

ZERO ONE TECHNOLOGY CO., LTD.
PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE
THE YEARS ENDED DECEMBER 31, 2019 AND 2018 AND
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

The board of directors and Shareholders
Zero One Technology Company Limited

Opinion

We have audited the accompanying parent company only financial statements of zero one technology company limited, which comprise the parent company only balance sheets as of December 31, 2019 and 2018, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended December 31, 2019 and 2018, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the company as of December 31, 2019 and 2018, and its parent company only financial performance and its parent company only cash flows for the years then ended December 31, 2019 and 2018.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 parent company only financial statements section of our report. we are independent of the company in accordance with the norm of professional ethics for certified public accountant of the republic of china and we have fulfilled our other ethical responsibilities in accordance with these requirements. we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements for the year ended December 31, 2019. these matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the company's parent company only financial statements for the year ended December 31, 2019 are stated as follows:

Valuation of allowance for uncollectible accounts

Key Audit Matters

As indicated in Note 5 and Note 10 for judgements, the management of the Company assesses the collectability of accounts receivable and valuation of allowance for uncollectible accounts, based on the regulations of IFRS 9, and recognizes allowance for uncollectible accounts by lifetime expected credit losses. As the estimation of allowance for uncollectible accounts is subject to judgement of the management, we consider the valuation of allowance for uncollectible accounts a key audit matter.

We assess the policy of valuation of allowance for uncollectible accounts, assure reasonability of the rate of expected credit losses, and require reasons for insuring that credit losses of individuals with delinquent accounts are expected.

The following audit procedures

Our procedure includes understanding and testing controls of allowance for uncollectible accounts by the management in line with periodic review, predicting and managing differences as tracked for losses, design and execution of relevant controls. We also obtain an Aging report of trade receivable for calculation the allowance for uncollectible accounts on the balance sheet date, and perform the procedure of sampling and auditing for testing the correctness of the aging report, and calculate for evaluating the amount is recognized by allowance for uncollectible accounts in line with the Company's accounting policy for recording.

Allowance for inventory valuation loss

Key Audit Matters

The valuation of the inventory of the Company includes the estimate of net realizable value and the allowance for inventory valuation loss regarding with the outdated and obsolete inventory. Net realizable valuation, based on the historical data of market situation and similar products, of the inventory is the carrying amounts calculated by the estimate sales price deducts the estimate of input costs, and cost of goods sold, during the ordinary course of business. The material influence of market condition will affect the amount of net realizable valuation. Besides, the ratio of the allowance for inventory valuation loss is valued by inventory aging and the allowance for the actual loss. We consider the estimate of net realizable valuation, and the ratio of the allowance for inventory impairment loss of the outdated and obsolete inventories a key audit matter, based on management's professional estimation.

The following audit procedures

Our procedure includes understanding the accounting policies, valuation methods, and citation information originality for the inventory of the Company, obtaining information of the year-end allowance for inventory valuation loss and inventory aging reports, drawing samples to ensure the reasonableness of the inventory as valued by net realizable value method and the inventory aging, and the carrying amount of the year-end allowance for inventory valuation loss fitting the Company's accounting policy for allowance.

Responsibilities of Management and Those Charged with Governance for the Parent company only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the regulations governing the preparation of financial reports by securities issuers and the IFRS, IAS, IFRIC, 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 parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only 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 members of the supervisors) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent company only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 parent company only financial statements.

As part of an audit in accordance with the 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 parent company only 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 parent company only 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 parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the parent company only financial statements. we are responsible for the direction, supervision and performance of the company 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 parent company only financial statements for the year ended December 31, 2019 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 Wen Chin Lin and Hsin Wei Tai.

Deloitte & Touche

Taipei, Taiwan
Republic of China

February 26, 2020

Notice to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, financial performance and cash flows in accordance with 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 parent company only financial statements are those generally applied in the republic of china.

For the convenience of readers, the independent auditors' report and the accompanying parent company only financial statements have been translated into English from the original Chinese version prepared and used in the republic of china. if there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and parent company only financial statements shall prevail.

ZERO ONE TECHNOLOGY CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents(Note 4&6)	\$ 298,352	6	\$ 201,754	5
Financial assets at fair value through profit or loss - current(Note 4&7)	34,182	1	47,473	1
Financial assets at fair value through other comprehensive income - current(Note 4&8)	-	-	7,865	-
Financial assets at amortized cost - current(Note 4&9)	683,552	13	560,236	13
Notes receivable(Note 4&10)	276,895	5	160,573	4
Trade receivables(Note 4, 5, 10&26)	1,742,370	33	1,718,368	39
Inventories(Note 4, 5&11)	1,306,416	25	934,052	21
Other current assets(Note 26)	43,281	1	22,495	1
Total current assets	<u>4,385,048</u>	<u>84</u>	<u>3,652,816</u>	<u>84</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current(Note 4&7)	30,280	1	14,846	-
Financial assets at fair value through other comprehensive income - non-current(Note 4&8)	192,423	4	137,138	3
Financial assets at amortized cost - non-current(Note 4, 9&27)	79,079	1	76,828	2
Investments accounted for using the equity method(Note 4&12)	143,945	3	136,129	3
Property, plant and equipment(Note 4,13&27)	313,991	6	312,926	7
Right-of-use assets (Notes 4,5 and 14)	7,332	-	-	-
Other intangible assets(Note 4)	1,358	-	902	-
Deferred tax assets(Note 4, 5&21)	41,852	1	37,321	1
Refundable deposits	2,754	-	1,677	-
Total non-current assets	<u>813,014</u>	<u>16</u>	<u>717,767</u>	<u>16</u>
TOTAL	<u>\$ 5,198,062</u>	<u>100</u>	<u>\$ 4,370,583</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings(Note 15)	\$ 150,000	3	\$ 100,000	2
Trade payables(Note 26)	2,024,410	39	1,644,365	38
Other payables(Note 16)	374,041	7	239,136	6
Current tax liabilities(Note 4&21)	56,927	1	56,683	1
Lease liabilities - current (Notes 4, 5&14)	3,576	-	-	-
Current portion of bonds payable(Note 4&17)	-	-	5,085	-
Other current liabilities	141,128	3	105,902	2
Total current liabilities	<u>2,750,082</u>	<u>53</u>	<u>2,151,171</u>	<u>49</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities(Note 4&21)	793	-	736	-
Lease liabilities - non-current (Notes 4, 5&15)	3,803	-	-	-
Net defined benefit liabilities - non-current(Note 4&18)	21,918	-	21,579	1
Other noncurrent liabilities	1,162	-	800	-
Total non-current liabilities	<u>27,676</u>	<u>-</u>	<u>23,115</u>	<u>1</u>
Total liabilities	<u>2,777,758</u>	<u>53</u>	<u>2,174,286</u>	<u>50</u>
EQUITY(Note 19)				
Share capital				
Ordinary shares	1,246,352	24	1,228,965	28
Capital surplus	470,136	9	446,515	10
Retained earnings				
Legal reserve	184,732	4	159,438	4
Special reserve	16,844	-	15,501	-
Unappropriated earnings	494,764	10	362,722	8
Total retained earnings	<u>696,340</u>	<u>14</u>	<u>537,661</u>	<u>12</u>
Other equity	7,476	-	(16,844)	-
Total equity	<u>2,420,304</u>	<u>47</u>	<u>2,196,297</u>	<u>50</u>
TOTAL	<u>\$ 5,198,062</u>	<u>100</u>	<u>\$ 4,370,583</u>	<u>100</u>

ZERO ONE TECHNOLOGY CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE(Note 4&26)				
Net sales	\$ 8,826,659	100	\$ 6,551,970	100
OPERATING COSTS(Note 11&26)				
Cost of goods sold	<u>7,960,716</u>	<u>90</u>	<u>5,902,692</u>	<u>90</u>
GROSS PROFIT	<u>865,943</u>	<u>10</u>	<u>649,278</u>	<u>10</u>
OPERATING EXPENSES(Note 20)				
Selling and marketing expenses	336,544	4	278,359	4
General and administrative expenses	126,149	1	104,773	2
Expected credit loss reversed on trade receivables	(<u>5,901</u>)	<u>-</u>	(<u>16,494</u>)	<u>-</u>
Total operating expenses	<u>456,792</u>	<u>5</u>	<u>366,638</u>	<u>6</u>
PROFIT FROM OPERATIONS	<u>409,151</u>	<u>5</u>	<u>282,640</u>	<u>4</u>
NON-OPERATING INCOME AND EXPENSES(Note 20)				
Other income	33,721	-	32,172	1
Other gains and losses	7,196	-	2,828	-
Excluding gain(loss) on financial assets measured at amortised cost	3,745	-	-	-
Finance costs	(<u>2,054</u>)	<u>-</u>	(<u>358</u>)	<u>-</u>
Share of profit or loss of subsidiaries, associates and joint ventures(Note 12)	(<u>7,344</u>)	<u>-</u>	(<u>1,805</u>)	<u>-</u>
Total non-operating income and expenses	<u>35,264</u>	<u>-</u>	<u>32,837</u>	<u>1</u>

(Continued)

ZERO ONE TECHNOLOGY CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 444,415	5	\$ 315,477	5
INCOME TAX EXPENSE(Note 21)	<u>93,102</u>	<u>1</u>	<u>62,538</u>	<u>1</u>
NET PROFIT	<u>351,313</u>	<u>4</u>	<u>252,939</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18&21)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(1,157)	-	(1,183)	-
Unrealized gain (loss) on investments in equity instruments designated as at fair value through other comprehensive income	20,757	-	(2,289)	-
Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for using the equity method	6,847	-	(4,375)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>231</u>	<u>-</u>	<u>674</u>	<u>-</u>
Other comprehensive (loss) income for the year, net of income tax	<u>26,678</u>	<u>-</u>	<u>(7,173)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 377,991</u>	<u>4</u>	<u>\$ 245,766</u>	<u>4</u>
EARNINGS PER SHARE (Note 22)				
From continuing operations				
Basic	<u>\$ 2.85</u>		<u>\$ 2.06</u>	
Diluted	<u>\$ 2.77</u>		<u>\$ 2.03</u>	

(Concluded)

ZERO ONE TECHNOLOGY CO., LTD.
**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	Share Capital		Capital Surplus	Retained Earnings				Other Equity		Total	Total Equity
	Shares	Issued Capital		Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Other Employee Benefits		
	(In Thousand)										
BALANCE, JANUARY 1, 2018	122,480	\$ 1,224,804	\$ 434,135	\$ 139,840	\$ 16,723	\$ 288,926	\$ 445,489	(\$ 10,954)	\$ -	(\$ 10,954)	\$ 2,093,474
Appropriation of 2017 earnings											
Legal reserve	-	-	-	19,598	-	(19,598)	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(1,222)	1,222	-	-	-	-	-
Cash dividends - NT\$1.3 per share	-	-	-	-	-	(159,484)	(159,484)	-	-	-	(159,484)
Net profit for the year ended December 31, 2018	-	-	-	-	-	252,939	252,939	-	-	-	252,939
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(509)	(509)	(6,664)	-	(6,664)	(7,173)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	252,430	252,430	(6,664)	-	(6,664)	245,766
Convertible bonds converted to capital stock	311	3,111	1,681	-	-	-	-	-	-	-	4,792
Share based payment transaction - employee stock option	-	-	10,252	-	-	-	-	-	-	-	10,252
Issuance of ordinary shares under employee share options	105	1,050	447	-	-	-	-	-	-	-	1,497
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(774)	(774)	774	-	774	-
BALANCE, DECEMBER 31, 2018	122,896	1,228,965	446,515	159,438	15,501	362,722	537,661	(16,844)	-	(16,844)	2,196,297
Appropriation of the 2018 earnings											
Legal reserve	-	-	-	25,294	-	(25,294)	-	-	-	-	-
Special reserve	-	-	-	-	1,343	(1,343)	-	-	-	-	-
Cash dividends - NT\$1.5 per share	-	-	-	-	-	(184,603)	(184,603)	-	-	-	(184,603)
Net profit for the year ended December 31, 2019	-	-	-	-	-	351,313	351,313	-	-	-	351,313
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(926)	(926)	27,604	-	27,604	26,678
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	350,387	350,387	27,604	-	27,604	377,991
Convertible bonds converted to capital stock	338	3,377	1,722	-	-	-	-	-	-	-	5,099
Share based payment transaction - employee stock option	-	-	11,431	-	-	-	-	-	-	-	11,431
Share based payment transaction - restricted stock awards	-	-	-	-	-	-	-	-	4,767	4,767	4,767
Issuance of restricted stock awards	700	7,000	8,156	-	-	-	-	-	(15,156)	(15,156)	-
Issuance of ordinary shares under employee share options	701	7,010	2,312	-	-	-	-	-	-	-	9,322
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(7,105)	(7,105)	7,105	-	7,105	-
BALANCE AT DECEMBER 31, 2019	124,635	\$ 1,246,352	\$ 470,136	\$ 184,732	\$ 16,844	\$ 494,764	\$ 696,340	\$ 17,865	(\$ 10,389)	\$ 7,476	\$ 2,420,304

ZERO ONE TECHNOLOGY CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 444,415	\$ 315,477
Adjustments for:		
Write-down of inventories	29,563	73,836
Net (gain) loss on foreign currency exchange	23,769	(2,530)
Interest income	(22,488)	(16,502)
Depreciation expenses	18,058	10,688
Compensation costs of employee share options	16,198	10,252
Net loss (gain) on fair value change of financial assets/liabilities at fair value through profit or loss	(7,359)	247
Share of loss (gain) of subsidiaries, associates and joint ventures accounted for using the equity method	7,344	1,805
Reversal of expected credit losses	(5,901)	(16,494)
Dividend income	(4,366)	(5,092)
Net profit upon derecognition of financial assets measured at amortized cost	(3,745)	-
Finance costs	2,054	358
Amortization expenses	776	626
Loss on disposal of property, plant and equipment	-	2
Loss on disposal of associates	-	49
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	5,215	3,185
Notes receivable	(116,322)	24,655
Trade receivables	(17,318)	(244,155)
Inventories	(410,213)	(548,874)
Other current assets	(3,678)	(13,611)
Trade payable	364,851	436,155
Other payable	131,321	107,876
Other current liabilities	35,226	32,169
Net defined benefit liabilities	(818)	(526)
Cash generated from operations	486,582	169,596
Income tax paid	(97,101)	(56,094)
Net cash generated from operating activities	<u>389,481</u>	<u>113,502</u>

(Continued)

ZERO ONE TECHNOLOGY CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	(\$ 191,975)	(\$ 422,182)
Disposal of financial assets at amortized cost	64,955	-
Purchase of financial assets at fair value through other comprehensive income	(47,786)	(73,883)
Proceeds from sale of financial assets at fair value through other comprehensive income	17,803	1,195
Interest received	20,178	13,800
Acquisition of investments accounted for using the equity method	(10,063)	-
Increase in other receivables-related parties	(10,000)	-
Payments for property, plant and equipment	(7,033)	(8,217)
Other dividends received	4,366	5,092
Proceeds from the return of capital upon investees' capital reduction of financial assets at fair value through other comprehensive income	3,320	-
Dividend received from subsidiaries	1,750	-
Increase in refundable deposits	(1,077)	(193)
Payments for intangible assets	(670)	(700)
Net cash inflow on disposal of associates	-	340
Proceeds from disposal of property, plant and equipment	-	79
Proceeds from disposal of intangible assets	-	65
Net cash used in investing activities	<u>(156,232)</u>	<u>(484,604)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(184,603)	(159,484)
Increase in short-term borrowings	50,000	100,000
Exercise of employee share options	9,322	1,497
Repayment of principal portion of lease liabilities	(4,319)	-
Interest paid	(2,050)	(196)
Guarantee deposits received	<u>362</u>	<u>710</u>
Net cash used in financing activities	<u>(131,288)</u>	<u>(57,473)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>(5,363)</u>	<u>5,992</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	96,598	(422,583)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
	<u>201,754</u>	<u>624,337</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
	<u>\$ 298,352</u>	<u>\$ 201,754</u>

(Concluded)

ZERO ONE TECHNOLOGY CO., LTD.
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

ZERO ONE TECHNOLOGY CO., LTD. (ZOTC) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China in June 27, 1980. On January 21, 2000, ZOTC's Shares were listed on Taipei Exchange(TPEX). On August 26, 2002, ZOTC's shares were listed on the Taiwan Stock Exchange(TWSE). ZOTC is a dedicated foundry in the technology industry which engages mainly in the design, manufacturing, packaging, selling, consulting and services of electronic information, computer software, hardware, accessories, components and Chinese data processing, etc.

The parent company only financial statements are expressed by the functional currency (new taiwan dollars) of the company.

2. THE DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying parent company only financial statements were approved by the board of directors and issued on February 26, 2020.

3. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

(1)Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, "IFRSs").

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC for application would not have a significant effect on the Company's accounting policies:

IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 "LEASE", IFRIC 4 "Determining whether an Arrangement contains a Lease" and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

Upon initial application of IFRS 16, the Company will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal and cash payments for the interest portion of lease liabilities will be classified within financing activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis under IFRS 16. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard for retained earnings recognized on January 1, 2019. Comparative information will not be restated.

Leases agreements classified as operating leases under IAS 17 will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets are subject to impairment testing under IAS 36.

The Company expects to apply the following practical expedients:

- a) The Company will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Company will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Company will use hindsight, such as in determining lease terms, to measure lease liabilities.

The range of lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was between 1.2%. The difference between the lease liabilities recognized and future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 3,731
Less: Recognition exemption for short-term leases	(163)
Less: Recognition exemption for low-value leases	(27)
Undiscounted amounts on January 1, 2019	<u>\$ 3,541</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 3,505</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 3,505</u>

The Company as lessor

The Company does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ -	<u>\$ 3,505</u>	\$ 3,505
Total effect on assets		<u>\$ 3,505</u>	
Lease liabilities - current	-	<u>\$ 3,505</u>	3,505
Total effect on liabilities		<u>\$ 3,505</u>	
Retained earnings	537,661	<u>\$ -</u>	537,661
Total effect on Equities		<u>\$ -</u>	

(2)The IFRSs endorsed by the FSC with effective date starting 2020

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)
Note 1: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.	
Note 2: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.	
Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.	

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of above standards and interpretations will have on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

(3) New IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB (Note)</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Noncurrent”	January 1, 2022

Note 1 : Unless stated otherwise, the above new, revised or amended standards and interpretations are effective for annual periods beginning on or after their respective effective dates.

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of above standards and interpretations will have on the Company’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

These Parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(2) Basis of preparation

The Parent company only financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and present value of defined benefits plans deducts net defined benefit liabilities measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- A. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, which can be acquired during measurement date;
- B. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- C. Level 3 inputs are unobservable inputs for the asset or liability.

When preparing the parent company only financial statements, the Company account for subsidiaries and associates by using the equity method. In order to agree with the amount of net income, other comprehensive income and equity attributable to shareholders of the parent in the consolidated financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted under the heading of investments accounted for using equity method, share of profits of subsidiaries and associates and share of other comprehensive income of subsidiaries and associates in the parent company only financial statements.

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

Current assets include:

- A. Assets held primarily for the purpose of trading;
- B. Assets expected to be realized within twelve months after the reporting period; and
- C. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- A. Liabilities held primarily for the purpose of trading;
- B. Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the parent company only financial statements are authorized for issue; and

C. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period, unless issuing equities to defer settlement wouldn't affect classification, depending on liabilities conditions.

Assets and liabilities that are not classified as current are classified as non-current.

(4) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

(5) Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the reporting period.

(6) Investment in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

Subsidiaries are the entities controlled by the Company.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Unrealized profits and losses from upstream transactions with a subsidiary are eliminated in full. profits and losses from downstream between the company and subsidiaries are recognized in the company's parent company only financial statements in the scope of the Company's equities are not relevant to subsidiaries.

(7) Investment in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Company uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized in the parent company only balance sheet at cost and adjusted thereafter to recognize the company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the equity of associates attributable to the Company.

When the Company subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings

When the Company's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If the investment of associates becomes the investment of joint ventures, or visa versa, the Company will continue to evaluate investment accounted for by the equity method, other than remeasure retained equities.

Profits and losses, resulting from upstream, downstream, reciprocal transactions should be between the Company and associates, are recognized on parent company only

financial statements in the scope of the Company's equities are not relevant to associates.

(8)Property, plant and equipment

Property, plant and equipment are stated at cost, less recognized accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(9)Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On de-recognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

(10)Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss, without amortization or depreciation, been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

(11)Financial instruments

Financial assets and financial liabilities are recognized on parent company only balance sheets when a group entity becomes a party to the contractual provisions of the instruments.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

A. Financial assets

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

a. Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

(a) Financial assets at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified as or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 25.

(b) Financial assets at amortized cost

Financial assets that meet the following two conditions are subsequently measured at amortized cost:

- a). The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b). The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivable and refundable deposits are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to multiple the gross carrying amount of a financial asset.

Cash equivalents, held for meeting short-term cash commitments, include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash, as well as deposits in the bank and repurchase bonds, which are subject to an insignificant risk of changes in value.

(c) Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments at FVTOCI are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b. Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivable).

The Company always recognizes the loss allowance by lifetime Expected Credit Loss (i.e. ECL) for trade receivable. For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

c. De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

B. Financial liabilities

(a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

(b) De-recognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

C. Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any non-equity embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in the liability and equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

(12) Revenue recognition

The Company identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

Revenue from sale of goods

Revenue from sale of goods comes from sales of computer software, hardware, accessories, equipment, and components, etc. Customers have the right of quotation and user, and the responsibility of resale as goods after shipment and taking risks of losses of obsolete goods. The Company recognizes revenues and trade receivable as goods after shipment.

(13) Leases

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At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

A. The Company as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

B. The Company as lessee

Except for payments for low-value asset leases and short-term leases which are recognized as expenses on a straight-line basis, the Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of the lease.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, and less any lease incentives received, any initial direct costs incurred and an estimate of costs needed to restore the underlying assets. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

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Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

A. The Company as lessor

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

B. The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(14) Costs of loans

All Costs of loans as incurred shall be recognized profits and losses at the current period.

(15) Employee benefit

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost as well as past service cost, and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur, or when the plan amendment or curtailment occurs/when the settlement occurs. Rereasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Net defined benefit asset shall not exceed the return contribution or the present value possibly calculated after reducing future contribution.

(16) Share-based payment arrangements

The fair value and expected estimate amounts of the stock options and restricted stock award determined at the grant date of the stock options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of stock options that will eventually vest, with a corresponding increase in capital surplus - stock options. The fair value determined at the grant date of the stock options is recognized as an expense in full at the grant date when the stock options granted vest immediately.

When restricted shares for employees of the company are issued, other equity - unearned employee benefits is recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees. If restricted shares for employees are granted for consideration and should be returned, they are recognized as payables.

At the end of each reporting period, the Company revises its estimate of the number of stock options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - stock options and capital surplus - restricted stock award.

(17) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

A. Current tax

An additional profit-seeking income tax shall be levied at the rate of ten percent on such undistributed surplus earnings for income tax expenses by a shareholder resolution, according to Income Tax Act.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

B. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the parent company only financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards and tax credits for research and development expenses to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

C. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

In the application of the aforementioned Company's accounting policies, the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

(1) Estimated impairment of financial assets

The provision for impairment of trade receivables and investments in debt instruments is based on the Company's assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Notes 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

(2) Write-down of inventory

Net realizable value of inventory 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. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Cash on hand and revolving funds	\$ 183	\$ 142
Checking accounts and demand deposits in banks	84,112	22,421
Cash equivalents		
Time deposits in banks	214,057	179,191
	<u>\$ 298,352</u>	<u>\$ 201,754</u>

As the end of reporting period, the interest rate at market of deposits in banks is as follows :

	December 31, 2019	December 31, 2018
Demand deposits in banks	0.01%~0.67%	0.01%~0.46%
Time deposits in banks	2.10%~2.27%	3.00%~3.30%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2019	December 31, 2018
<u>Financial assets – current</u>		
Designated as at FVTPL		
– Domestic convertible bonds	\$ 31,182	\$ 46,556
– Redemption & sell right for convertible bonds	-	1
– Forward Exchange Agreement(1)	-	916
– Fund beneficiary certification	3,000	-
	<u>\$ 34,182</u>	<u>\$ 47,473</u>
<u>Financial assets – non-current</u>		
Mandatorily classified as at FVTPL		
– Domestic listed shares	\$ 15,041	\$ 14,846
– Fund beneficiary certification	15,239	-
	<u>\$ 30,280</u>	<u>\$ 14,846</u>

(1) At the end of the reporting period, outstanding forward exchange contracts not under hedge accounting are as follows:

December 31, 2018

	Currency	Maturity Date	Notional Amount (In Thousands)
Buy Foreign exchange contracts	USD/NTD	2019.02.25	USD 2,000/NTD 61,660
		2019.02.25	USD 1,000/NTD 30,640
		2019.04.03	USD 830/NTD 25,366
		2019.03.25	USD 3,100/NTD 94,931
		2019.04.25	USD 1,490/NTD 45,445
		2019.04.25	USD 1,390/NTD 42,356

The Company entered into forward exchange contracts to manage risk exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. Financial assets measured at FVTOCI Investments in equity instruments

	December 31, 2019	December 31, 2018
<u>Current</u>		
Domestic		
Listed preference shares	\$ <u> -</u>	\$ <u> 7,865</u>
<u>Non-current</u>		
Domestic		
Listed shares and emerging market shares	\$ 64,173	\$ 60,544
Listed preference shares	124,507	72,329
Unlisted shares	<u> 3,743</u>	<u> 4,265</u>
	<u>\$ 192,423</u>	<u>\$ 137,138</u>

These long-term investments in ordinary and preferred shares are held for receiving profits, under medium to long-term business development strategic purposes. Accordingly, the Company's management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes.

The Company has recognized the NT4,366 thousand and NT 5,092 thousand of dividend income in 2019 and 2018, separately.

9. FINANCIAL ASSETS AT AMORTIZED COST

	December 31, 2019	December 31, 2018
<u>Current</u>		
Domestic investment		
Time deposits with original maturities more than three months(1)	\$ 292,313	\$ 560,236
Repurchase Bond(2)	<u> 391,239</u>	<u> -</u>
	<u>\$ 683,552</u>	<u>\$ 560,236</u>
<u>Non-current</u>		
Domestic investment		
Pledged Time Deposit(3)	\$ 15,513	\$ 15,398
Barclays Bank Coupon Bond(USD)(4)	15,807	-
Prufin Perpetual Corp. Bond(USD)(5)	31,179	-
AT&T Corp. Bond(USD) (6)	16,580	-
Yuanta Securities Asia Financial Services Limited 2018 Non-secured USD-denominated Private Fixed Rate Notes (7)	<u> -</u>	<u> 61,430</u>
	<u>\$ 79,079</u>	<u>\$ 76,828</u>

(1) As of December 31, 2019 and 2018, the market interest rate of time deposit over 3 months portion is 1.02%~2.33% and 1.01%~3.30%, respectively.

(2) As of December 31, 2019, the market interest rate of repurchase bond over 3 months portion is 1.02%~2.33% and 1.01%~3.30%, respectively.

(3) Please refer to Note 27 for more details on financial assets at amortized cost under pledge.

(4) The Company purchased Barclays Bank Coupon Bond (USD) by USD 527 thousand, with a coupon rate of 4.836%, on August, 2019.

(5) The Company purchased Prufin Perpetual Corp (USD) by USD 1,040 thousand, with a coupon rate of 4.875%, on August, 2019.

(6) The Company purchased AT&T Corp (USD) by USD 553 thousand, with a coupon rate of 4.50%, on November, 2019.

(7) The Company purchased Yuanta Securities Asia Financial Services Limited issued 5-year Non-secured Fixed Rate Notes, with the face value of USD 2,000 thousand and a coupon rate of 4.10%, on August, 2018, and then selling all bonds by 64,954 thousand, for adjustment for the portion of the investment August, 2019, 3,745 thousand recognized as net profit upon derecognition of financial assets measured at amortized cost.

10. NOTES AND TRADE RECEIVABLE

	December 31, 2019	December 31, 2018
<u>Notes receivable</u>		
Measured at amortized cost		
Notes receivable	\$ 276,895	\$ 160,573
Trade receivable	1,757,064	1,739,414
Overdue receivables	20,816	20,365
Less: Allowances for impairment loss - trade receivable	(14,694)	(21,046)
Less: Allowances for impairment loss - overdue receivables	(<u>20,816</u>)	(<u>20,365</u>)
	<u>\$ 2,019,265</u>	<u>\$ 1,878,941</u>

The average credit period of sales of goods of the Company was 60-90 days, and no interest was charged on trade receivable.

In order to minimize credit risk, the Company's management has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Company reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the Company's management believes the Company's credit risk was significantly reduced.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivable. The expected credit losses of trade receivable on durable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's past experience of receivable and current financial position, expectation of GDP and prospect of the industry, deciding the rate of the expected credit losses by the different levels of credit limits of customers and actual conditions, based on the degree of doubtful accounts triggered by customers of different industries.

The Company writes off an account receivable when there is information indicating that the respective debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery of the receivable. For accounts receivable that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivable:

December 31, 2019

	Not Past Due	1-30 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	More Than 90 Days Past Due	Total
Gross carrying amount	\$ 1,978,112	\$ 4,755	\$ 12,731	\$ 696	\$ 58,481	\$ 2,054,775
Loss allowance (Lifetime ECLs)	(3,903)	(1,879)	(5,400)	(347)	(23,981)	(35,510)
Amortized cost	<u>\$ 1,974,209</u>	<u>\$ 2,876</u>	<u>\$ 7,331</u>	<u>\$ 349</u>	<u>\$ 34,500</u>	<u>\$ 2,019,265</u>

December 31, 2018

	Not Past Due	1-30 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	More Than 90 Days Past Due	Total
Gross carrying amount	\$ 1,845,405	\$ 14,013	\$ 39,184	\$ 1,385	\$ 20,365	\$ 1,920,352
Loss allowance (Lifetime ECLs)	(4,614)	(3,323)	(12,598)	(511)	(20,365)	(41,411)
Amortized cost	<u>\$ 1,840,791</u>	<u>\$ 10,690</u>	<u>\$ 26,586</u>	<u>\$ 874</u>	<u>\$ -</u>	<u>\$ 1,878,941</u>

The movements of the loss allowance of accounts receivable were as follows:

	2019	2018
Balance at January 1, 2019	\$ 41,411	\$ 57,905
Less: Reversal of loss allowance, 2019	(5,901)	(16,494)
Balance at December 31, 2019	<u>\$ 35,510</u>	<u>\$ 41,411</u>

11. INVENTORIES

	December 31, 2019	December 31, 2018
Commodities	<u>\$ 1,306,416</u>	<u>\$ 934,052</u>

Cost of goods sold for inventories were NT\$7,960,716 thousand, and NT\$5,902,692 thousand, respectively, in 2019 and 2018. Cost of goods sold includes allowance for inventory valuation loss in the amount of NT\$29,563 thousand, and NT\$73,836 thousand.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31, 2019	December 31, 2018
Investments in subsidiaries	<u>\$ 143,945</u>	<u>\$ 136,129</u>

(1) Investments in subsidiaries

	December 31, 2019	December 31, 2018
Zotech Co., Ltd.	\$ 43,671	\$ 44,426
Zerone Win Investment Co., Ltd.	90,729	91,703
Asiaone Holdings Ltd.	<u>9,545</u>	<u>-</u>
	<u>\$ 143,945</u>	<u>\$ 136,129</u>

Percentage Of owners' equity and voting right

Name of subsidiaries	December 31, 2019	December 31, 2018
Zotech Co., Ltd.	85.37%	85.37%
Zerone Win Investment Co., Ltd.	100.00%	100%
Asiaone Holdings Ltd.	100.00%	-

The Company invested and established Asiaone Holdings Ltd., which engages in investments, in September, 2019, with investment amount to 10,063 thousand and shareholding ratio of 100%.

Profits and losses and other comprehensive income of investments in subsidiaries accounted for using the equity method recognized in the financial statements and audited by CPA in 2019 and 2018.

(2) Investments in associates

	December 31, 2019	December 31, 2018
<hr/>		
Insignificant associates		
Chi-Ta International Co., Ltd.	\$ <u> -</u>	\$ <u> -</u>
	Percentage Of owners' equity and voting right	
	<hr/>	<hr/>
PERCENTAGE	December 31, 2019	December 31, 2018
	<hr/>	<hr/>
Chi-Ta International Co., Ltd.	30.00%	30.00%

Aggregate information of associates that are not individually material was summarized as follows:

	2019	2018
<hr/>		
the Company's share of:		
Net loss from continuing operations	\$ <u> -</u>	(\$ <u>4,057</u>)
Other comprehensive income	\$ <u> -</u>	(\$ <u>4,057</u>)

The Company invested and founded Chi-Ta International Co., Ltd., that engaged mainly in researching and manufacturing hardware of auto-used electronic equipment, with investment amount to 10,000 thousand, and share-holding ratio of 30% in March, 2014, since it kept net losses, foresaw decrease in future cash flows, evaluated recognized NT 7,243 thousand of impairment losses thousand in 2015, and recognized book value of 0 thousand after recognized deficits.

The Company invested Trident Pacific technology, Co., Ltd., engaging in researching, developing and packaging of space flight equipment, with investment amount to NT 9,450 thousand, and share-holding ratio of 29.53% in March, 2017. The Company disposed of all shares for NT 340 thousand, recognized NT 49 thousand in losses in November, 2018.

Investments for equity method as well as profit(loss), and other comprehensive income of the Company, haven't been calculated by reviewed financial report of CPAs, beside the management personnel of the Company considers no material influence as financial statements of the above investees haven't been reviewed by CPAs.

13. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Delivery equipment</u>	<u>Other equipment</u>	<u>Total</u>
<u>Cost</u>							
Balance at January 1, 2018	\$234,892	\$128,185	\$10,139	\$34,258	\$ -	\$ 1,141	\$ 408,615
Additions	-	-	-	3,394	2,458	2,365	8,217
Disposals	-	-	(1,131)	(11,163)	-	(1,141)	(13,435)
Reclassification	-	-	-	455	-	6,204	6,659
Balance at December 31, 2018	<u>\$234,892</u>	<u>\$128,185</u>	<u>\$ 9,008</u>	<u>\$26,944</u>	<u>\$ 2,458</u>	<u>\$ 8,569</u>	<u>\$ 410,056</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2018	\$ -	\$ 68,034	\$10,135	\$20,645	\$ -	\$ 982	\$ 99,796
Disposals	-	-	(1,131)	(11,145)	-	(1,078)	(13,354)
Depreciation	-	1,816	4	6,575	492	1,801	10,688
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 69,850</u>	<u>\$ 9,008</u>	<u>\$16,075</u>	<u>\$ 492</u>	<u>\$ 1,705</u>	<u>\$ 97,130</u>
Carrying amounts at December 31, 2018	<u>\$234,892</u>	<u>\$ 58,335</u>	<u>\$ -</u>	<u>\$10,869</u>	<u>\$ 1,966</u>	<u>\$ 6,864</u>	<u>\$ 312,926</u>
<u>Cost</u>							
Balance at January 1, 2019	\$234,892	\$128,185	\$ 9,008	\$26,944	\$ 2,458	\$ 8,569	\$ 410,056
Additions	-	-	-	7,033	-	-	7,033
Disposals	-	-	(835)	(149)	-	-	(984)
Reclassification	-	-	-	758	-	6,966	7,724
Balance at December 31, 2019	<u>\$234,892</u>	<u>\$128,185</u>	<u>\$ 8,173</u>	<u>\$34,586</u>	<u>\$ 2,458</u>	<u>\$15,535</u>	<u>\$ 423,829</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2019	\$ -	\$69,850	\$ 9,008	\$16,075	\$ 492	\$ 1,705	\$ 97,130
Disposals	-	-	(835)	(149)	-	-	(984)
Depreciation	-	1,816	-	7,906	492	3,478	13,692
Balance at December 31, 2019	<u>\$ -</u>	<u>\$71,666</u>	<u>\$ 8,173</u>	<u>\$23,832</u>	<u>\$ 984</u>	<u>\$ 5,183</u>	<u>\$ 109,838</u>
Carrying amounts at December 31, 2019	<u>\$234,892</u>	<u>\$56,519</u>	<u>\$ -</u>	<u>\$10,754</u>	<u>\$ 1,474</u>	<u>\$10,352</u>	<u>\$ 313,991</u>

Depreciation expenses were depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings	7-50 Years
Machinery equipment	3 Years
Office equipment	3-5 Years
Delivery equipment	5 Years
Other equipment	3 Years

Please refer to Note 27 for more details on property, plant and equipment under pledge.

14. LEASE ARRANGEMENTS

(1) Right-of-use assets – 2019

	December 31, 2019
Carrying amounts of right-of-use assets	
Buildings	\$ 6,787
Office equipment	<u>545</u>
	<u>\$ 7,332</u>
	2019
Additions to right-of-use assets	<u>\$ 8,193</u>
Depreciation charge for right-of-use assets	
Buildings	\$ 4,165
Office equipment	<u>201</u>
	<u>\$ 4,366</u>

(2) Lease liabilities - 2019

	December 31, 2019
Carrying amounts of lease liabilities	
Current	<u>\$ 3,576</u>
Non-current	<u>\$ 3,803</u>

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Buildings	1.20%
Office equipment	1.20%

(3) Other lease information

	2019
Expenses relating to short-term leases	<u>\$ 353</u>
Expenses relating to low-value asset leases	<u>\$ 34</u>
Total cash (outflow) for leases	<u>(\$ 4,797)</u>

15. SHORT-TERM LOANS

	December 31, 2019	December 31, 2018
<u>Unsecured loans</u>		
—Line of credit loans	<u>\$ 150,000</u>	<u>\$ 100,000</u>

Interest rate of bank loans is 0.94% on December 31, 2019 and 2018.

16. OTHER PAYABLE

	December 31, 2019	December 31, 2018
Salaries and bonuses payable	\$ 78,281	\$ 63,414
Employees', directors', and supervisors' compensation payable	28,367	20,137
Others	<u>267,393</u>	<u>155,585</u>
	<u>\$ 374,041</u>	<u>\$ 239,136</u>

17. BOND PAYABLE

	December 31, 2019	December 31, 2018
Unsecure domestic convertible bonds	\$ -	\$ 5,300
Less: Discounted bond payable	-	(215)
Total of bond payable	-	5,085
Less: due components in a year	-	(5,085)
Total	<u>\$ -</u>	<u>\$ -</u>

On May 19, 2014, ZOTC issued no any interest unsecured convertible bonds (the second tranche). The bonds had an aggregate face value of \$500,000 thousand, with each unit having a face value of NT\$100 thousand, and the offering price was \$100.20% of the face value, and its conversion period is 5 years from June 20, 2014 to May 9, 2019. The conversion price was \$20 per share on issuance date.

Within the period between one month after the issuance date and 40 days before the last convertible date, if the closing price of ZOTC common shares on the TWSE for a period of 30 consecutive trading days before redemption has been at least 30% of the conversion price in effect on each such trading day, or in the event that the principal amount of the convertible bonds originally outstanding is 10% lower than the issued amount of the bonds, ZOTC may redeem all bonds at face value by cash.

The convertible bonds issued over 3 years, the holder could ask the Company to redeem bonds at face value by cash.

The convertible bonds include liabilities and equity. The equity components were accounted for ZOTC as paid-in capital –option. The effective interest rate of liability components recognized is 2.0618%.

Balance on January 1, 2018, liability components	\$ 9,733
Interest (2.0618%)	147
Convertible bonds changed into ordinary shares	(4,795)
Balance on December 31, 2018, liability components	<u>\$ 5,085</u>
Balance on January 1, 2019, liability components	\$ 5,085
Interest (2.0618%)	15
Convertible bonds changed into ordinary shares	(5,100)
Balance on December 31, 2019, liability components	<u>\$ -</u>

18. RETIREMENT BENEFIT PLANS

(1) Defined contribution plans

The plan under the R.O.C. Labor Pension Act (the “Act”) is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee’s monthly salary to employees’ pension accounts.

(2) Defined benefit plans

The Company has defined benefit plans under the R.O.C. Labor Standards Law that provide benefits based on an employee’s length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee’s name in the Bank of Taiwan. Before the end of each year, the Company assesses the balance in the Funds. If the amount of the balance in the Funds is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The Funds are operated and managed by Bureau of Labor Funds, Ministry of Labor; as such, the Company does not have any right to intervene in the investments of the Funds.

Amounts recognized in respect of these defined benefit plans in the parent company only balance sheets were as follows:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligation	\$ 58,307	\$ 55,117
Fair value of plan assets	(36,389)	(33,538)
Contribution	21,918	21,579
Net defined benefit liability	<u>\$ 21,918</u>	<u>\$ 21,579</u>

Movements in net defined benefit liabilities/assets are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability/Assets
For the year ended January 1, 2018	<u>\$ 52,105</u>	<u>(\$ 31,183)</u>	<u>\$ 20,922</u>
Service cost			
Current service cost	352	-	352
Interest expense (income)	<u>586</u>	<u>(356)</u>	<u>230</u>
Recognized in profits or losses	<u>938</u>	<u>(356)</u>	<u>582</u>
Remeasurements			
Return on plan assets (excluding amounts included in interest, net)	-	(891)	(891)
Actuarial loss arising from changes in demographic assumptions	513	-	513
Actuarial loss (gain) arising from changes in financial assumptions	633	-	633
Actuarial loss arising from experience adjustments	<u>928</u>	<u>-</u>	<u>928</u>
Recognized in other comprehensive income	<u>2,074</u>	<u>(891)</u>	<u>1,183</u>
Contribution from employer	<u>-</u>	<u>(1,108)</u>	<u>(1,108)</u>
For the year ended December 31, 2018	<u>\$ 55,117</u>	<u>(\$ 33,538)</u>	<u>\$ 21,579</u>
For the year ended January 1, 2019	<u>\$ 55,117</u>	<u>(\$ 33,538)</u>	<u>\$ 21,579</u>
Service cost			
Current service cost	311	-	311
Interest expense (income)	<u>551</u>	<u>(339)</u>	<u>212</u>
Recognized in profits or losses	<u>862</u>	<u>(339)</u>	<u>523</u>
Remeasurements			
Return on plan assets (excluding amounts included in interest, net)	-	(1,171)	(1,171)
Actuarial loss arising from changes in demographic assumptions	400	-	400
Actuarial loss (gain) arising from changes in financial assumptions	1,329	-	1,329
Actuarial loss arising from experience adjustments	<u>599</u>	<u>-</u>	<u>599</u>
Recognized in other comprehensive income	<u>2,328</u>	<u>(1,171)</u>	<u>1,157</u>
Contribution from employer	<u>-</u>	<u>(1,341)</u>	<u>(1,341)</u>
For the year ended December 31, 2019	<u>\$ 58,307</u>	<u>(\$ 36,389)</u>	<u>\$ 21,918</u>

The pension costs of the aforementioned defined benefit plans were recognized in profit or loss by the following categories:

	<u>2019</u>	<u>2018</u>
Selling and marketing expenses	\$ 237	\$ 250
General and administrative expenses	<u>286</u>	<u>332</u>
	<u>\$ 523</u>	<u>\$ 582</u>

Through the defined benefit plans under the R.O.C. Labor Standards Law, the Company is exposed to the following risks:

- a. Investment risk: The pension funds are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government's designated authorities or under the mandated management. However, under the R.O.C. Labor Standards Law, the rate of return on the Company's assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.
- b. Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.
- c. Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions at the measurement date were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate	0.750%	1.000%
Future salary increase rate	2.750%	2.750%

If main actuarial assumption variates within a reasonable extent, as for other assumption remaining unchanged, the present value of defined benefit obligation increases/decreases shall be as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate		
increases by 0.25%	(\$ <u>1,333</u>)	(\$ <u>1,265</u>)
decreases by 0.25%	<u>\$ 1,382</u>	<u>\$ 1,314</u>
Future salary increase rate		
increases by 0.25%	<u>\$ 1,335</u>	<u>\$ 1,272</u>
decreases by 0.25%	(\$ <u>1,295</u>)	(\$ <u>1,232</u>)

Because actuarial assumptions may be correlative with one another, and a single assumption may not variate, the above sensitive analysis cannot indicate actual changes of the present value of defined benefit obligation.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Contribution amounts within 1 year	<u>\$ 657</u>	<u>\$ 630</u>
Average due period of the defined benefit obligation	9.3 Years	9.4 Years

19. EQUITY

(1) Ordinary Shares

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Authorized shares (in thousands)	<u>150,000</u>	<u>150,000</u>
Authorized capital	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Issued and paid shares (in thousands)	<u>124,635</u>	<u>122,896</u>
Issued capital	<u>\$ 1,246,352</u>	<u>\$ 1,228,965</u>

The change in share capital is mainly due to bonds payable that changes into ordinary shares, employee stock options exercised and issuance of restricted stock awards.

(2)Capital Surplus

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (A)</u>		
Premium on shares issued above par value	\$ 408,165	\$ 399,648
Treasury stock transactions	25,343	25,343
<u>Only be used to offset a deficit</u>		
From shares of changes in equities of subsidiaries (B)	2,481	2,481
Invalid employees stock options	300	300
<u>May not be used for any purpose</u>		
Stock options	-	433
Restricted Stock Awards	8,156	-
Employees stock options	<u>25,691</u>	<u>18,310</u>
	<u>\$ 470,136</u>	<u>\$ 446,515</u>

A. Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's paid-in capital surplus and once a year).

B. The capital surplus from share of unrealized changes in equities of subsidiaries not acquired or disposed is an affective recognized by changes in equity of subsidiaries, or the Company recognizes subsidiaries' capital surplus adjustments for equity method.

(3)Retained earnings and dividend policy

The Company's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, ZOTC shall first pay taxes and offset its losses in previous years and then set aside the legal capital reserve at 10% of the profits left over, and then set aside or reverse the legal capital reserve. Any balance left over shall be added accumulated undistributed earnings of the previous year and allocated according to the resolution, provided from the board meeting, of the shareholders' meeting. Please reference the distribution policy regulated by the Company's Articles of Incorporation of employees', directors' and supervisors' compensation for Note 20-6.

Distribution of earnings shall be made preferably by way of surplus cash dividend, according to future capital budget plan, and operating fund requirements. The Company considers its influences on diluted earning per shares and return on equity, but the ratio for cash dividend shall not exceed 10% of the total distribution.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company shall appropriate or reverse to a special reserve.

The appropriations of 2018 and 2017 earnings have been approved by ZOTC's shareholder's meeting held on June 13, 2019 and June 11, 2018, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share(NT\$)</u>	
	<u>For Fiscal Year 2018</u>	<u>For Fiscal Year 2017</u>	<u>For Fiscal Year 2018</u>	<u>For Fiscal Year 2017</u>
Legal capital reserve	\$ 25,294	\$ 19,598		
(Reversal of) Special reserve	1,343	(1,222)		
Cash dividends	184,603	159,484	\$ 1.5	\$ 1.3

The appropriations of earnings for 2019 had been proposed by the Company's board of directors on February 26, 2020. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 35,131	
Reversal of Special reserve	(16,844)	
Cash dividends	249,574	\$ 2.0

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 10, 2020.

(4) Other equity

A. Unrealized Gain/Loss from financial assets measured at FVTOCI

	2019	2018
Balance at January 1, 2019	(\$ 16,844)	(\$ 10,954)
In respect of the current period		
Unrealized profits and losses – equity instruments	27,604	(6,664)
Cumulative gain (loss) of equity instruments transferred to retained earnings due to disposal	<u>7,105</u>	<u>774</u>
Balance at December 31, 2019	<u>\$ 17,865</u>	<u>(\$ 16,844)</u>

B. Unearned employee benefit

In the shareholders' meetings held on June 11, 2018, the shareholders approved a restricted share plan for employees. Refer to Note 23 for the information of restricted shares issued.

	2019
Balance, beginning of period	\$ -
Issued at the current period	(15,156)
Share-based payment expenses recognized	<u>4,767</u>
Balance, end of period	<u>(\$ 10,389)</u>

20. NET INCOME

(1) Other income

	2019	2018
Interest income	\$ 22,488	\$ 16,502
Dividend income	4,366	5,092
Rental income	790	1,769
Others	<u>6,077</u>	<u>8,809</u>
	<u>\$ 33,721</u>	<u>\$ 32,172</u>

(2) Other gains and losses

	2019	2018
Losses(gains) on financial assets/liabilities at FVTPL	\$ 7,359	(\$ 247)
Net foreign currency exchange gains (losses)	(163)	3,126
Losses on disposal of Property, plant and equipment	-	(2)
Losses on disposal of investment accounted for using the equity method	<u>-</u>	<u>(49)</u>
	<u>\$ 7,196</u>	<u>\$ 2,828</u>

(3) Financial costs

	<u>2019</u>	<u>2018</u>
Interests on bank borrowings	\$ 1,949	\$ 211
Interest on lease liabilities	90	-
Interests on convertible bonds	<u>15</u>	<u>147</u>
Total	<u>\$ 2,054</u>	<u>\$ 358</u>

(4) Depreciation & amortization

	<u>2019</u>	<u>2018</u>
Property, plant and equipment	\$ 13,692	\$ 10,688
Right-of-use assets	4,366	-
Intangible assets	<u>776</u>	<u>626</u>
	<u>\$ 18,834</u>	<u>\$ 11,314</u>

An analysis of depreciation by function		
Operating expenses	<u>\$ 18,058</u>	<u>\$ 10,688</u>

An analysis of amortization by function		
Operating expenses	<u>\$ 776</u>	<u>\$ 626</u>

(5) Employee benefits expense

	<u>2019</u>	<u>2018</u>
Post-employment benefits		
Defined contribution plans	\$ 8,458	\$ 6,984
Defined benefit plans (Note 18)	<u>523</u>	<u>582</u>
	<u>8,981</u>	<u>7,566</u>
Share-Based Payment		
Equity Swap	<u>\$ 16,198</u>	<u>\$ 10,252</u>
Other employee benefits		
Salaries expense	259,051	209,712
Labor and health insurance expenses	17,287	14,313
Others	<u>18,857</u>	<u>13,574</u>
	<u>295,195</u>	<u>237,599</u>
Employee benefits expense, Total	<u>\$ 320,374</u>	<u>\$ 255,417</u>

Employee benefits expense summarized by function

Recognized in operating expenses	<u>\$ 320,374</u>	<u>\$ 255,417</u>
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	<u>2019</u>			<u>2018</u>		
	Operating costs	Operating Expenses	Total	Operating costs	Operating Expenses	Total
Salaries expense	\$ -	\$267,994	\$267,994	\$ -	\$214,664	\$214,664
Labor and health insurance expenses	-	17,287	17,287	-	14,313	14,313
Pension expenses	-	8,981	8,981	-	7,566	7,566
Directors' remuneration	-	7,255	7,255	-	5,300	5,300
Other employee benefits	-	<u>18,857</u>	<u>18,857</u>	-	<u>13,574</u>	<u>13,574</u>
Total	<u>\$ -</u>	<u>\$320,374</u>	<u>\$320,374</u>	<u>\$ -</u>	<u>\$255,417</u>	<u>\$255,417</u>

The Company's average number of employees is 235 and 201(persons) in 2019 and 2018, including average number of directors, who act as an employees of the Company, is 5(persons). The calculation basis of average number of employees is the same as that of employee benefits expenses.

The company's average employee benefits expenses are NT\$ 1,361 thousand and NT\$ 1,276 thousand in 2019 and 2018, respectively; The company's average employee salaries expenses are NT\$ 1,165 thousand and NT\$ 1,095 thousand in 2019 and 2018, respectively, and the adjusted rate of change of employee salaries expenses is 6%.

(6) Employees', directors, and supervisors' compensation

ZOTC shall allocate compensation to employees', Director's, and Supervisor's of ZOTC not less than 1%~15% and not more than 3% of annual profits during the period, respectively, and the amount of employees', Director's, and Supervisor's compensation for the years ended December 31, 2019 and 2018, with resolution of the board of directors on Feb. 26, 2020 and Feb. 27, 2019, is as follows:

Estimate Rate

	<u>2019</u>	<u>2018</u>
Employee compensation	4.00%	4.00%
Director's & Supervisor's compensation	2.00%	2.00%

Amount

	<u>2019</u>		<u>2018</u>	
	<u>Cash</u>	<u>Stock</u>	<u>Cash</u>	<u>Stock</u>
Employee compensation	\$ 18,911	\$ -	\$ 13,425	\$ -
Director's & Supervisor's compensation	9,456	-	6,712	-

If changes in the very amount after the end of the reporting period, it will be booked next year, based on accounting estimate regulations.

The distribution amount of employees', director's, and supervisor's compensation in 2018, and 2017 has no difference compared to the recognized amount of the parent company only financial statements in 2018 and 2017.

Please search for relevant information about employees', director's, and supervisor's compensation, resolved by the board of directors in 2019 and 2018, on the website of "Market Observation Post System" of TWSE.

(7) Foreign exchange gain (loss)

	<u>2019</u>	<u>2018</u>
Foreign exchange gain	\$ 40,445	\$ 13,900
Foreign exchange loss	(40,608)	(10,774)
Gain (loss), net	(\$ 163)	\$ 3,126

21. INCOME TAXES

(1) Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	<u>2019</u>	<u>2018</u>
Current tax		
In respect of the current year	\$ 95,484	\$ 78,602
Surtax on Undistributed Retained Earnings	2,269	1,751
Adjustments for previous years	(408)	1
	<u>97,345</u>	<u>80,354</u>
Deferred tax		
Changes in tax rates	-	(2,756)
In respect of the current year	(4,243)	(15,060)
Income tax expense recognized in profit or loss	<u>\$ 93,102</u>	<u>\$ 62,538</u>

A reconciliation of accounting profit and income tax expense and the applicable tax rate were as follows:

	<u>2019</u>	<u>2018</u>
Accounting profit before tax from continuing operations	\$ <u>444,415</u>	\$ <u>315,477</u>
Income tax expense calculated at the statutory rate	\$ 88,883	\$ 63,095
Tax-exempt income	(1,771)	(1,493)
Tax effect of expenses not deductible for tax	3,825	4,134
Others	304	(2,194)
Additional Surtax on Undistributed Retained Earnings	2,269	1,751
Changes in tax rates	-	(2,756)
The adjustment of current income tax expenses in the past year	(<u>408</u>)	<u>1</u>
Total income tax expense recognized in profit or loss	<u>\$ 93,102</u>	<u>\$ 62,538</u>

In 2018, the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate was adjusted from 17% to 20%. In addition, the tax rate for 2018 unappropriated earnings was reduced from 10% to 5%.

(2) Income tax expense recognized in other comprehensive income

	<u>2019</u>	<u>2018</u>
<u>Deferred tax</u>		
Changes in tax rates	\$ -	\$ 438
In respect of the current period		
– Remeasurement of defined benefit plans	<u>231</u>	<u>236</u>
Total income tax expense recognized in other comprehensive income	<u>\$ 231</u>	<u>\$ 674</u>

(3) Deferred tax balances

Movements of deferred tax assets and deferred tax liabilities were as follows:

2019

	<u>Opening Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Closing Balance</u>
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for loss on decline in value of inventory	\$ 22,748	\$ 5,913	\$ -	\$ 28,661
Allowance for bad debts	4,442	(1,449)	-	2,993
Defined benefit plans	4,316	(164)	231	4,383
Others	<u>5,815</u>	<u>-</u>	<u>-</u>	<u>5,815</u>
	<u>\$ 37,321</u>	<u>\$ 4,300</u>	<u>\$ 231</u>	<u>\$ 41,852</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized foreign exchange profits	<u>\$ 736</u>	<u>\$ 57</u>	<u>\$ -</u>	<u>\$ 793</u>

2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for loss on decline in value of inventory	\$ 6,784	\$ 15,964	\$ -	\$ 22,748
Allowance for bad debts	3,525	917	-	4,442
Financial instruments measured at cost	3,557	85	674	4,316
Defined benefit plans	4,663	1,152	-	5,815
Others	<u>\$ 18,529</u>	<u>\$ 18,118</u>	<u>\$ 674</u>	<u>\$ 37,321</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized foreign exchange profits	<u>\$ 434</u>	<u>\$ 302</u>	<u>\$ -</u>	<u>\$ 736</u>

(4) Income tax assessment

The Company's tax returns through 2017 had been assessed by the tax authorities.

22. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net Profit for the Period

	2019	2018
Net Profit for the Period	\$ 351,313	\$ 252,939
Effect of potentially dilutive ordinary shares:		
Effect of convertible bonds after tax	15	148
Earnings in computation of diluted earnings per share	<u>\$ 351,328</u>	<u>\$ 253,087</u>

Shares

	2019	2018
Weighted average number of ordinary shares outstanding in computation of basic earnings per share	123,354	122,660
Effect of potentially dilutive ordinary shares :		
Convertible bonds	56	486
Employee compensation	839	871
Employee stock options	2,167	634
Restricted stock award	<u>202</u>	<u>-</u>
Weighted average number of ordinary shares outstanding in computation of diluted earnings per share	<u>126,618</u>	<u>124,651</u>

If the Company will distribute bonus to employees and the bonus will be settled in cash or shares, the Company will assume that the entire amount of the compensation or bonus will be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included and considered in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

The exercise price of the third and fourth issued employee stock options is higher than average market price of shares in 2018. Owing to anti-diluted, it doesn't be calculated in each diluted earnings per share.

23. SHARE-BASED PAYMENT ARRANGEMENTS

(1) Employee Share Option Plan

In August 2015, September 2016, January 2018, and September 2018, 1,000, 1,860, 2000, and 2,000 options were granted to qualified employees of the Company, and each option entitles the holder to subscribe for 1,000 thousand ordinary shares of the Company when exercisable. The options granted are valid for 6 years and shall be exercised a portion of them after two years from the date of grant. The options were granted at an exercise price equal to the fair value of the Company's ordinary shares on the grant date. For any subsequent changes in the Company's ordinary shares, the exercise price of options will be adjusted by the regulated formula, accordingly.

Information about employees' stock options was as follows:

Employee Stock options	2019		2018	
	Number of Options (In Thousands)	Weighted Average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted Average Exercise Price (NT\$)
Balance, beginning of period	6,468	\$ 17.68	2,633	\$ 15.23
Options vested	-	-	4000	19.73
Options exercised	(701)	13.30	(105)	14.25
Invalid options	(114)	15.91	(60)	14.05
Outstanding options at the end of the period	<u>5,653</u>	17.18	<u>6,468</u>	17.68
Options exercised at the end of the period	<u>1,049</u>		<u>912</u>	
Weighted-average fair value of options vested(NT\$)	<u>\$ -</u>		<u>\$ 6.73</u>	

Information about outstanding options at the end of reporting period was as follows:

December 31, 2019		December 31, 2018	
Range of Exercise Price (US\$)	Weighted-Over-Age Remaining Contractual Life (Years)	Range of Exercise Price (US\$)	Weighted-Over-Age Remaining Contractual Life (Years)
\$12.40 (Note)	1.67	\$ 13.10 (Note)	2.67
14.20 (Note)	2.68	15.00 (Note)	3.68
17.80 (Note)	4.01	18.80 (Note)	5.01
19.50 (Note)	4.67	20.65	5.67

Note: The Issued price will be adjusted by methods of issuance.

The Company adopts BOPM and Black-Scholes price model to evaluate inputs of stock options in September 2018, January 2018, September 2016 and August 2015 as follows:

	September, 2018	January, 2018	September, 2016	August, 2015
Securities price of the vested date	20.65 Dollars	19.85 Dollars	16.95 Dollars	15.65 Dollars
Exercised price	20.65 Dollars	19.85 Dollars	16.95 Dollars	15.65 Dollars
Foreseeable volatility rate	32.96%	33.81%	38.26%	39.14%~40.47%
Duration	6 Years	6 Years	6 Years	4~5 Years
Foreseeable dividend rate	0%	0%	0%	0%
Risk-free interest rate	0.72%	0.74%	0.56%	0.77%~0.87%

The compensation cost recognized were \$11,431 thousand and \$10,252 thousand for the years ended December 31, 2019 and 2018, respectively.

(2) Restricted stock awards

The shareholders meeting of the company, on June 11, 2018, resolved to issue restricted stock awards amounting to NT\$7,000 thousand, consisting of 700 thousand shares, respectively, par value in NT\$10, the subscription price is NT\$0 (The issue price is NT\$ 0), and authorized the Board to decide the issue price at the issuance date. The Board resolved to issue NT\$7,000 thousand, with total share number of 700 thousand shares, on April 30, 2019 and the record date of issuance is June 13, 2019.

An employee who remains employed at the company after the period as follows has elapsed from the time of RSA and who personal performance have met with the criteria listing, will be eligible for vesting of an installment of the shares.

- A. An employee who remains employed at the company after 1 year has elapsed from the time of RSA, and who personal performance have met with the criteria listing of 75 scores and above, will be eligible for vesting of an installment of 25% of the shares.
- B. An employee who remains employed at the company after 2 year has elapsed from the time of RSA, and who personal performance have met with the criteria listing of 75 scores and above, will be eligible for vesting of an installment of 25% of the shares.
- C. An employee who remains employed at the company after 3 year has elapsed from the time of RSA, and who personal performance have met with the criteria listing of 75 scores and above, will be eligible for vesting of an installment of 25% of the shares.
- D. An employee who remains employed at the company after 4 year has elapsed from the time of RSA, and who personal performance have met with the criteria listing of 75 scores and above, will be eligible for vesting of an installment of 25% of the shares.

After employees received the vested shares from the Company, it will redeem and cancel the issued restricted employee shares as employees breach the labor contract and working regulations, for the restricted employee new shares that don't meet the vesting conditions.

When employees fail to meet the vesting conditions of restricted employee new shares as redeemed by the Company without charge will be cancelled, based on the relevant regulations.

Compensation costs by issuance of restricted stock awards recognized were NT\$4,767 thousand in 2019, respectively. As of December 31, 2019, unearned employee benefits totaled NT\$10,389 thousand, accounted for as an decrease in other equity.

24. CAPITAL RISK MANAGEMENT

The Company engages mainly in the agent of software, without any plans of imposed capital requirements at present and in the future. The Company manages its capital to ensure requirements of operating funds and dividend expenses, based on growth and development of scale of enterprise and prospective of the industry. The Company periodically reviews the policy of capital risk management, for seeking a steady and conservative policy.

The capital structure of the Company consists of net debt and equity (comprising share capital, capital reserves, retained earnings and other equity).

The Company is not subject to any externally imposed capital requirements.

25. FINANCIAL INSTRUMENTS

(1) Information about Fair value of financial instruments that are not measured at fair value

Except as detailed in the following table, the management believes the carrying amounts of financial liabilities not measured at fair value recognized in the parent company only financial statements approximate or cannot be measured their fair values:

	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>				
Measured at amortized cost	\$ -	\$ -	\$ 61,430	\$ 60,778
-domestic corporate bonds	63,566	64,992	-	-
-foreign corporate bonds				
<u>Financial liabilities</u>				
Convertible bonds	-	-	5,085	6,273

(2) Information about fair value of financial instruments measured at fair value on a recurring basis.

A. Fair value hierarchy

December 31, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Convertible bonds	\$ 31,182	\$ -	\$ -	\$ 31,182
Listed shares and emerging market shares	15,041	-	-	15,041
Fund beneficiary certificate	15,160	-	3,079	18,239
Total	<u>\$ 61,383</u>	<u>\$ -</u>	<u>\$ 3,079</u>	<u>\$ 64,462</u>

Financial assets at FVTOCI

<u>Equity investments</u>				
- Listed shares and emerging market shares	\$ 178,242	\$ -	\$ 10,438	\$ 188,680
- Unlisted shares	-	-	3,743	3,743
Total	<u>\$ 178,242</u>	<u>\$ -</u>	<u>\$ 14,181</u>	<u>\$ 192,423</u>

December 31, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Convertible bonds	\$ 46,556	\$ -	\$ -	\$ 46,556
Listed shares and emerging market shares	14,846	-	-	14,846
Derivatives	-	917	-	917
Total	<u>\$ 61,402</u>	<u>\$ 917</u>	<u>\$ -</u>	<u>\$ 62,319</u>

Available-for-sale financial assets

<u>Equity investments</u>				
- Listed shares and emerging market shares	\$ 131,897	\$ -	\$ 8,841	\$ 140,738
- Unlisted shares	-	-	4,265	4,265
Total	<u>\$ 131,897</u>	<u>\$ -</u>	<u>\$ 13,106</u>	<u>\$ 145,003</u>

There were no transfers between Level 1 and Level 2 in 2019 and 2018, respectively.

B. Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives—Foreign exchange forward contract	Discounted Cash Flow Method: Using exchange rate at the end period evaluates future cash flow through the contract. Disclosing the discount rate of credit risks in each counterpart should be separately discounted.
Derivatives—Redemption & sell right of convertible bonds	Valuation model of binomial tree of convertible bond: Using securities prices, no risk rate, and risk discount rate evaluates fair values of financial assets of convertible bonds.

C. Valuation techniques and inputs applied for Level 3 fair value measurement

The market approach is used to arrive at their fair value, for which, the estimate and assumption regarding relevant information of expected present value of profits and losses calculated by held investments with reference to the publicly traded company and similar companies.

(3) Categories of financial instruments

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets measured at FVTPL		
Mandatorily measured at FVTPL	\$ 64,462	\$ 62,319
Financial assets measured at amortized cost (Note 1)	3,107,140	2,723,198
Financial assets measured at FVTOCI—		
Investments in equity instruments	192,423	145,003
<u>Financial liabilities</u>		
Measured at amortized cost (Note 2)	2,549,613	1,989,386

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt instruments with no active market, note receivable, trade receivable, other receivable, and refundable deposits.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise short-term loans, trade payable, other payable, current portion of bonds payable, and deposits received.

(4) Financial risk management objectives and policies

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk based on related protocols and internal control procedures. The Company's financial department measures the aforementioned risks based on the Company's risk appetite, and reports to the board of directors for carrying out relevant policies at any time.

A. Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates.

(a) Foreign currency risk

The Company's purchases and investments are denominated in foreign currencies. Consequently, the Company is exposed to foreign currency risks. To protect against reductions in value of foreign currency denominated assets and the volatility of future cash flows caused by changes in foreign exchange rates, the Company utilizes derivative financial instruments, such as forward exchange contracts and options, for avoiding foreign currency risks.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities of non-functional currency calculated (including those eliminated on consolidation) at the end of the reporting period are set out in Note 29.

Sensitivity analysis

The Company's exchange rate exposure was in the exchange rate of U.S. dollars.

The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. If interest rates had been 5% higher/lower, the Company's net profit in 2019 and 2018 would increase/decrease by 21,166 thousand and \$14,309 thousand, respectively.

(b) Interest rate risk

The Company exposed to the risk of interest rate at fair value, since holding the fixed-rate loan, accessing the interest rate of the bank loan regularly, observing influences on profits or losses from fluctuation range of the interest rate, keeping contact with the bank based on the actual requirement, and acquiring the best interest rate of the loan.

The carrying amount of the Company's financial assets and financial liabilities with exposure to risks of interest rates at the end of the reporting period were as follows:

	December 31, 2019	December 31, 2018
Interest rate risks at fair value		
– Financial assets	\$ 854,095	\$ 667,837
– Financial liabilities	157,379	100,000
Interest rate risks at cash flows		
– Financial assets	206,706	170,838

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit in 2019 and 2018 would increase/ decrease by \$1,034 thousand and \$854 thousand, respectively. Exposure is triggered by risks of cash flows of the Company's variable interest rates of deposits.

(c) Other price risk

The Company is exposed to equity price risks arising from equity investments of public offering securities. Equity investments should be approved by the management, for controlling risks by holding different investment portfolios.

Sensitivity analysis

The following sensitivity analysis is based on risk exposure of equity prices at the end of the reporting period.

Assuming a hypothetical increase/decrease of 5% in prices of the equity investments, increased/decreased by NT\$3,223 thousand and NT\$3,070 thousand, because of the change in fair value of financial assets at FVTPL, respectively., at the end of the reporting period in 2019 and 2018, the other comprehensive income would have increased/decreased by NT\$9,621 thousand and NT\$7,250 thousand, because of the change in fair value of financial assets at FVTOCI, respectively, at the end of the reporting period in 2019 and 2018.

B. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the parent company only balance sheets.

The Company adopted a policy of only dealing with creditworthy counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the financial department regularly.

To decrease a credit risk, the key management personnel of the Company is responsible for decision of rating criteria, credit limits approval, and other censor procedure, etc., in order to collect delinquent trade receivable. Otherwise, the Company reviews each trade receivable to assure allowance of impairment losses of uncollectable bad debts, hence the key management personnel considers credit concentration risk of trade receivable is insignificant.

The credit concentration risk of the current fund is insignificant, since the Company only transacts with financial institutions with good rating.

Trade receivable consisted of a large number of customers. Ongoing credit evaluation is performed on the financial condition of certain customer's trade receivable. If necessary, purchasing insurance for credit enhancing procedures is a must.

The credit risk of the Company concentrates on top 5 customers of the Company. As of December 31, 2019 and 2018, the Company's five largest customers accounted all for 33% of trade receivable, respectively.

C. Liquidity risk

The Company manages and maintains sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company's management supervises financing line of the banking facilities and ensures compliance with the terms of loan agreements.

Liquidity & interest rate risk table

The table below summarizes the due analysis of the maturity profile of the Company's non-derivative financial liabilities, enacted by contractual undiscounted payments of cash flow of financial liabilities, according to remaining contracts on the earliest date on which the Company may be required to pay, including interest and principal of cash flows.

The following tables detail the bank loans are listed on the earliest date on which the Company may be required to pay without considering the probability of the lending bank executing its rights; other non-derivative financial liabilities are listed at their contract repayment dates.

December 31, 2019

	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	\$ 2,398,448	\$ -	\$ -
Lease liabilities	3,639	3,831	-
Fixed rate instruments	<u>150,118</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,552,205</u>	<u>\$ 3,831</u>	<u>\$ -</u>

December 31, 2018

	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>5+ Years</u>
<u>Non-derivative financial liabilities</u>			
No Interest-bearing liabilities	\$ 1,888,601	\$ -	\$ -
Fixed rate instruments	100,000	-	-
	<u>\$ 1,988,601</u>	<u>\$ -</u>	<u>\$ -</u>

The operating fund of the Company are sufficient to meet cash flow demand; If the demand exists, it shall be short-term. Thus, bank loans within 1 year are the maximum amounts with available limit of credit. After considering the financial position of the Company, the management does not think the banks will execute their rights of requiring the Company to repay the bank loans.

As of December 31, 2019 and 2018, the Company's unused short-term credit of limit of the bank were 920,000 thousand and 670,000 thousand, respectively.

The Company's cash and cash equivalents are sufficient to meet the demand of operating demands; the Company does not apply for the overdraft limit from the bank.

26. RELATED PARTIES TRANSACTIONS

(1) The Names and Relationships of Related-parties

<u>Name of the related parties</u>	<u>Relationship with the Company</u>
Zotech Co., Ltd.	Subsidiaries
Zerone Win Investment Co., Ltd.	Subsidiaries
Petacom Technology Co., Ltd.)	Subsidiaries
Wing Will International Co., Ltd.	Subsidiaries
AsiaOne Holdings Ltd.	Subsidiaries

(2) Operating revenue

<u>Line Items</u>	<u>Types of related parties</u>	<u>2019</u>	<u>2018</u>
Sales revenue	Subsidiaries	<u>\$ 17,310</u>	<u>\$ 1,824</u>
Services revenue	Subsidiaries	<u>\$ 2,476</u>	<u>\$ 2,243</u>

Prices and payment terms for transactions with related parties and non-related parties were similar.

(3) Purchases(not including loans to related parties and contract asset)

<u>Types of related parties</u>	<u>2019</u>	<u>2018</u>
Subsidiaries	<u>\$ 6,472</u>	<u>\$ 8,966</u>

(4) Receivables from related parties

<u>Line Items</u>	<u>Types of related parties</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Trade receivable	Subsidiaries	\$ 6,090	\$ 397
Other receivable	Subsidiaries	104	-
		<u>\$ 6,194</u>	<u>\$ 397</u>

For the year ended December 31, 2019 and 2018, no impairment loss was recognized for trade receivables from related parties.

(5) Payables to related parties

<u>Line Items</u>	<u>Types of related parties</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Trade payable	Subsidiaries	\$ 6,300	\$ 9,543
Other payable	Subsidiaries	-	10
		<u>\$ 6,300</u>	<u>\$ 9,553</u>

(6) Loans to related parties(Recognized as other current assets)

<u>Types of related parties / Name</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Subsidiaries	<u>\$ 10,000</u>	<u>\$ -</u>
<u>Interest income</u>		
<u>Types of related parties / Name</u>	<u>2019</u>	<u>2018</u>
Subsidiaries	<u>\$ 104</u>	<u>\$ -</u>

(7) Non-operating income

<u>Line Items</u>	<u>Types of related parties</u>	<u>2019</u>	<u>2018</u>
Rental income	Subsidiaries	<u>\$ 743</u>	<u>\$ 1,595</u>

(8) Compensation of key management personnel

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	<u>\$ 38,724</u>	<u>\$ 26,798</u>

Salaries of the boarders and other key management personnel are decided by personal performance and economic market trend through the compensation committee.

27. PLEGDED ASSETS

The following assets of the Company are guaranteed by the assets pledged for loans of the bank and broker, as well as tariff of importing commodities.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Property, plant and equipment, Net	\$ 209,009	\$ 293,227
Pledged Time Deposits(Financial assets at amortized cost – non-current)	<u>15,513</u>	<u>15,398</u>
	<u>\$ 224,522</u>	<u>\$ 308,625</u>

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

(1) As of December 31, 2019, the Company opens NT 87,000 thousand of cashier order for payment guaranteed for Microsoft Taiwan Corporation.

(2) As of December 31, 2019, the Company opens NT 50,000 thousand of cashier order for payment guaranteed for Microsoft Regional Sales Corporation.

29. FOREIGN-CURRENCY-DEMONINATED ASSETS AND LIABILITIES THAT HAVE SIGNIFICANT INFLUENCE

The significant financial assets and liabilities denominated in foreign currencies were as follows:

<u>December 31, 2019</u>			
	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 31,131	29.98 (USD:NTD)	<u>\$ 933,307</u>
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	45,251	29.98 (USD:NTD)	<u>\$ 1,356,625</u>
<u>December 31, 2018</u>			
	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>Carrying Amount</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 28,142	30.715 (USD:NTD)	<u>\$ 864,382</u>
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	37,459	30.715 (USD:NTD)	<u>\$ 1,150,553</u>

The material foreign exchange profit/loss(realized and unrealized) was as follows:

	<u>2019</u>	<u>2018</u>
	<u>Exchange Rate</u>	<u>Exchange Rate</u>
Foreign currencies		
USD	30.912 (USD:NTD)	30.149 (USD:NTD)
	<u>Net Foreign exchange profit(loss)</u>	<u>Net Foreign exchange profit(loss)</u>
	<u>(\$ 163)</u>	<u>\$ 3,126</u>

30. SEPARATELY DISCLOSED ITEMS

Information on (1) significant transactions and (2) investees:

A. Financing provided to others: Table 1.

B. Endorsements/guarantees provided: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Table 2.

D. Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital: None.

E. Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None.

F. Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None.

G. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.

H. Trade receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.

I. Trading in derivative instruments: Please refer appendix 7.

J. Information on investees: Table 3.

(3) Information on investment in Mainland China : None.

ZERO ONE TECHNOLOGY CO., LTD.
FINANCING PROVIDED TO OTHERS
FOR THE YEARS ENDED DECEMBER 31, 2019

Table 1 (Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No.	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 2)	Ending Balance	Amount Actually Drawn	Interest Rate	Nature for Financing (Note 3)	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Note 4)	Financing Company's Total Financing Amount Limits (Note 5)	Note
													Name	Item			
0	The company	WingWill international Co., Ltd.	Other receivables from related parties	Yes	\$10,000	\$10,000	\$10,000	3%	2	\$ -	Operating Capital	\$-	-	\$-	\$ 242,030	\$ 484,061	

Note 1 : The number column is organized as follows :

(1)Number 0 represents the issuer.

(2)The Counter-party is numbered from 1 in order.

Note 2 : Maximum Balance of financing provided to others for the Period.

Note 3 : Reference for the nature for financing provided to others.

(1)1:The borrower has business contact with the creditor.

(2)2:The borrower has short-term financing necessities.

Note 4 : For short-term financing necessities, the total amount available for lending purpose shall not exceed 10% of the net worth reviewed or audited by CPA during the period.

Note 5 : The total amount available for lending purpose shall not exceed 20% of the company's net worth reviewed or audited by CPA during the period.

ZERO ONE TECHNOLOGY CO., LTD.
MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED DECEMBER 31, 2019

Table 2

Units : In Thousands of New Taiwan Dollars

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2019				Note
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/Net value of equities	
The company	Beneficiary certificates							
	KGI Emerging Market Bond 1-5 ETF Fund	—	Financial assets at FYTPL — current	75,000	\$ 3,000	-	\$ 3,000	
	KGI Kaefer Fund	—	Financial assets at FYTPL — non-current	170,437	3,079	-	3,079	
	KGI Taiwan Multi-Asset Income Fund	—	Financial assets at FYTPL — non-current	1,198,020	12,160	-	12,160	
	Corporate bond							
	Giga Solar Materials Corp. — 2 convertible corporate bonds	—	Financial assets at FYTPL — current	150 (Units)	14,550	-	14,550	
	China Airlines — 6 convertible corporate bonds	—	Financial assets at FYTPL — current	30 (Units)	2,984	-	2,984	
	Tong Ming Enterprise Co., Ltd. — 1 st domestic unsecured convertible corporate bonds	—	Financial assets at FYTPL — current	10 (Units)	985	-	985	
	Gemtek Technology Co., Ltd. — 5 convertible corporate bonds	—	Financial assets at FYTPL — current	40 (Units)	4,388	-	4,388	
	Sigurd Microelectronics Corporation. — 3 convertible corporate bonds	—	Financial assets at FYTPL — current	30 (Units)	3,394	-	3,394	
	Quang Viet Enterprise Co., Ltd. — 1 convertible corporate bonds	—	Financial assets at FYTPL — current	30 (Units)	3,236	-	3,236	
	Sheh Fung Screws Co., Ltd. — 1 convertible corporate bonds	—	Financial assets at FYTPL — current	5 (Units)	519	-	519	
	Interactive Digital Technologies Inc. — 1 convertible corporate bonds	—	Financial assets at FYTPL — current	10 (Units)	1,126	-	1,126	
	Barclays Bank Coupon Bond (USD)	—	Financial assets at amortized cost — non-current	5 (Units)	15,807	-	16,721	
	Prufin Coupon Bond (USD)	—	Financial assets at amortized cost — non-current	10 (Units)	31,179	-	31,611	
	AT&T Coupon Bond (USD)	—	Financial assets at amortized cost — non-current	5 (Units)	16,580	-	16,660	

(Continued)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2019				Note
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/Net value of equities	
The company	Securities							
	Cathay Financial Holdings Preferred Stock A	—	Financial assets at FYTPL – non-current	166,000	\$ 10,657	-	\$ 10,657	
	Union Bank of Taiwan Preferred Stock A	—	Financial assets at FYTPL – non-current	80,000	4,384	-	4,384	
	Kaway Information Corp.	The supervisor of the company	Financial assets at FVTOCI – non-current	490,000	17,150	1.60	17,150	
	China Electric Mfg. Corp.	—	Financial assets at FVTOCI – non-current	2,988,000	33,167	0.75	33,167	
	ASIX Electronics Corp.	—	Financial assets at FVTOCI – non-current	90,074	3,418	0.17	3,418	
	Promaster Technology Corp.	—	Financial assets at FVTOCI – non-current	1,111,563	10,438	2.82	10,438	
	Unex Technology Corporation	—	Financial assets at FVTOCI – non-current	175,000	3,743	1.68	3,743	
	Cathay Financial Holdings Preferred Stock A	—	Financial assets at FVTOCI – non-current	54,000	3,467	-	3,467	
	Union Bank of Taiwan Preferred Stock A	—	Financial assets at FVTOCI – non-current	70,000	3,836	-	3,836	
	Fubon Financial Holding Co., Ltd. Preferred Shares B	—	Financial assets at FVTOCI – non-current	400,000	25,720	-	25,720	
	Taishin Financial Holding Co., Ltd. Preferred Stock E	—	Financial assets at FVTOCI – non-current	240,000	13,296	-	13,296	
	CTBC Financial Holding Co., Ltd. Preferred Shares B	—	Financial assets at FVTOCI – non-current	90,000	5,958	-	5,958	
	Cathay Financial Holding Co., Ltd. Preferred Stock B	—	Financial assets at FVTOCI – non-current	230,000	14,720	-	14,720	
	Kwong Lung Enterprise Co., Ltd. Preferred Stock A	—	Financial assets at FVTOCI – non-current	200,000	10,760	-	10,760	
	WPG Holdings Limited Preferred Stock A	—	Financial assets at FVTOCI – non-current	700,000	36,190	-	36,190	
	United Orthopedic Corporation Preferred Stock A	—	Financial assets at FVTOCI – non-current	200,000	10,560	-	10,560	
	Miicasa Holdings (Cayman) Inc.	—	Financial assets at FVTOCI – non-current	2,500,000	-	3.45	-	

(Continued)

(Concluded)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2019				Note
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/ Net value of equities	
Zerone Win Investment Co., Ltd.	Duofu Co., Ltd.	—	Financial assets at FVTOCI— non-current	10,000	\$ -	0.27	\$ -	
	Jotangi Technology Co., Ltd.	—	Financial assets at FVTOCI— non-current	796,250	-	16.94	-	
	Ijoing, Inc.	—	Financial assets at FVTOCI— non-current	500,000	-	10.00	-	
	Securities							
	WPG Holdings Limited Preferred Stock A	—	Financial assets at FVTOCI— non-current	240,000	12,408	-	12,408	
	Shin Kong Financial Holding Co.,Ltd. Preferred Stock A	—	Financial assets at FVTOCI— non-current	50,000	2,297	-	2,297	
Petacom Technology Co., Ltd.	Tatung System Technologies Inc.	—	Financial assets at FVTOCI— non-current	2,000,000	34,300	2.26	34,300	
	Beneficiary certifications Taishin 1699 Money Market Fund	—	Financial assets at FYTPL — current	2,300,000	31,243	-	31,243	
ZOTECH Co., Ltd.	Securities WPG Holdings Limited Preferred Stock A	—	Financial assets at FVTOCI— non-current	200,000	10,340	-	10,340	

Note 1 : Securities, indicated by the above table, are derivative from stock, bonds, beneficiary certificates, and the above items, based on IFRS 9 “Financial Instruments”.

Note 2 : Relevant information about Investments in equity of subsidiaries, associates, see Table 3.

ZERO ONE TECHNOLOGY CO., LTD.
 INFORMATION ON INVESTEES
 FOR THE YEAR ENDED DECEMBER 31, 2019

Table 3

(In Thousands of New Taiwan Dollars, Except Specified)

Investor Company	Investee Company	Location	Main Businesses	Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2019	December 31, 2018	Number of Ownership	Percentage of Ownership	Carrying Values			
The Company	Zotech Technology Co., Ltd.	Taipei City	Services of telecommunication apparatus	\$ 35,000	\$ 35,000	3,500,000	85.37	\$ 43,671	\$ 826	\$ 705	Subsidiary
	Chi-Ta International Co., Ltd.	Taipei City	Services of telecommunication apparatus	10,000	10,000	597,960	30.00	-	-	-	
	ZeroneWin Investment Co., Ltd.	Taipei City	Investment	100,000	100,000	10,000,000	100.00	90,729	(7,531)	(7,531)	Subsidiary
	Asiaone Holdings Ltd.	Republic of Seychelles	Holding company	10,063	-	320,000	100.00	9,545	(518)	(518)	
ZeroneWin Investment Co., Ltd.	WingWill International Co., Ltd.	Taipei City	Services of cloud information software	7,000	7,000	700,000	70.00	(3,738)	(7,599)	(5,319)	Sub-subsubsidiary
	PetaCom technology Co., Ltd.	Taipei City	Services of information product agent	50,000	50,000	50,000,000	100.00	43,495	(2,806)	(2,806)	Sub-subsubsidiary

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ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF CASH AND CASH EQUIVALENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

STATEMENT 1 (In Thousands of New Taiwan Dollars)

Item	Description	Amount
Demand deposits	New Taiwan dollar	\$ 36,276
	USD 1,588 thousand@29.98;EUR 6 thousand@ 33.59	47,835
Foreign currency time deposit	USD 7,140 thousand@ 29.98; yearly interest rates at 2.10% ~2.27%; Expired by 2020.2.10	214,057
cash on hand and revolving funds		183
Checking deposits		<u>1</u>
		<u>\$ 298,352</u>

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF FINANCIAL ASSETS AT FYTPL – CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 2

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

Name of financial instruments	Description	Units	Par value (Dollars)	Total	Acquisition Cost	Fair value	
						Units (Dollars)	Total
KGI Emerging Market Bond 1-5 ETF Fund	Fund Beneficiary Certificate	75,000	10	\$ 3,000	\$ 3,000	40	\$ 3,000
Giga Solar Materials Corp. – 2	Convertible bond	150 (Units)	100,000	15,000	14,672	97	14,550
China Airlines – 6	Convertible bond	30 (Units)	100,000	3,000	3,006	99.45	2,984
Tong Ming Enterprise Co., Ltd. – 1	Convertible bond	10 (Units)	100,000	1,000	1,005	98.5	985
Gemtek Technology Co., Ltd. – 5	Convertible bond	40 (Units)	100,000	4,000	4,013	109.7	4,388
Sigurd Microelectronics Corporation. – 3	Convertible bond	30 (Units)	100,000	3,000	3,030	113.15	3,394
Quang Viet Enterprise Co., Ltd. – 1	Convertible bond	30 (Units)	100,000	3,000	3,060	107.85	3,236
Sheh Fung Screws Co., Ltd. – 1	Convertible bond	5 (Units)	100,000	500	502	103.85	519
Interactive Digital Technologies Inc. – 1	Convertible bond	10 (Units)	100,000	1,000	1,004	112.6	1,126
					33,292		\$ 34,182
					890		
Add (Less) : Valuation adjustment					\$ 34,182		

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF FINANCIAL ASSETS AT FVTOCI – CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 3

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

Name of financial instruments	Beginning Balance		Addition		Decrease		Valuation for the current year	Balance, December 31, 2019		Remark
	Shares	Book value	Shares	Amount	Shares	Amount		Shares	Book value	
Global Mixed-mode Technology Inc.	50,000	\$ 3,230	-	\$ -	50,000	\$ 4,815	\$ 1,585	-	\$ -	
ASLAN Pharmaceuticals, Ltd.	60,000	1,515	-	-	60,000	1,318	(197)	-	-	
Chunghwa Precision Test Tech. Co., Ltd .	6,000	<u>3,120</u>	-	<u>-</u>	6,000	<u>4,807</u>	<u>1,687</u>	-	<u>-</u>	
		<u>\$ 7,865</u>		<u>\$ -</u>		<u>\$ 10,940</u>	<u>\$ 3,075</u>		<u>\$ -</u>	

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF NOTES RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 4

(In Thousands of New Taiwan Dollars)

<u>The firm name</u>	<u>Description</u>	<u>Amount</u>
Non-related parties		\$ 179,482
Genesis technology inc.	Payment	16,190
Stark inforcom inc.	Payment	28,637
Apex fong yi technology co., ltd.	Payment	<u>52,586</u>
Others (Note)	Payment	276,895
		<u>-</u>
Less: Allowance for doubtful accounts		<u>\$ 276,895</u>

Note : The amount of individual company included in others does not exceed
5% of the account balance.

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF TRADE RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 5 (In Thousands of New Taiwan Dollars)

<u>The Company's name</u>	<u>Description</u>	<u>Amount</u>
SYSTEX SOFTWARE & SERVICE CORPORATION	Payment for goods	\$ 135,788
Kinmax Technology Inc.	Payment for goods	124,615
SYSTEX CORPORATION	Payment for goods	115,572
STARK TECHNOLOGY INC.	Payment for goods	108,773
HWACOM SYSTEMS INC.	Payment for goods	100,017
Others (Note)	Payment for goods	<u>1,172,299</u>
		1,757,064
Less: Allowance for doubtful accounts		<u>14,694</u>
Total		<u>\$ 1,742,370</u>

Note : The amount of individual company included in others does not exceed 5% of the account balance.

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF INVENTORIES
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 6

(In Thousands of New Taiwan Dollars)

Items	Book value	Market value (Note)
Commodities	<u>\$ 1,306,416</u>	<u>\$ 1,312,321</u>

Note : Market value shall be net realizable value.

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF FINANCIAL ASSETS AT FYTPL – NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 7

(In Thousands of New Taiwan Dollars, Except Specified)

Name	Beginning Balance		Addition		Decrease		Valuation for the current year	Balance, December 31, 2019		Remark
	Shares	Book value	Shares	Amount	Shares	Amount		Shares	Book value	
Cathay Financial Holding Co., Ltd. Preferred Stock A	166,000	\$ 10,574	-	\$ -	-	\$ -	\$ 83	166,000	\$ 10,657	
Union Bank of Taiwan Preferred Stock A	80,000	4,272	-	-	-	-	112	80,000	4,384	
KGI Kaefer Fund	-	-	170,437	3,000	-	-	79	170,437	3,079	
KGI Taiwan Multi-Asset Income Fund	-	-	2,198,020	<u>22,100</u>	1,000,000	<u>10,100</u>	<u>160</u>	1,198,020	<u>12,160</u>	
		<u>\$ 14,846</u>		<u>\$ 25,100</u>		<u>\$ 10,100</u>	<u>\$ 434</u>		<u>\$ 30,280</u>	

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF FINANCIAL ASSETS AT FVTOCI – NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 8

(In Thousands of New Taiwan Dollars)

Name	Beginning Balance		Addition		Decrease		Valuation for the current year	Balance, December 31, 2019		Remark
	Shares	Book value	Shares	Amount	Shares	Amount		Shares	Book value	
Kaway Information Corp.	490,000	\$ 13,696	-	\$ -	-	\$ -	\$ 3,454	490,000	\$ 17,150	
China Electric Mfg. Corp.	3,320,000	30,179	-	-	332,000	3,320	6,308	2,988,000	33,167	
ASIX Electronics Corp.	260,074	7,828	-	-	170,000	6,863	2,453	90,074	3,418	
Promaster Technology Corp.	1,075,601	8,841	35,962	-	-	-	1,597	1,111,563	10,438	
Unex Technology Corp.	175,000	4,265	-	-	-	-	(522)	175,000	3,743	
Cathay Financial Holding Co., Ltd. Preferred Stock A	34,000	2,166	20,000	1,285	-	-	16	54,000	3,467	
Union Bank of Taiwan Preferred Stock A	50,000	2,670	20,000	1,101	-	-	65	70,000	3,836	
Fubon Financial Holding Co., Ltd. Preferred Shares B	400,000	24,800	-	-	-	-	920	400,000	25,720	
Taishin Financial Holding Co., Ltd. Preferred Stock E	240,000	12,768	-	-	-	-	528	240,000	13,296	
CTBC Financial Holding Co., Ltd. Preferred Shares B	90,000	5,688	-	-	-	-	270	90,000	5,958	
Cathay Financial Holding Co., Ltd. Preferred Stock B	230,000	14,237	-	-	-	-	483	230,000	14,720	
Kwong Lung Enterprise Co., Ltd. Preferred Stock A	200,000	10,000	-	-	-	-	760	200,000	10,760	
WPG Holdings Limited Preferred Stock A	-	-	700,000	35,000	-	-	1,190	700,000	36,190	
United Orthopedic Corporation Preferred Stock A	-	-	200,000	10,400	-	-	160	200,000	10,560	
Miiicasa Holdings (Cayman) Inc.	2,500,000	-	-	-	-	-	-	2,500,000	-	
Duofu Co., Ltd.	10,000	-	-	-	-	-	-	10,000	-	
Jotangi Technology Co., Ltd.	796,250	-	-	-	-	-	-	796,250	-	
Ijoing, Inc.	500,000	-	-	-	-	-	-	500,000	-	
		<u>\$ 137,138</u>		<u>\$ 47,786</u>		<u>\$ 10,183</u>	<u>\$ 17,682</u>		<u>\$ 192,423</u>	

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 9

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

Name	Beginning Balance		Addition		Decrease		Unrealized gains (losses) on financial instruments	Investment gain(loss)	Balance, December 31, 2019			Net value of equity	Collateral/Pledge
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Percentage of ownership %	Amount		
ZeroneWin Investment Co., Ltd.	10,000,000	\$ 91,703	-	\$ -	-	\$ -	\$ 6,557	(\$ 7,531)	10,000,000	100	\$ 90,729	\$ 90,729	None
Zotech Technology Co., Ltd.	3,500,000	44,426	-	-	-	1,750	290	705	3,500,000	85.37	43,671	43,671	None
Asiaone Holdings Ltd.	-	-	320,000	10,063	-	-	-	(518)	320,000	100	9,545	9,545	None
Chi-Ta International Co., Ltd.	597,960	-	-	-	-	-	-	-	597,960	30	-	-	None
		<u>\$ 136,129</u>		<u>\$ 10,063</u>		<u>\$ 1,750</u>	<u>\$ 6,847</u>	<u>(\$ 7,344)</u>			<u>\$ 143,945</u>		

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF TRADE PAYABLES
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 10

(In Thousands of New Taiwan Dollars)

<u>The Company's name</u>	<u>Amount</u>
CISCO SYSTEMS INTERNATIONAL B.V.	\$ 887,231
Trend Micro Inc.	195,447
Net App, Inc.	137,423
Others (Note)	<u>804,309</u>
	<u>\$ 2,024,410</u>

Note : The amount of individual company included in others does not exceed 5% of the account balance.

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF OTHER CURRENT LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 11

(In Thousands of New Taiwan Dollars)

<u>Items</u>	<u>Amount</u>
Receipts under custody	\$ 109,809
Contract liability—current	22,982
Temporary receipts	<u>8,337</u>
	<u>\$ 141,128</u>

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 12

(In Thousands of New Taiwan Dollars)

<u>Items</u>	<u>Description</u>	<u>Amount</u>
Sales revenue	Selling the software suite	<u>\$ 8,799,382</u>
Other operating revenues		<u>56,787</u>
		8,856,169
Less: sales returns		17,044
sales discounts		<u>12,466</u>
		<u>\$ 8,826,659</u>

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF OPERATING COST
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 13

(In Thousands of New Taiwan Dollars)

Items	Amount
Costs of goods sold	
Initial inventory	\$ 1,047,792
Add : Purchases	8,377,277
Ending inventory	(1,449,719)
Others	(<u>47,000</u>)
Total costs of sales and purchases	7,928,350
Gain from price recovery of inventory	29,563
Losses on disposal of scrap inventories	<u>2,803</u>
	<u>\$ 7,960,716</u>

Note : The above statement indicates that the amount of all items regarding inventories is recognized by original costs of inventories, with no deduction of allowance for inventory valuation losses.

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Statement 14

(In Thousands of New Taiwan Dollars)

Items	Selling and marketing expenses	General and administrative expenses	Total
Payroll Expenses	\$ 202,256	\$ 81,974	\$ 284,230
Entertainment expense	34,651	1,333	35,984
Insurance expense	25,638	6,169	31,807
Reversal for expected credit losses	-	(5,901)	(5,901)
Depreciation expense	6,684	11,374	18,058
Others (Note)	<u>67,315</u>	<u>25,299</u>	<u>92,614</u>
	<u>\$ 336,544</u>	<u>\$ 120,248</u>	<u>\$ 456,792</u>

Note : The amount of each item in others does not exceed 5% of the account balance.