non-current)	492,853	(557,733)	(26,346)	(23,020)	(58,150)	(74,188)	(376,029)
Guarantee deposits received	539	(539)	-	-	(539)	-	-
Derivative financial liabilities							
Financial liabilities at fair value through profit or loss-current outflows	2,469	(2,462)	(151)	(2,311)	-	-	-
	$ 5,832,437	(5,902,310)	(5,368,073)	(25,331)	(58,689)	(74,188)	(376,029)
December 31, 2018							
Non-derivative financial liabilities							
Short-term borrowings	$ 1,950,119	(1,965,360)	(1,731,061)	(234,299)	-	-	-
Short-term notes and bills payable	200,000	(200,000)	(200,000)	-	-	-	-
Notes and accounts payable	5,097,037	(5,097,037)	(5,097,037)	-	-	-	-
Accounts Payable－related parties	6,333	(6,333)	(6,333)	-	-	-	-
Royalty payable	204,318	(204,318)	(204,318)	-	-	-	-
Other payables-related parties	5,072	(5,072)	(5,072)	-	-	-	-
Guarantee deposits received	899	(899)	-	-	(899)	-	-
	$ 7,463,778	(7,479,019)	(7,243,821)	(234,299)	(899)	-	-

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(Continued)

C. Currency risk

(a) Exposure to currency risk

The Company's significant exposure to foreign currency risk were as follows:

	December 31, 2019			December 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial Assets						
Monetary items						
USD	$ 78,895	29.98	2,365,272	76,412	30.72	2,347,377
Non-Monetary items						
EUR	2,000	33.59	note	-	-	-
Financial Liabilities						
Monetary items						
USD	84,841	29.98	2,543,533	129,360	30.72	3,973,939
Non-Monetary items						
EUR	23,240	33.59	note	-	-	-

Note: Please refer to note 6(2) for the disclosure on the derivative of financial assets (forward exchange) measured at fair value.

(b) Sensitivity analysis

The Company' s exposure to foreign currency risk arises from the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable (including related parties), other receivables (including related parties), short-term borrowings, and noted and accounts payables(including related parties) that are denominated in foreign currency. 5% depreciation or appreciation of the TWD against the above foreign currency at December 31, 2019 and 2018, would have increased (decreased) the net income as follows. (This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant.)

	2019	2018
Depreciation	$ (8,913)	(81,328)
Appreciation	$ 8,913	81,328

(c) Exchange gains and losses of functional currency

For the years ended December 31, 2019 and 2018, the foreign exchange losses (including realized and unrealized) were $172,623 and $81,533, respectively. It is impractical to disclose the foreign exchange losses by each significant foreign currency due to the variety of the functional currencies of the Company.

(Continued)

D. Interest rate analysis

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Company's internal management was reported with the exposure to changes in interest rates of 0.25%, which is considered by management to be a reasonable change of interest rate.

If the interest rate had increased or decreased by 0.25%, the Company's net income before tax would have increased or decreased by $1,453 and decreased or increased by $1,616 for the years ended December 31, 2019 and 2018, respectively, with all other variable factors remaining constant. This is mainly due to floating interest rates of the Company's cash and cash equivalents and short-term borrowings.

E. Fair value of financial instruments

(a) Categories of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income is measured on a recurring basis.

The Company's carrying amount and fair value of financial assets and liabilities (including information on the fair value hierarchy, but excluding financial instruments whose fair values approximate their carrying amounts and lease liabilities) were as follows:

	December 31, 2019				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost:					
Cash and cash equivalents	$ 3,219,348	-	-	-	-
Financial assets at amortized cost－current	221	-	-	-	-
Notes and accounts receivable, net	4,715,847	-	-	-	-
Accounts receivable－related parties, net	19,991	-	-	-	-
Other accounts receivable－related parties	1,732	-	-	-	-
Other financial assets－current	69,573	-	-	-	-
Financial assets at amortized cost－non-current	19,224	-	-	-	-
Refundable deposits	155,955	-	-	-	-
	8,201,891	-	-	-	-

(Continued)

	December 31, 2019				
		Fair Value			
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss－current	2,051	2,035	16	-	2,051
Financial assets at fair value through other comprehensive income－non-current	8,669	-	-	8,669	8,669
	$ 8,212,611	**2,035**	**16**	**8,669**	**10,720**
Financial liabilities at amortized cost:					
Short-term borrowings	$ 1,626,803	-	-	-	-
Notes and accounts payable	3,349,407	-	-	-	-
Accounts payable－related parties	79,840	-	-	-	-
Royalty payable	280,526	-	-	-	-
Lease liabilities (current and non-current)	492,853	-	-	-	-
Guarantee deposits received	539	-	-	-	-
	5,829,968	-	-	-	-
Financial liabilities at fair value through profit or loss-current	2,469	-	2,469	-	2,469
	$ 5,832,437	**-**	**2,469**	**-**	**2,469**

	December 31, 2018				
		Fair Value			
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at amortized cost:					
Cash and cash equivalents	$ 1,500,532	-	-	-	-
Financial assets at amortized cost－current	364,584	-	-	-	-
Notes and accounts receivable, net	7,004,816	-	-	-	-
Accounts receivable－related parties, net	3,304	-	-	-	-
Other accounts receivable－related parties, net	1,732	-	-	-	-
Other financial assets－current	65,584	-	-	-	-
Financial assets at amortized cost-non-current	24,661	-	-	-	-
Refundable deposits	76,799	-	-	-	-
	9,042,012	-	-	-	-

(Continued)

	December 31, 2018				
		Fair Value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss－current	1,854	1,854	-	-	1,854
Financial assets at fair value through other comprehensive income － non-current	35,482	-	-	35,482	35,482
	$ 9,079,348	**1,854**	**-**	**35,482**	**37,336**
Financial liabilities at amortized cost:					
Short-term borrowings	$ 1,950,119	-	-	-	-
Short-term notes and bills payable	200,000	-	-	-	-
Notes and accounts payable	5,097,037	-	-	-	-
Accounts payable－related parties	6,333	-	-	-	-
Royalty payable	204,318	-	-	-	-
Other payable－related parties	5,072	-	-	-	-
Guarantee deposits received	899	-	-	-	-
	$ 7,463,778	**-**	**-**	**-**	**-**

(b) Valuation techniques for financial instruments measured at fair value

(i) The beneficiary certificates held by the Company are measured at fair value according to standard provision and conditions; the fair value is measured using the quoted price in an active market.

(ii) Derivative financial instruments– forward contracts held by the Company are measured by using the current forward foreign exchange rates.

(iii) Financial instruments without an active market held by the Company are measured at fair value according to the market approach; the fair value is assessed by using the price-equity ratio and price-earnings ratio of the competitors.

(c) There is no transfer between the levels for the years ended December 31, 2019 and 2018.

(d) Reconciliation of Level 3 fair values－equity investment without an active market

		2019	2018
Financial assets at fair value through other comprehensive income			
Balance at January 1	$	35,482	-
Adjustment on initial application of IFRS 9		-	30,373
Gains or losses recognized in other comprehensive income		(26,813)	(21,452)
Addition for the period		-	26,561
Balance at December 31	**$**	**8,669**	**35,482**

(e) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Company's financial instruments that use Level 3 inputs to measure the fair value include financial assets at fair value through other comprehensive income– equity investments.

The Company classified the equity investments without an active market as recurring level 3 fair values in the value hierarchy due to the use of significant unobservable inputs. The significant unobservable inputs of the equity investments without an active market are independent, therefore, there is no correlation between them.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income – equity investment without an active market	Market approach	• Net price ratio multiplier (December 31, 2019：1.49~4.04 and December 31, 2018：0.70~1.44) • Liquidity discount (December 31, 2019 and December 31, 2018：30%)	• The higher the price-equity ratio, the higher the fair value • The higher the discount for lack of marketability, the lower the fair value

(26) Financial risk management

A. Overview

The Company is exposed to the following risks due to usage of financial instruments:

(a) Credit risk
(b) Liquidity risk
(c) Market risk

(Continued)

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies, and processes for measuring and managing risk. For further information, please refer to the relevant notes.

B. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The board is responsible for developing and monitoring the Company's risk management policies, and meets regularly for discussions.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board of Directors is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, and the results of which are reported to the Board of Directors.

C. Credit risk

Please refer to note 6(25).

As of December 31, 2019 and 2018, the Company had provided guarantees for its 100%-owned subsidiaries.

D. Liquidity risk

There is no liquidity risk of being unable to raise capital to settle contract obligations since the Company has sufficient capital and working capital to fulfill contract obligations. As there is no open market for the financial assets at fair value through other comprehensive income; hence, they are subject to liquidity risk.

E. Market risk

The Company's purchases and sales are mainly denominated in foreign currency. As a result, current and future cash flows of foreign currency assets and liabilities are exposed to the risk of foreign currency exchange rate volatility. Therefore, the Company engaged in derivative financial instrument transactions as economic hedges against potential changes in assets or liabilities held in foreign currencies. Gains and losses arising from changes in exchange rates are offset by those of the hedged item. As a result, the market risk is low.

(Continued)

Beneficiary certificates held by the Company are presented under financial assets measured at fair value. Such assets are measured at fair value, and the Company is exposed to market price volatility.

(a) Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Company' s entities, primarily the TWD, but also including the US dollar (USD), Euro (EUR), and Chinese Yuan (CNY). The currencies used in these transactions are the TWD, Euro, USD and CNY.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(b) Interest rate risk

The Company holds variable-rate financial assets and liabilities. Please refer to note 6(25) for interest rate risk.

(27) Capital management

The board' s policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Capital consists of share capital, capital surplus, retained earnings, and non-controlling interests of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary stockholders.

The Company's debt-to-equity ratios at the reporting date were as follows:

	December 31, 2019	December 31, 2018
Total liabilities	$ 8,243,856	9,812,938
Less: cash and cash equivalents	(3,219,348)	(1,500,532)
Net debt	**$ 5,024,508**	**8,312,406**
Total equity (adjusted capital)	**$ 7,241,968**	**7,306,334**
Debt-to-adjusted-capital ratio	**69.38%**	**113.77%**

The debit-to-adjusted capital ratio had decreased on December 31, 2019 since the Company had a better operational performance and cash flow status for the year 2019, resulting in the increase in cash and cash equivalents.

As of December 31, 2019, the Company has not changed its capital management method.

(28) Investing and financing activities not affecting current cash flow

The Company's investing and financing activities which did not affect the current cash flow were as follows:

A. For leased right-of-use assets, please refer to note 6(10).

B. Reconciliations of liabilities arising from financing activities were as follows:

	January 1, 2019	Cash flow	Foreign exchange movement and others	December 31, 2019
Short-term borrowings	$ 1,950,119	(314,104)	(9,212)	1,626,803
Short-term notes and bills payable	200,000	(200,000)	-	-
Lease liabilities	535,205	(50,466)	8,114	492,853
Guarantee deposits received	899	(352)	(8)	539
Total liabilities from financing activities	**$ 2,686,223**	**(564,922)**	**(1,106)**	**2,120,195**

	January 1, 2018	Cash flow	Foreign exchange movement and others	December 31, 2018
Short-term borrowings	$ 621,467	1,367,615	(38,963)	1,950,119
Short-term notes and bills payable	200,000	-	-	200,000
Guarantee deposits received	709	195	(5)	899
Total liabilities from financing activities	**$ 822,176**	**1,367,810**	**(38,968)**	**2,151,018**

7. Related-party transactions

(1) Names and relationship with related parties

The followings are related parties that have had transactions with the Company during the periods covered in the consolidated financial statements:

Name of related party	Relationship with the Company
ZYXEL Foundation	The chairman is the same as Unizyx's
LIONIC Corp.	The director is the chairman of Unizyx before June 21, 2019
ZyFLEX Technologies Inc. (ZyFlex)	ZYXEL Foundation's subsidiary
ShareTech Information Co., Ltd. (ShareTech)	The Company's associate

(Continued)

Name of related party	Relationship with the Company
ZQAM Communications Corporation (ZQAM)	The Company's associate
Beijing Huaqinworld Technology Co., Ltd. (Beijing Huaqinworld)	The Company's associate

(2) Significant related-party transactions

A. Sales of goods

(a) The significant transactions with related parties were as follows:

Related Party Category	2019	2018
Associates	$ 33,333	736
Other related parties	20,114	8,962
	$ 53,447	**9,698**

(b) The details of accounts receivables from related parties were as follows:

Related Party Category	December 31, 2019	December 31, 2018
Associates	$ 17,011	461
Other related parties	2,980	2,843
	$ 19,991	**3,304**

There is no significant difference between the sales price of the Company for related parties and for third parties. The terms of payment are 60 to 90 days, and the credit terms for third parties are 30 to 180 days after delivery. Receivables from related parties were not pledged as collateral, and were assessed not to provide any loss allowance provision.

As of December 31, 2017, accounts receivable from the sale of goods to one of the associates amounted to $256,214, in which the Company recognized an impairment loss of $40,629. As of December 31, 2018, the uncollectible accounts receivable amounting to $104,870 were written off after deducting the amount in the bank account, which had been frozen by the court. The Company, as a shareholder of the associate, initiated a lawsuit against its largest debtor. Furthermore, due to the lengthy duration of the trial and the uncertainty that the accounts receivable could be collected, the Company recognized an impairment loss in respect to the remaining accounts receivable amounting to $65,088 in the year 2018. The movements of impairment loss were as follows:

	2019	2018
Balance at January 1	$ -	40,629
Impairment loss recognized	-	65,088
Amounts written off	-	(104,870)
Effect of movements in exchange rates	-	(847)
Ending balance at December 31	**$ -**	**-**

(Continued)

About the legal action mentioned above, Intermediate People's Court of Guangzhou Municipality, Guangdong Province, ruled in favor of the Company on May 20, 2019. The debtor did not file an appeal, but the debtor has not paid in accordance of the verdict.

B. Purchase

The significant transactions with related parties were as follows:

(a) The amounts of significant purchase by the Company from related parties were as follows:

Related Party Category	2019	2018
Other related parties	$ 106,934	23,525
Associates	15,649	-
	$ 122,583	**23,525**

(b) The details of accounts payable to related parties were as follows:

Related Party Category	December 31, 2019	December 31, 2018
Other related parties	$ 75,846	6,333
Associates	3,994	-
	$ 79,840	**6,333**

The payment term for purchase from related parties were 90 days after purchase. The payment terms with related parties were not materially different from those with third parties.

C. Service and other revenue

(a) The revenues on services related to finance, information service and other services with related parties were as follows (reported at operating revenues and other gains and losses):

Related Party Category	2019	2018
Other related parties	$ 7,624	6,609
Associates	177	668
	$ 7,801	**7,277**

(b) Details of other account receivables of the Company were as follows:

Related Party Category	December 31, 2019	December 31, 2018
Other related parties	**$ 1,732**	**1,732**

(Continued)

D. Lease

The Company leased portion of its office to its related parties. The information on the collection of rental income was as follows:

Related Party Category	Leased Object	2019	2018
Associates	Office	$ 1,051	816

For the years ended December 31, 2019 and 2018, the above amounts have been received.

E. Outsourced service expense and other expense

(a) The expenditures on developing products related to information service, cloud platform and programing with affiliated company were as follows:

Related Party Category	2019	2018
Other related parties	$ 9,050	6,197
Associates	542	1,672
	$ 9,592	7,869

(b) Details of other account payable of the Company were as follows:

Related Party Category	December 31, 2019	December 31, 2018
Other related parties	$ -	5,072

(c) Details of prepayment of the Company were as follows (reported at other current assets):

Related Party Category	December 31, 2019	December 31, 2018
Other related parties	$ -	9,000

(3) Transactions with key management personnel

Key management personnel compensation comprised:

	2019	2018
Short-term employee benefits	$ 33,480	30,000
Post-employment benefits	594	611
Share-based payment compensation	2,531	413
	$ 36,605	31,024

Please refer to note 6(20) for further explanations related to share-based payment transactions.

8. Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Purpose of pledge	December 31, 2019	December 31, 2018
Financial assets at amortized cost－non-current	Contract fulfillment and warranty guarantee	$ 19,224	24,661
Refundable deposits	Guarantee of quality assurance	60,701	-
		$ 79,925	24,661

9. Commitments and contingencies

(1) Significant commitments

A. The amounts of notes pledged at the bank by Zyxel, MitraStar and ZNet for financing purposes were as follows:

December 31, 2019	December 31, 2018
$ 4,704,730	3,717,875

B. In order to bid on the project of customer, Zyxel obtained a letter of performance guarantee from the bank. The amounts were as follows:

(in thousands USD)

December 31, 2019	December 31, 2018
$ -	411

C. The amounts of Zyxel’s outstanding letters of credit to facilitate Zyxel’s purchases were as follows:

(in thousands USD)

December 31, 2019	December 31, 2018
$ 301	293

D. The unpaid amounts of Zyxel’s construction, plant and equipment that have been signed or ordered were as follows:

December 31, 2019	December 31, 2018
$ -	850

(Continued)

E. In order to bid on projects, ZyTPE submitted a performance guarantee letter. The amounts were as follows:

	December 31, 2019	December 31, 2018
	$ 7,135	9,007

F. In order to obtain the bid of customer, ZyTR requested a bank to issue a guarantee letter. The amounts were as follows:

(in thousands USD)

	December 31, 2019	December 31, 2018
	$ 4,940	3,952

G. The Company rented a piece of land from SIPA, and the bank had issued the guarantees. The amounts were as follows:

	December 31, 2019	December 31, 2018
	$ 20,208	20,208

The abovementioned guarantees were issued from the bank, which were endorsed by Unizyx.

H. The Company signed technology licensing and patent licensing agreements with certain companies, and was required to pay licensing fees in proportion to sales revenue of the licensed products or agreed royalty during the patent term under the agreements.

I. The Company signed agency service agreements with certain companies and was required to pay commission fees in proportion to commissioned sales under the agreements.

(2) Contingencies liabilities

A. In 2013, TQDelta, LLC asserted that Zyxel's products infringed its certain patents and filed a lawsuit against Zyxel and Zyxel's subsidiary, ZyUSA. In July 2017, TQDelta, LLC asserted that Zyxel's products infringed its certain patents and filed a lawsuit against Zyxel and Zyxel's subsidiaries, ZyAS and ZyUK. TQDelta, LLC and Zyxel had settled in December 2019. In January 2020, TQDelta, LLC had filed a stipulation to dismiss with prejudice for the U.S. Litigation and UK Litigation.

B. In November 2019, American Patents, LLC asserted that Zyxel's products infringed its certain patents and filed a lawsuit against Zyxel. Zyxel has engaged a lawyer to defend the case. However, the Company believes that the lawsuit mentioned above will not have any significant impact on its current operations.

C. In December 2019, Solutionlnc, Limited asserted that ZyUS' s products infringed its certain patents and filed a lawsuit against ZyUS. Zyxel has engaged a lawyer to defend the case. However, the Company believes that the lawsuit mentioned above will not have any significant effect on its current operations.

10. Losses Due to Major Disasters: None

11. Subsequent Events

The coronavirus (COVID-19) occurred in the beginning of 2020 caused a short-term uncertainty in China business of Wuxi MSTC, and a delay in production and delivery in the first quarter of the Company. The Company worked with its clients for the matters mentioned above, and tried to produce gradually upon acquiring the supply of main raw materials. But the supply of components could not be guaranteed, the Company could not reasonably possible estimate the potential impact on its financial performance.

12. Other

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function / By item	2019			2018		
	Classified as cost of goods sold	**Classified as operating expenses**	**Total**	**Classified as cost of goods sold**	**Classified as operating expenses**	**Total**
Employee benefits						
Salaries	330,828	2,687,681	3,018,509	270,271	2,456,074	2,726,345
Labor and health insurance	31,785	255,808	287,593	29,939	235,064	265,003
Pension	28,064	120,541	148,605	26,544	117,836	144,380
Remuneration of directors	-	2,786	2,786	-	2,164	2,164
Others	15,611	89,471	105,082	14,527	98,588	113,115
Depreciation	98,775	191,565	290,340	107,283	147,025	254,308
Amortization	2,745	75,113	77,858	2,818	77,461	80,279

13. Other disclosures:

(a) Information on significant transactions

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

(i) Loans to other parties: Please refer to Table 1.

(ii) Guarantees and endorsements for other parties: Please refer to Table 2.

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 3.

(Continued)

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(v) Acquisition of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of NT$300 million or 20% of the capital stock: None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT$100 million or 20% of the capital stock: Please refer to Table 4.

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock: Please refer to Table 5.

(ix) Trading in derivative instruments: Please refer to note 6(12).

(x) Business relationships and significant intercompany transactions: Please refer to Table 6.

(b) Information on investees (excluding information on investees in Mainland China): Please refer to Table 7.

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information: Please refer to Table 8.

(ii) Limitation on investment in Mainland China: Please refer to Table 8.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of the consolidated financial statements, were disclosed in the “Information on significant transactions”.

14. Segment information

(1) General information and industrial information

There are three segments that need to be reported: the brand business unit, the product business unit, and the investment unit. The brand business unit uses the brand name “ Zyxel” to provide telecommunications service providers, enterprise users, and home users complete broadband access solutions and to provide customers instant and local services. The product business unit develops products for customers and logistics services that focus on the manufacturing of wired and wireless broadband communications network, the new generation of internet, multimedia, and digital home applications in areas such as intellectual life. The investment unit is for general investment business.

(Continued)

In order to improve market competitiveness and increase the overall efficiency of the Company, channel segment was spun off from brand segment on April 1, 2019. However, so far, channel segment is still under integration of operations and business. Thus, the information the operation decision maker used still combined channel and brand segments. As a result, the Company' s operating segment information still contained three reporting segments.

Unizyx had allocated income tax expense (benefit) or non-recurring gains and losses to segments that need to be reported. In addition, all the gains and losses of the segments that need to be reported included significant non-cash items except depreciation and amortization. The reported amounts were presented in accordance with the reports used by the chief operating decision maker. The accounting principles of the operating units are not significantly different from the significant accounting policies in note 4. The Company's operating segments' profits and losses are measured based on net income and loss after tax, which also serves as the basis for assessing the segments' performance.

(2) Segment information

The Company's operating segment information and reconciliations were as follows:

	2019				
	Brand	**Products**	**Investment**	**Reconciliation and elimination**	**Total**
External revenue	$ 11,726,972	12,292,774	6,600	-	24,026,346
Inter-segment revenue	2,030,919	2,688,449	147,214	(4,866,582)	-
Total revenue	**$ 13,757,891**	**14,981,223**	**153,814**	**(4,866,582)**	**24,026,346**
Reportable segment operating income (loss)	$ (785,266)	964,478	29,815	(33,217)	175,810
Non-operating income and expenses	(234,805)	47,219	(21,068)	(5,170)	(213,824)
Income (loss) before income taxes	**$ (1,020,071)**	**1,011,697**	**8,747**	**(38,387)**	**(38,014)**
Depreciation and amortization	**$ 157,183**	**210,587**	**428**	**-**	**368,198**
Reportable segment assets	**$ 10,504,221**	**6,876,130**	**165,331**	**(2,092,231)**	15,453,451
Investment accounted for using the equity method					32,373
Total assets					**$ 15,485,824**

(Continued)

	2018				
	Brand	**Products**	**Investment**	**Reconciliation and elimination**	**Total**
External revenue	$ 11,628,786	10,587,341	6,600	-	22,222,727
Inter-segment revenue	6,961	3,478,348	146,861	(3,632,170)	-
Total revenue	**$ 11,635,747**	**14,065,689**	**153,461**	**(3,632,170)**	**22,222,727**
Reportable segment operating income (loss)	$ (242,622)	(548,375)	46,895	(14,690)	(758,792)
Non-operating income and expenses	96,859	52,366	(26,392)	(3)	122,830
Income (loss) before income taxes	**$ (145,763)**	**(496,009)**	**20,503**	**(14,693)**	**(635,962)**
Depreciation and amortization	**$ 121,133**	**212,938**	**516**	**-**	**334,587**
Reportable segment assets	**$ 9,368,196**	**9,139,874**	**134,809**	**(1,569,192)**	17,073,687
Investment accounted for using the equity method					45,585
Total assets					**$ 17,119,272**

(3) Information by product and service

For information on products and services for the years ended December 31, 2019 and 2018, please refer to note 6(22).

(4) Geographic information

Sales to customers classified by location of customers is as follows, within which revenue is recognized based on the location of the customer and non-current assets are recognized based on the location of the asset.

A. Revenue from external customers:

For information on revenue from external customers for the years ended December 31, 2019 and 2018, please refer to note 6(22).

(Continued)

B. Non-current assets:

Area	December 31, 2019	December 31, 2018
Taiwan	$ 1,356,109	984,077
China	661,016	744,628
Other countries	252,769	179,165
	$ 2,269,894	**1,907,870**

(5) Information on major customers

	2019	2018
Customer A	**$ 2,767,660**	**2,204,595**

Unizyx Holding Corporation and subsidiaries
Loans to other parties
For the year ended December 31, 2019

Table 1 (In Thousands of New Taiwan Dollars)

Number (Note 1)	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance (Note 4)	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Loss allowance	Collateral		Individual funding loan limits (Note 3)	Maximum limit of fund financing (Note 3)	Note
													Item	Value			
1	Zyxel	ZyIT	Other accounts receivable－related parties	Yes	519,742	519,742	519,742	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
1	Zyxel	ZyBR	〃	Yes	394,244	188,148	188,148	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
1	Zyxel	ZyUSA	〃	Yes	200,866	200,866	119,920	1%	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
1	Zyxel	ZyTR	〃	Yes	20,232	16,587	16,587	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
1	Zyxel	ZNet IN	〃	Yes	52,839	14,136	14,136	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
1	Zyxel	Others(Note 5)	〃	Yes	32,469	7,274	7,274	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
1	Zyxel	MitraStar	〃	Yes	900,000	-	-	1%	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
						946,753	865,807										
2	MitraStar	Monetics	〃	Yes	451,774	88,759	88,759	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
3	Genezys	Wuxi MSTC	〃	Yes	119,678	-	-	4.35%	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
3	Genezys	Monetics	〃	Yes	118,560	-	-	4.35%	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
						-	-										

Number (Note 1)	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance (Note 4)	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Loss allowance	Collateral		Individual funding loan limits (Note 3)	Maximum limit of fund financing (Note 3)	Note
													Item	Value			
4	ZNet	ZNet IN	Other accounts receivable－related parties	Yes	68,345	52,959	52,959	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
4	ZNet	ZySHA	〃	Yes	14,826	12,292	12,292	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
4	ZNet	Others(Note 5)	〃	Yes	42,758	-	-	-	2	-	Operating Capital	-	-	-	722,119	2,888,476	Note 6
						65,251	65,251										

Note 1: The numbers denote the following:
0 represents Unizyx
1 represents Zyxel
2 represents MitraStar
3 represents Genezys
4 represents ZNet
Investees are listed in accordance with names and in sequential order starting with 1.

Note 2: Purposes of fund financing for the borrower:
1. For those companies with business transaction with the Company, please fill in 1.
2. For those companies with short-term financing needs, please fill in 2.

Note 3: The Company’s total amount for financing shall not exceed 40% of the Company’s net worth, which is based on the latest audited or reviewed parent-company-only financial statements. For those companies with business transaction with the Company, the amount of each fund financing shall not exceed the higher amount of the total purchases from, or sales to, a borrower in the most recent year or in the current year. For those subsidiaries with short-term financing needs, the amount of each fund financing shall not exceed 10% of the Company’s net worth, which is based on the latest audited or reviewed parent-company-only financial statements.

Note 4: The ending balance is the valid loan amount approved by the Board of Directors.

Note 5: Financings with amounts less than 10,000 were included herein.

Note 6: The inter-company transactions and balances had been eliminated in the consolidated financial statements.

Unizyx Holding Corporation and subsidiaries

Guarantees and endorsements for other parties

For the year ended December 31, 2019

Table 2 (In Thousands of New Taiwan Dollars)

Number	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period (Note 3)	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements (Note 3)	Guarantee provided by parent company	Guarantee provided by a subsidiary	Guarantee provided to subsidiaries in Mainland China
		Name	Relationship with the Company (Note 2)										
0	Unizyx	MitraStar	2	3,610,596	2,272,400	2,024,870	18,612	-	28.04%	3,610,596	Y	N	N
0	Unizyx	ZNet	2	3,610,596	850,000	850,000	315,410	-	11.77%	3,610,596	Y	N	N
						2,874,870	334,022						
1	Wuxi MSTC	Monetics	4	3,610,596	23,015	-	-	-	-	3,610,596	N	N	Y

Note 1: The numbers denote the following:
0 represents Unizyx
1 represents Wuxi MSTC
Investees are listed in accordance with names and in sequential order starting with 1.

Note 2: The relation between guarantor and guarantee and their endorsement should be disclosed as one of the following:
1. A company with which it does business.
2. A company in which the public company directly and indirectly holds more than 50% of the voting shares.
3. A company that directly and indirectly holds more than 50 % of the voting shares in the public company.
4. A company in which the public company holds, directly or indirectly, 90% or more of the voting shares.
5. A company that fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
6. A company that all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
7. Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: The total amount of guarantees and endorsements provided by each guarantor to any specific party or subsidiary shall not exceed 50% of Unizyx’s net worth. The total amount of guarantees and endorsements provided by each guarantor and Company’s subsidiary shall not exceed 50% of Unizyx’s net worth. The total amount of guarantees and endorsements provided by each guarantor and Company’s subsidiary to any specific -party shall not exceed 50% of Unizyx’s net worth. If the total amount of guarantees and endorsements provided by each guarantee and Company’s subsidiary exceed 50% of Unizyx’s net worth, the Company should disclose its necessity and rationality at the shareholder’s meeting. For those companies with business transactions, except for the abovementioned rules of limit, the amount of each guarantee and endorsement shall not exceed the transaction amount between two parties, which is the higher amount of the sales or purchases.

Unizyx Holding Corporation and subsidiaries
Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures)
For the year ended December 31, 2019

Table 3

(In Thousands of New Taiwan Dollars; In Thousands of Shares)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units	Carrying value	Percentage of ownership (%)	Fair Value	
Zyxel	Stock: Ubiik Inc.	Investee	Financial assets at fair value through other comprehensive income－non-current	956	5,115	9%	5,115	
Zyxel	Stock: Global Channel Resource Pte. Ltd.	〃	〃	600	1,398	8%	1,398	
Zyxel	Stock: Zowie Technology Corp.	〃	〃	19	149	-	149	
Zyxel	Stock: Lionic Corp.	〃	〃	500	-	6%	-	
Zyxel	Stock: Aetas Technology Inc.	〃	〃	296	-	1%	-	
					6,662			
Zychamp	Stock: Homeyen Networks Co., Ltd.	Investee	Financial assets at fair value through other comprehensive income－non-current	169	2,007	11%	2,007	
Zychamp	Stock: Essence Technology Solution, Inc.	〃	〃	91	-	3%	-	
Zychamp	Stock: Handlink Technologies Inc.	〃	〃	296	-	3%	-	
Zychamp	Stock: Accfast Technology Corp.	〃	〃	136	-	5%	-	
Zychamp	Stock: L7 Networks Inc.	〃	〃	1	-	1%	-	
					2,007			
ZyTPE	Investec Global Strategy Fund - Global Energy Fund Class C Inc.	－	Financial assets at fair value through profit or loss－current	-	2,035	-	2,035	

Unizyx Holding Corporation and subsidiaries

Related-party transactions for purchases and sales with amounts exceeding the lower of TWD100 million or 20% of the capital stock

For the year ended December 31, 2019

Table 4 (In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase /Sale	Amount	Percentage of total purchases / sales	Payment terms	Unit price	Payment terms	Ending balance (Note 3)	Percentage of total notes / accounts receivable (payable)	
Zyxel	ZyAS	Subsidiary to subsidiary	Sales	2,991,263	32%	150 days after delivery	Note 1		1,212,192	29%	Note 4
Zyxel	ZyUSA	Subsidiary to subsidiary	Sales	2,464,660	26%	135 days after delivery	Note 1		720,965	17%	Note 4
Zyxel	ZyIT	Subsidiary to subsidiary	Sales	1,577,288	17%	150 days after delivery	Note 1		1,120,883	27%	Note 4
Zyxel	ZyTR	Subsidiary to subsidiary	Sales	573,680	6%	165 days after delivery	Note 1		245,353	6%	Note 4
Zyxel	ZNet	Subsidiary to subsidiary	Sales	329,690	4%	90 days after delivery	Note 1		-	-	Note 4
Zyxel	ZyBR	Subsidiary to subsidiary	Sales	311,025	3%	90~180 days after delivery	Note 1		706,404	17%	Note 4
ZNet	ZNet AS	Subsidiary to subsidiary	Sales	680,049	44%	150 days after delivery	Note 1		607,818	57%	Note 4
ZNet	Zyxel	Subsidiary to subsidiary	Sales	602,696	39%	90 days after delivery	Note 1		-	-	Note 4
ZNet	ZyTPE	Subsidiary to subsidiary	Sales	106,027	7%	90 days after delivery	Note 1		61,524	6%	Note 4
MitraStar	Zyxel	Subsidiary to subsidiary	Sales	2,650,150	19%	90 days after delivery	Note 1		812,998	28%	Note 4
MitraStar	Monetics	Subsidiary to subsidiary	Sales	1,460,945	11%	60~140 days after delivery	Note 1		846,155	29%	Note 4
MitraStar	Wuxi MSTC	Subsidiary to subsidiary	Processing and purchase	(8,048,280)	(60%)	90 days after receipt	Note 2		(1,188,748)	(52%)	Note 4
MitraStar	Zyxel	Subsidiary to subsidiary	Purchase	(1,046,683)	(8%)	90 days after receipt	Note 2		-	-	Note 4
ZyAS	ZNet AS	Subsidiary to subsidiary	Sales	543,442	20%	90~120 days after delivery	Note 1		413,497	35%	Note 4
ZyAS	ZyDE	Subsidiary to subsidiary	Sales	502,578	18%	120 days after delivery	Note 1		114,271	10%	Note 4
ZyAS	ZyUK	Subsidiary to subsidiary	Sales	257,091	9%	120 days after delivery	Note 1		140,544	12%	Note 4
ZyAS	ZyIT	Subsidiary to subsidiary	Sales	250,411	9%	120~180 days after delivery	Note 1		72,920	6%	Note 4
ZyAS	ZyCZ	Subsidiary to subsidiary	Sales	211,405	8%	30~120 days after delivery	Note 1		104,580	9%	Note 4

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase /Sale	Amount	Percentage of total purchases / sales	Payment terms	Unit price	Payment terms	Ending balance (Note 3)	Percentage of total notes / accounts receivable (payable)	
ZyAS	ZyTR	Subsidiary to subsidiary	Sales	131,160	5%	130 days after delivery	Note 1		116,052	10%	Note 4
ZNet AS	ZyDE	Subsidiary to subsidiary	Sales	185,475	9%	90 days after delivery	Note 1		21,222	5%	Note 4

Note 1: The selling prices of Zyxel and ZNet to its related parties are determined based on the market price, with the payment term of 30~180 days after delivery; however, the collection of payment is currently depended on the capital status of the subsidiaries. The selling prices of MitraStar to its related parties are determined based on the market price, with the payment term of 60~90 days after delivery; however, the collection of payment is currently depended on the capital status of the subsidiaries. The selling prices of ZyAS to its related parties are determined based on the market price, with the payment term of 90 days after delivery; however, the collection of payment is currently depended on the capital status of the subsidiaries.

Note 2: There is no significant difference between the payment term of MitraStar for its related parties and that of the third parties. The prices of processing are determined based on the mutual agreement between MitraStar and Wuxi MSTC.

Note 3: The ending balance abovementioned included the amounts for financing that were classified as other accounts receivable－related parties.

Note 4: The inter-company transactions and balances had been eliminated in the consolidated financial statements.

Unizyx Holding Corporation and subsidiaries

Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of capital stock

For the year ended December 31, 2019

Table 5 (In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Ending balance (Note 2)	Turnover days	Overdue		Amounts received in subsequent period (Note 1)	Loss allowance	Note
					Amount	Action taken			
Zyxel	ZyAS	Subsidiary to subsidiary	1,212,192	2	5,229	Enhanced Collecting	199,209	-	Note 5
Zyxel	ZyIT	Subsidiary to subsidiary	1,120,883	1	519,742	Enhanced Collecting	138,798	-	Note 5
Zyxel	ZyUSA	Subsidiary to subsidiary	720,965	3	-	-	517,825	-	Note 5
Zyxel	ZyBR	Subsidiary to subsidiary	392,195	1	188,148	Enhanced Collecting	-	-	Note 3 and 5
Zyxel	ZyTR	Subsidiary to subsidiary	245,353	4	16,587	Enhanced Collecting	-	-	Note 5
ZNet	ZNet AS	Subsidiary to subsidiary	607,818	3	-	-	132,920	-	Note 5
MitraStar	Zyxel	Subsidiary to subsidiary	812,998	3	-	-	689,568	-	Note 5
MitraStar	Monetics	Subsidiary to subsidiary	785,126	2	88,759	Enhanced Collecting	193,186	-	Note 4 and 5
Wuxi MSTC	MitraStar	Subsidiary to subsidiary	1,188,748	8	-	-	1,098,275	-	Note 5
ZyAS	ZNet AS	Subsidiary to subsidiary	413,497	3	-	-	83,975	-	Note 5
ZyAS	ZyUK	Subsidiary to subsidiary	140,544	2	-	-	80,009	-	Note 5
ZyAS	ZyTR	Subsidiary to subsidiary	116,052	1	-	-	5,092	-	Note 5
ZyAS	ZyDE	Subsidiary to subsidiary	114,271	4	-	-	114,890	-	Note 5
ZyAS	ZyCZ	Subsidiary to subsidiary	104,580	2	-	-	7,668	-	Note 5

Note 1: Information as of February 29, 2020.
Note 2: The abovementioned ending balance included the amount for financing, which was recognized as other accounts receivable－related parties.
Note 3: The abovementioned ending balance included the amount of credit balance of investments accounted for using the equity method amounting to $314,209.
Note 4: The abovementioned ending balance included the amount of credit balance of investments accounted for using the equity method amounting to $61,029.
Note 5: The inter-company transactions and balances had been eliminated in the consolidated financial statements.

Unizyx Holding Corporation and subsidiaries
Business relationships and significant intercompany transactions
For the year ended December 31, 2019

Table 6 (In Thousands of New Taiwan Dollars)

Number (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions, 2019			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
1	Zyxel	ZyAS	3	Operating revenues	2,991,263	150 days after delivery	12%
1	Zyxel	ZyUSA	3	Operating revenues	2,464,660	135 days after delivery	10%
1	Zyxel	ZyIT	3	Operating revenues	1,577,288	150 days after delivery	7%
1	Zyxel	ZyTR	3	Operating revenues	573,680	165 days after delivery	2%
1	Zyxel	ZNet	3	Operating revenues	329,690	90 days after delivery	1%
1	Zyxel	ZyBR	3	Operating revenues	311,025	90~180 days after delivery	1%
1	Zyxel	ZyAS	3	Accounts receivable－related parties, net	1,206,963		8%
1	Zyxel	ZyUSA	3	Accounts receivable－related parties, net	720,965		5%
1	Zyxel	ZyIT	3	Accounts receivable－related parties, net	601,142		4%
1	Zyxel	ZyTR	3	Accounts receivable－related parties, net	228,765		1%
1	Zyxel	ZyBR	3	Accounts receivable－related parties, net	204,046		1%
1	Zyxel	ZyIT	3	Other accounts receivable－related parties	519,741		3%
1	Zyxel	ZyBR	3	Other accounts receivable－related parties	188,149		1%
2	ZNet	ZNet AS	3	Operating revenues	680,049	150 days after delivery	3%
2	ZNet	Zyxel	3	Operating revenues	602,696	90 days after delivery	3%
2	ZNet	ZNet AS	3	Accounts receivable－related parties, net	607,818		4%
2	ZNet	Others (Note 3)	3	Accounts receivable－related parties, net	201,051		1%
3	MitraStar	Zyxel	3	Operating revenues	2,650,150	90 days after delivery	11%
3	MitraStar	Monetics	3	Operating revenues	1,460,945	60~140 days after delivery	6%
3	MitraStar	Wuxi MSTC	3	Cost of goods sold	8,048,280	90 days after receipt	33%
3	MitraStar	Zyxel	3	Cost of goods sold	1,046,683	90 days after receipt	4%

Number (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions, 2019			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
3	MitraStar	Zyxel	3	Accounts receivable—related parties, net	812,998		5%
3	MitraStar	Monetics	3	Accounts receivable—related parties, net	696,367		4%
4	ZyAS	ZNet AS	3	Operating revenues	543,442	90~120 days after delivery	2%
4	ZyAS	ZyDE	3	Operating revenues	502,578	120 days after delivery	2%
4	ZyAS	ZyUK	3	Operating revenues	257,091	120 days after delivery	1%
4	ZyAS	ZyIT	3	Operating revenues	250,411	120~180 days after delivery	1%
4	ZyAS	Others (Note 3)	3	Operating revenues	535,235	30~150 days after delivery	2%
4	ZyAS	ZNet AS	3	Accounts receivable—related parties, net	413,497		3%
4	ZyAS	Others (Note 3)	3	Accounts receivable—related parties, net	575,781		4%
5	ZNet AS	Others (Note 3)	3	Operating revenues	311,041	90 days after delivery	1%

Note 1: The numbers denote the following:
0 represents Unizyx
1 represents Zyxel
2 represents ZNet
3 represents MitraStar
4 represents ZyAS
5 represents ZNetAS
Investees are listed by names and numbered starting with 1.

Note 2: The nature of relationship is as follows:
1 represents parent company to subsidiary
2 represents subsidiary to parent company
3 represents subsidiary to subsidiary

Note 3: Other transactions with the amount that less than 1% of the consolidated net revenue or total assets were not disclosed.

Unizyx Holding Corporation and subsidiaries
Information on investees (excluding information on investees in Mainland China)
For the year ended December 31, 2019

Table 7 (In Thousands of New Taiwan Dollars/Foreign Currency; In Thousands of Shares)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
Unizyx	Zyxel	Taiwan	Development, manufacturing and sales of communications and networking products	3,431,516	4,631,516	72,450	100	3,057,546	100	(559,481)	(575,795)	Subsidiary, Note 1 and 9
Unizyx	MitraStar	Taiwan	Development, manufacturing and sales of communications and networking products	3,337,920	3,337,920	316,800	100	3,005,576	100	876,156	912,512	Subsidiary, Note 1 and 9
Unizyx	ZNet	Taiwan	Development and sales of communications and networking products	1,200,100	-	72,460	100	1,005,473	100	(170,944)	(229,369)	Subsidiary, Note 1 and 9
Unizyx	ZQAM	Taiwan	Development, manufacturing and sales of communications and networking products	101,450	101,450	9,050	42	19,292	42	(21,141)	(21,090)	Associate and Note 2
Unizyx	Black Cat	Taiwan	Development and sales of information security products, and consultant management services	10,000	10,000	1,000	77	6,155	77	(3,270)	(2,515)	Subsidiary and Note 9
								7,094,042			83,743	

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
Zyxel	ZyTR	Turkey	Sales and marketing	362,862 (USD 11,977)	362,862 (USD 11,977)	29,137	100	233,387	100	(36,477)	Note 3	Subsidiary and Note 9
Zyxel	ZyUSA	U.S.A.	Sales and marketing	271,810 (USD 9,506)	271,810 (USD 9,506)	9,807	100	196,833	100	(57,403)	Note 3	Subsidiary and Note 9
Zyxel	Zychamp	Taiwan	Investment activities	540,000	540,000	8,902	100	189,150	100	(119)	Note 3	Subsidiary and Note 9
Zyxel	ZyAS	Denmark	Sales and marketing	501,390 (EUR 11,980)	629,088 (EUR 14,694)	20,712	100	143,335	100	(275,790)	Note 3	Subsidiary and Note 9
Zyxel	Sphairon	Germany	Development of communications and networking products	154,320 (EUR 4,000)	154,320 (EUR 4,000)	-	100	128,593	100	2,683	Note 3	Subsidiary and Note 9
Zyxel	ShareTech	Taiwan	Development, manufacturing and sales of communications and networking products	10,950	10,950	730	38	13,081	38	7,869	Note 3	Associate
Zyxel	Ardomus	Taiwan	Development and sales of network digital control products	48,411	32,060	4,841	61	9,581	61	(21,652)	Note 3	Subsidiary and Note 9
Zyxel	ZyME	United Arab Emirates	Sales and marketing	216 (USD 7)	216 (USD 7)	-	100	84	100	22,832	Note 3	Subsidiary and Note 9
Zyxel	Ecowork	Taiwan	Service of database of Chinese studies, cross-platform mobile applications and global network construction	-	29,920	-	-	-	-	(3,142)	Note 3	Subsidiary, Note 7 and 9
Zyxel	ZySG	Singapore	Sales and marketing	-	69,090 (USD 2,284)	-	-	-	-	-	-	Subsidiary and Note 5
Zyxel	VICTOR	British Virgin Islands	Investment activities	Note 4	102,480 (USD 3,719)	-	-	-	-	(1,492)	Note 3	Subsidiary and Note 9
Zyxel	ZyIN	India	Sales and marketing	Note 4	62,768 (USD 1,939)	-	-	-	-	(26,285)	Note 3	Subsidiary and Note 9

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
Zyxel	ZyTPE	Taiwan	Development and sales of communications and networking products	Note 4 and 6	Note 6	-	-	-	-	8,979	Note 3	Subsidiary and Note 9
Zyxel	ZyTH	Thailand	Sales and marketing	Note 4	36,454 (USD 1,142)	-	-	-	-	11,124	Note 3	Subsidiary and Note 9
Zyxel	ZyKR	South Korea	Sales and marketing	Note 4	11,127 (USD 390)	-	-	-	-	3,828	Note 3	Subsidiary and Note 9
Zyxel	ZyEE	Estonia	Sales and marketing	Note 4	88 (EUR 3)	-	-	-	-	-	Note 3	Subsidiary and Note 9
Zyxel	ZyBR	Brazil	Sales and marketing	53,373 (USD 1,668)	53,373 (USD 1,668)	5,849	100	(339,817)	100	(227,078)	Note 3	Subsidiary and Note 9
								574,227				
VICTOR	ZyMY	Malaysia	Sales and marketing	-	43,738 (USD 1,337)	-	-	-	-	-	-	Subsidiary and Note 5
ZyAS	ZyDE	Germany	Sales and marketing	67,461 (EUR 1,525)	67,461 (EUR 1,525)	-	100	108,455	100	(19,917)	Note 3	Subsidiary and Note 9
ZyAS	ZyUK	United Kingdom	Sales and marketing	319,542 (EUR 6,450)	319,542 (EUR 6,450)	5,375	100	50,354	100	(7,726)	Note 3	Subsidiary and Note 9
ZyAS	ZyCZ	Czech Republic	Sales and marketing	66,283 (EUR 1,543)	66,283 (EUR 1,543)	19,000	100	4,854	100	(16,609)	Note 3	Subsidiary and Note 9
ZyAS	ZyES	Spain	Sales and marketing	2,165 (EUR 53)	2,165 (EUR 53)	3	100	2,296	100	(2,483)	Note 3	Subsidiary and Note 9
ZyAS	ZyRUS	Russia	Sales and marketing	Note 4	28 (EUR 1)	-	-	-	-	524	Note 3	Subsidiary and Note 9
ZyAS	ZyBNL	Netherlands	Sales and marketing	Note 4	54,089 (EUR 1,350)	-	-	-	-	(2,277)	Note 3	Subsidiary and Note 9
ZyAS	ZyIT	Italy	Sales and marketing	48,793 (EUR 1,450)	48,793 (EUR 1,450)	10	100	(17,315)	100	(30,467)	Note 3	Subsidiary and Note 9
								148,644				
MitraStar	Bluebell	British Virgin Islands	Investment activities	1,519,277 (USD 45,150)	1,659,652 (USD 49,500)	32,856	100	1,694,900	100	351,990	Note 3	Subsidiary and Note 9

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Highest percentage of ownership during the year	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value				
ZNet	ZyTPE	Taiwan	Development and sales of communications and networking products	Note 6	-	6,000	100	92,682	100	8,979	Note 3	Subsidiary and Note 9
ZNet	ZNet TH	Thailand	Sales and marketing	74,969 (USD 2,389)	-	8,000	100	86,069	100	11,124	Note 3	Subsidiary and Note 9
ZNet	ZNet KR	South Korea	Sales and marketing	11,127 (USD 390)	-	72	65	21,628	65	3,828	Note 3	Subsidiary and Note 9
ZNet	ZNet AS	Denmark	Sales and marketing	415,320 (EUR 12,000)	-	20,712	100	2,767	100	(164,657)	Note 3	Subsidiary and Note 9
ZNet	ZNet EE	Estonia	Sales and marketing	88 (EUR 3)	-	3	100	84	100	-	Note 3	Subsidiary and Note 9
ZNet	ZNet IN	India	Sales and marketing	62,768 (USD 1,939)	-	8,470	100	(256,766)	100	(26,285)	Note 3	Subsidiary and Note 9
ZNet	VICTOR	British Virgin Islands	Investment activities	Note 8	-	-	-	-	-	(1,492)	Note 3	Subsidiary and Note 9
								(53,536)				
ZNet AS	ZNet FR	France	Sales and marketing	122,449 (EUR 3,603)	-	15	100	100,767	100	(18,054)	Note 3	Subsidiary and Note 9
ZNet AS	ZNet BNL	Netherlands	Sales and marketing	54,089 (EUR 1,350)	-	14	100	44,737	100	(2,277)	Note 3	Subsidiary and Note 9
ZNet AS	ZNet RUS	Russia	Sales and marketing	28 (EUR 1)	-	-	100	1,429	100	524	Note 3	Subsidiary and Note 9
								146,933				

Note 1: The share of the investee company's loss comprises the share of subsidiary's loss after the elimination of unrealized gross profit on inter-company sales transactions.
Note 2: The share of the investee company's loss comprises the share of ZQAM's loss amounting to $9,509 and the amortization of intangible assets amounting to $11,581.
Note 3: The share of profits/losses of the investee company is not disclosed herein as such amount is already included in the share of profits/losses of the investor company.
Note 4: The company was spun off to ZNet or ZNet AS in April,2019.
Note 5: ZySG and ZyMY were liquidated in January 2019
Note 6: The issued capital of ZyTPE comprised of $50,000 capital increase by cash and $60,000 capital increase by retained earnings. In March 2019, $50,000 capital was returned to the investor.
Note 7: Ecowork was liquidated in August 2019.
Note 8: VICTOR was liquidated in July 2019
Note 9: The inter-company transactions and balances had been eliminated in the consolidated financial statements.

Unizyx Holding Corporation and subsidiaries
Information on investment in Mainland China
For the year ended December 31, 2019

Table 8

(1) Information on investment in Mainland China

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Issued Capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of investee	Direct/indirect shareholding (%) by the Company	Highest percentage of ownership during the year	Share of profits/losses of investee	Carrying amount as of December 31, 2019	Accumulated repatriation of investment income
					Out-flow	Inflow							
Tianjin Huagin	Manufacturing and sales of communications and networking products and technical consulting service	44,375	Note 1	42,156	-	-	42,156	(4,294)	ZNet directly holds 95%	ZNet directly holds 95%	(4,079) Note 6	1,713	-
ZySHA	Sales of communications, networking products and technical consulting service	266,259	Note 1	266,259	-	-	266,259	(14,289)	ZNet directly holds 100%	ZNet directly holds 100%	(11,680) Note 6 and 7	(2,310)	-
Wuxi MSTC	Manufacturing and sales of communications and networking products and technical consulting service	1,013,953	Note 2	1,013,953	-	-	1,013,953	305,863	MitraStar indirectly holds 100%	MitraStar indirectly holds 100%	305,863	1,753,299	-
Genezys	Development of communications and networking products	209,806	Note 3	209,806	-	-	209,806	16,411	MitraStar directly holds 100%	MitraStar directly holds 100%	16,411	229,540	-
Monetics	Sales of communications, networking products and network technology transfer service	150,448	Note 3 and 4	72,193	-	-	72,193	(64,361)	MitraStar directly holds 100%	MitraStar directly holds 100%	(64,361)	(61,029)	-
Beijing HuaqinWorld	Sales of communications, networking products and network technology transfer and consulting service	236,860	Note 5	-	-	-	-	-	MitraStar indirectly holds 49%	MitraStar indirectly holds 49%	-	-	-

(2) Limitation on investment in Mainland China

Company	Accumulated investment amount remitted from Taiwan to Mainland China as of December 31, 2018	Approved investment amount by Ministry of Economic Affairs Investment Commission	Limitation on investment in Mainland China in accordance with regulations of Ministry of Economic Affairs Investment Commission (Note 6)
ZNet	308,415	308,415	645,945
MitraStar	1,295,952	1,374,207	1,813,650

Note 1: Direct investment in the company in Mainland China by ZNet.
Note 2: Indirect investment in Mainland China through an existing investee company (Bluebell) in a third region.
Note 3: Direct investment in the company in Mainland China by MitraStar.
Note 4: The issued capital of Monetics amounting to $78,255 was invested by Bluebell through self-funding. In May 2019, ownership of Monetics was transferred to MitraStar due to adjustment of organizational structure.
Note 5: The investment in Beijing HuaqinWorld was invested by Genezys through self-funding, which is not applicable for the calculation of limitation on the investment in Mainland China.

Note 6: The abovementioned amount included the amount of profit or loss recognized by VICTOR from January to March,2019.
Note 7: The amount comprises the share of ZySHA's loss amounting to $14,289 after the elimination of unrealized gross profit on inter-company sales transactions.
Note 8: In accordance with the Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China amended on August 29, 2008, the limitation on investment in Mainland China shall not exceed 60% of the Company's net worth as of December 31, 2019.