

ZERO ONE TECHNOLOGY CO., LTD.
PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2020 AND 2019 AND
INDEPENDENT AUDITORS' REPORT

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§TABLE OF CONTENTS§

Contents	Page No.	Financial Report's Note No.
1、Cover	1	-
2、Table of Contents	2	-
3、Independent Auditors' Auditor Report	3~6	-
4、Parent company only Balance Sheets	7	-
5、Parent company only Statements of Comprehensive Income	8~9	-
6、Parent company only Statements of Changes in Equity	10	-
7、Parent company only Statements of Cash Flows	11~12	-
8、Notes to Parent company only Financial Statements		
(1) General	13	1
(2) The date and procedures of authorization of financial statements	13	2
(3) Application of new and revised standards and interpretations	13~14	3
(4) Summary of significant accounting policies	14~23	4
(5) Critical accounting judgements and key sources of estimation and uncertainty	23	5
(6) Explanation of significant accounts	24~43	6~25
(7) Related parties transactions	44~45	26
(8) Pledged assets	45	27
(9) Significant contingent liabilities and unrecognized commitments	45	28
(10) Foreign-currency-denominated assets and liabilities that have significant influence	45	29
(11) Separately disclosed items		
A. Information on significant transactions	46~50	30
B. Information on investees	46、51	30
C. Information on investment in Mainland China	46、52	30
D. Information on major shareholders	46、53	30
9、List of major account tiles	54~69	-

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Zero One Technology Co., Ltd.

Opinion

We have audited the accompanying parent company only financial statements of Zero One Technology Co., Ltd. (the "Company"), which comprise the parent company only balance sheets as of December 31, 2020 and 2019, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, 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, 2020 and 2019, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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, 2020. 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, 2020 are stated as follows:

Valuation of allowance for uncollectible accounts

Key Audit Matters

As indicated in Note 5 and Note 10, 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.

The following audit procedures

Our audit procedure includes evaluating the policy of recognizing loss allowance for expected credit losses,

understanding and testing internal controls of allowance for uncollectible accounts by the management that are in line with periodic reviews, design and implement of relevant controls. We also obtain an aging analysis report of accounts receivable for calculation the allowance for uncollectible accounts on the balance sheet date, and perform the procedure of sampling and auditing to evaluate the correctness of the aging analysis report, and examine the valuation of allowance for uncollectible accounts and related reasons so as to evaluate the appropriate nature of the expected credit losses.

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 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 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 based on management's judgment, a key audit matter.

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 analysis reports, sampling 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 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 Audit Committee) 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 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, 2020 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 Chen Ming, Li and Pei Te, Chen.

Deloitte & Touche

Taipei, Taiwan
Republic of China

February 24, 2021

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, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 567,436	10	\$ 298,352	6
Financial assets at fair value through profit or loss – current (Notes 4 and 7)	350,270	6	34,182	1
Financial assets at amortized cost – current (Notes 4 and 9)	232,010	4	683,552	13
Notes receivable (Notes 4, 5 and 10)	230,490	4	276,895	5
Trade receivables (Notes 4, 5, 10 and 26)	1,871,194	35	1,742,370	33
Inventories (Notes 4, 5 and 11)	1,223,050	23	1,306,416	25
Other current assets (Note 26)	26,599	-	43,281	1
Total current assets	<u>4,501,049</u>	<u>82</u>	<u>4,385,048</u>	<u>84</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)	35,391	1	30,280	1
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	253,319	5	192,423	4
Financial assets at amortized cost - non-current (Notes 4, 9 and 27)	64,451	1	79,079	1
Investments accounted for using the equity method (Notes 4 and 12)	206,746	4	143,945	3
Property, plant and equipment (Notes 4,13 and 27)	307,276	6	313,991	6
Right-of-use assets (Notes 4 and 14)	6,762	-	7,332	-
Other intangible assets (Note 4)	765	-	1,358	-
Deferred tax assets (Notes 4 and 21)	35,976	1	41,852	1
Refundable deposits	4,281	-	2,754	-
Total non-current assets	<u>914,967</u>	<u>18</u>	<u>813,014</u>	<u>16</u>
TOTAL	<u>\$ 5,416,016</u>	<u>100</u>	<u>\$ 5,198,062</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 15)	\$ -	-	\$ 150,000	3
Trade payables (Note 26)	2,227,047	41	2,024,410	39
Other payables (Note 16)	232,528	5	374,041	7
Current tax liabilities (Notes 4 and 21)	59,660	1	56,927	1
Lease liabilities - current (Notes 4 and 14)	5,223	-	3,576	-
Other current liabilities	210,909	4	141,128	3
Total current liabilities	<u>2,735,367</u>	<u>51</u>	<u>2,750,082</u>	<u>53</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 21)	-	-	793	-
Lease liabilities - non-current (Notes 4 and 14)	1,597	-	3,803	-
Net defined benefit liabilities - non-current (Notes 4 and 18)	20,982	-	21,918	-
Other non-current liabilities	800	-	1,162	-
Total non-current liabilities	<u>23,379</u>	<u>-</u>	<u>27,676</u>	<u>-</u>
Total liabilities	<u>2,758,746</u>	<u>51</u>	<u>2,777,758</u>	<u>53</u>
EQUITY (Notes 4 and 19)				
Share capital				
Ordinary shares	1,256,402	23	1,246,352	24
Capital surplus	478,757	9	470,136	9
Retained earnings				
Legal reserve	219,863	4	184,732	4
Special reserve	-	-	16,844	-
Unappropriated earnings	667,898	12	494,764	10
Total retained earnings	<u>887,761</u>	<u>16</u>	<u>696,340</u>	<u>14</u>
Other equity	34,350	1	7,476	-
Total equity	<u>2,657,270</u>	<u>49</u>	<u>2,420,304</u>	<u>47</u>
TOTAL	<u>\$ 5,416,016</u>	<u>100</u>	<u>\$ 5,198,062</u>	<u>100</u>

The accompanying notes are an integral part of the parent company only financial statements.

ZERO ONE TECHNOLOGY CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 26)				
Net sales	\$ 9,658,778	100	\$ 8,826,659	100
OPERATING COSTS (Notes 11 and 26)				
Cost of goods sold	<u>8,661,534</u>	<u>90</u>	<u>7,960,716</u>	<u>90</u>
GROSS PROFIT	<u>997,244</u>	<u>10</u>	<u>865,943</u>	<u>10</u>
OPERATING EXPENSES (Notes 18 and 20)				
Selling and marketing expenses	365,426	4	336,544	4
General and administrative expenses	123,760	1	126,149	1
Reversal of expected credit losses (Note 10)	(<u>3,262</u>)	<u>-</u>	(<u>5,901</u>)	<u>-</u>
Total operating expenses	<u>485,924</u>	<u>5</u>	<u>456,792</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>511,320</u>	<u>5</u>	<u>409,151</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 20)				
Interest income (Note 26)	17,740	1	22,488	-
Other income (Note 26)	11,013	-	11,233	-
Other gains and losses (Note 12)	16,062	-	7,196	-
Net gain on derecognition of financial assets at amortized cost (Note 9)	1,260	-	3,745	-
Finance costs	(2,045)	-	(2,054)	-
Share of profit or loss of subsidiaries accounted for using the equity method (Note 12)	(<u>441</u>)	<u>-</u>	(<u>7,344</u>)	<u>-</u>
Total non-operating income and expenses	<u>43,589</u>	<u>1</u>	<u>35,264</u>	<u>-</u>

(Continued)

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
PROFIT BEFORE INCOME TAX	\$ 554,909	6	\$ 444,415	5
INCOME TAX EXPENSE (Notes 4 and 21)	<u>113,286</u>	<u>1</u>	<u>93,102</u>	<u>1</u>
NET PROFIT	<u>441,623</u>	<u>5</u>	<u>351,313</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 18 and 21)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(212)	-	(1,157)	-
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	3,974	-	20,757	-
Share of other comprehensive income of subsidiaries accounted for using the equity method	17,997	-	6,847	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	43	-	231	-
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income of subsidiaries accounted for using the equity method	<u>74</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>21,876</u>	<u>-</u>	<u>26,678</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 463,499</u>	<u>5</u>	<u>\$ 377,991</u>	<u>4</u>
EARNINGS PER SHARE (Note 22)				
From continuing operations				
Basic	<u>\$ 3.55</u>		<u>\$ 2.85</u>	
Diluted	<u>\$ 3.44</u>		<u>\$ 2.77</u>	

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

ZERO ONE TECHNOLOGY CO., LTD.
**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

	Share Capital		Retained Earnings					Other Equity			Total Equity	
	Shares (In Thousand)	Issued Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Comprehensive Income	Unearned Employee Benefits		Total
	BALANCE, JANUARY 1, 2019	122,896	\$ 1,228,965	\$ 446,515	\$ 159,438	\$ 15,501	\$ 362,722	\$ 537,661	\$ -	(\$ 16,844)		\$ -
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	-	-	-	-	-	(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 – restricted stock awards	-	-	-	-	-	-	-	-	-	4,767	4,767	4,767
Share based payment transaction - employee stock option	-	-	11,431	-	-	-	-	-	-	-	-	11,431
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 at fair value through other comprehensive income	-	-	-	-	-	(7,105)	(7,105)	-	7,105	-	7,105	-
BALANCE, 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
Appropriation of the 2019 earnings												
Legal reserve	-	-	-	35,131	-	(35,131)	-	-	-	-	-	-
Special reserve	-	-	-	-	(16,844)	16,844	-	-	-	-	-	-
Cash dividends – NT \$2.0 per share	-	-	-	-	-	(249,574)	(249,574)	-	-	-	-	(249,574)
Net profit for the year ended December 31, 2020	-	-	-	-	-	441,623	441,623	-	-	-	-	441,623
Other comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	-	(169)	(169)	74	21,971	-	22,045	21,876
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	-	441,454	441,454	74	21,971	-	22,045	463,499
Changes in percentage of ownership interests in subsidiaries	-	-	(2,481)	-	-	(718)	(718)	-	-	-	-	(3,199)
Share based payment transaction – restricted stock awards	-	-	-	-	-	-	-	-	-	5,088	5,088	5,088
Share based payment transaction - employee stock option	-	-	6,894	-	-	-	-	-	-	-	-	6,894
Recall of unissued shares of restricted stock awards	(12)	(120)	120	-	-	-	-	-	-	-	-	-
Issuance of ordinary shares under employee share options	1,017	10,170	4,088	-	-	-	-	-	-	-	-	14,258
Disposals of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	259	259	-	(259)	-	(259)	-
BALANCE, DECEMBER 31, 2020	125,640	\$ 1,256,402	\$ 478,757	\$ 219,863	\$ -	\$ 667,898	\$ 887,761	\$ 74	\$ 39,577	(\$ 5,301)	\$ 34,350	\$ 2,657,270

The accompanying notes are an integral part of the parent company only financial statements.

ZERO ONE TECHNOLOGY CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 554,909	\$ 444,415
Adjustments for:		
Depreciation expenses	20,255	18,058
Amortization expenses	778	776
Reversal of expected credit losses	(3,262)	(5,901)
Net gain on fair value change of financial assets at fair value through profit or loss	(5,050)	(7,359)
Finance costs	2,045	2,054
Net gain on derecognition of financial assets at amortized cost	(1,260)	(3,745)
Interest income	(17,740)	(22,488)
Dividend income	(8,535)	(4,366)
Compensation costs of employee share options	11,982	16,198
Share of loss of subsidiaries accounted for using the equity method	441	7,344
Loss on disposal of property, plant and equipment	40	-
Gain on disposal of investments accounted for using equity method	(275)	-
(Reversal of write-down) write-down of inventories	(7,898)	29,563
Net loss on foreign currency exchange	5,618	23,769
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(316,149)	5,215
Notes receivable	46,405	(116,322)
Trade receivables	(127,308)	(17,318)
Inventories	88,620	(410,213)
Other current assets	3,780	(3,678)
Trade payables	206,993	364,851
Other payables	(139,983)	131,321
Other current liabilities	69,781	35,226
Net defined benefit liabilities	(1,148)	(818)
Cash generated from operations	383,039	486,582
Income tax paid	(105,427)	(97,101)
Net cash generated from operating activities	<u>277,612</u>	<u>389,481</u>

(Continued)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(\$ 84,217)	(\$ 47,786)
Proceeds from sale of financial assets at fair value through other comprehensive income	24,217	17,803
Proceeds from the return of capital upon investees' capital reduction of financial assets at fair value through other comprehensive income	3,078	3,320
Purchase of financial assets at amortized cost	(236,229)	(191,975)
Disposal of financial assets at amortized cost	700,682	64,955
Acquisition of investments accounted for using the equity method	(49,000)	(10,063)
Proceeds from disposal of investments accounted for using equity method	275	-
Payments for property, plant and equipment	(6,359)	(7,033)
Proceeds from disposal of property, plant and equipment	500	-
Increase in refundable deposits	(1,527)	(1,077)
Decrease (increase) in other receivables-related parties	10,000	(10,000)
Payments for intangible assets	(185)	(670)
Interest received	20,642	20,178
Dividend received from subsidiaries	630	1,750
Other dividends received	<u>8,535</u>	<u>4,366</u>
Net cash generated from (used in) investing activities	<u>391,042</u>	<u>(156,232)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	-	50,000
Repayments of short-term borrowings	(150,000)	-
Proceeds from guarantee deposits received	-	362
Refund of guarantee deposits received	(362)	-
Repayment of principal portion of lease liabilities	(5,066)	(4,319)
Dividends paid	(249,574)	(184,603)
Exercise of employee share options	14,258	9,322
Interest paid	<u>(2,049)</u>	<u>(2,050)</u>
Net cash used in financing activities	<u>(392,793)</u>	<u>(131,288)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>(6,777)</u>	<u>(5,363)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	269,084	96,598
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>298,352</u>	<u>201,754</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 567,436</u>	<u>\$ 298,352</u>

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

ZERO ONE TECHNOLOGY CO., LTD.
 NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

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

1. GENERAL

Zero One Technology Co., Ltd. (the “Company” or “ZOTC”) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China on 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 24, 2021.

3. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

(1) Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC).

Application of the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Company’s accounting policies.

(2) The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2021

<u>New IFRSs</u>	<u>Effective Date Announced by IASB</u>
Amendments to IFRS 4, “Extension of the Temporary Exemption from Applying IFRS 9”	Effective as announced
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase II”	January 1, 2021 for annual reporting periods
Amendments to IFRS 16 “Covid-19 leases – rent concessions”	June 1, 2020 for annual reporting period

As of the date the accompanying parent company only financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of aforementioned 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 in issued by IASB but not yet endorsed and issued into effect by the FSC

<u>New IFRSs</u>	<u>Effective Date Announced by the IASB (Note 1)</u>
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework:	January 1, 2022 (Note 3)
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Noncurrent”	January 1, 2023
Amendments to IAS 1 “Disclosure of accounting policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of accounting estimates”	January 1, 2023 (Note 7)
Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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.

Note 2 : The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3 : The amendments are applicable 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, 2022.

Note 4 : The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5 : The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6 : The amendments are effective for annual periods beginning on or after 1 January, 2023.

Note 7 : The amendments are effective for annual periods beginning on or after 1 January, 2023, and changes in accounting policies and changes in accounting estimates that occur on or after the start of the period.

As of the date the parent company only financial statements were authorized for issue, the Company is continuously evaluating 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 evaluation is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

These parent company only financial statements have been prepared in conformity 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 values, 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 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 company 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 share of other comprehensive income of subsidiaries 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 non-current assets and liabilities, respectively.

(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 appropriated 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 (including structural entities).

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, any retained investment of the former subsidiary is measured at the fair value at that date. A gain or loss is recognized in profit or loss and calculated as the difference between the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and the previous carrying amount of the investment in such subsidiary. In addition, the Company shall account for all amounts previously recognized in other comprehensive income in relation to the subsidiary on the same basis as would be required if the subsidiary had directly disposed of the related assets and liabilities.

When the Company transacts with its subsidiaries, profits and losses resulting from the transactions with the subsidiaries are recognized in the Company's parent only financial statements only to the extent of interests in the subsidiaries that are not owned by the Company.

(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 and the distribution received. The Company also recognizes the changes in the equity of associates attributable to the Company.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized 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, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the associate issues new shares, and the Company subscribes 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 net assets of 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 to the shares of associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate 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 forms part of 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 vice versa, the Company will continue to evaluate investment accounted for by the equity method, other than remeasuring retained equities.

Profits and losses, resulting from upstream, downstream, and sidestream transactions between the Company and associates, are recognized on parent company only financial statements in the scope of the Company's equities that are not relevant to its 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 is recognized in profit or loss.

(10)Impairment of property, plant and equipment, right-of-use assets, and intangible assets (excluding goodwill)

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right of use assets 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 or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

The inventory, property, plant and equipment and intangible assets recognized in the customer contract are first recognized as impairment in accordance with the inventory policies and the above regulations, and the book value of the relevant assets according to the contract cost exceeds the expected consideration for the provision of related goods or services. The amount after deducting the directly related costs is recognized as an impairment loss, and the book value of the contract cost-related assets is continuously included in the cash-generating unit in order to perform the impairment assessment of the cash-generating unit.

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 or settlement date basis.

a. Measurement category

The Company's 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

For certain financial assets which include debt instrument that do not meet the criteria of amortized cost or FVTOCI, it is mandatorily required to measure them 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 dividends, interest earned and net gain or loss recognized in profit or loss 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, notes and trade receivables and other financial assets 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 multiply the gross carrying amount of a financial asset.

Cash equivalents, held to meet 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 designate investments in equity instruments that is not held for trading 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 notes and trade receivables).

The Company always recognizes the loss allowance by lifetime Expected Credit Loss (i.e. ECL) for notes and accounts 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.

In order for the Company to fulfill the purpose of internal credit and risk management control, under the premise that does not take into account of the collaterals owned by the Company, the following will be deemed as a default of the financial assets:

A. Either internal or external information indicates that it is impossible for the debtors to clear the debts;

B. Any delay in payment – unless there is reasonable and supporting information that indicates the basis for delaying the payment is more appropriate.

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 that 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

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 parent company only 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 rates.

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 parent company only balance sheets.

(14)Costs of loans

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

(15)Employee benefit

A. Short-term employee benefits.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for service rendered by employees.

B. Retirement benefits

For defined contribution retirement benefit plans, payments to the benefit plan are recognized as an expense when employees have rendered service entitling them to the contribution. For defined benefit retirement benefit plans, the cost of providing benefit is recognized based on actuarial calculations. Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit Method. Service cost (including current service cost as well as previous 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. Remeasurement, 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. Remeasurement 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

The Company recognizes current earnings (losses) in accordance with the Income Tax Act of the Republic of China, and calculate the amount for tax payable (recoverable).

Income tax on unappropriated earnings is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated according to Taiwan's 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 notes and 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 necessary to close the sales. 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, 2020	December 31, 2019
Cash on hand and revolving funds	\$ 207	\$ 183
Checking accounts and demand deposits in banks	538,749	84,112
Cash equivalents		
Time deposits in banks	-	214,057
Repurchase bond	28,480	-
	<u>\$ 567,436</u>	<u>\$ 298,352</u>

As the end of reporting period, the market rate intervals of deposits in banks and repurchase bond were as follows :

	December 31, 2020	December 31, 2019
Demand deposits in banks	0.005%~0.32%	0.01%~0.67%
Time deposits in banks	-	2.10%~2.27%
Repurchase bond	0.45%	-

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2020	December 31, 2019
<u>Financial assets – current</u>		
Mandatorily measured at FVTPL		
– Domestic convertible bonds	\$ 15,966	\$ 31,182
– Domestic listed ordinary shares	1,785	-
– Fund beneficiary certificates	332,519	3,000
	<u>\$ 350,270</u>	<u>\$ 34,182</u>
<u>Financial assets – non-current</u>		
Mandatorily measured at FVTPL		
– Domestic listed preference shares	\$ 14,403	\$ 15,041
– Fund beneficiary certificates	20,988	15,239
	<u>\$ 35,391</u>	<u>\$ 30,280</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2020	December 31, 2019
<u>Investments in equity instruments</u>		
<u>Non-current</u>		
Domestic investment		
Listed ordinary shares and emerging market ordinary shares	\$ 70,729	\$ 64,173
Listed preference shares	164,448	124,507
Unlisted shares	18,142	3,743
	<u>\$ 253,319</u>	<u>\$ 192,423</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.

9. FINANCIAL ASSETS AT AMORTIZED COST

	December 31, 2020	December 31, 2019
<u>Current</u>		
Domestic investment		
Time deposits with original maturities more than three months (1)	\$ 232,010	\$ 292,313
Repurchase bond (2)	-	391,239
	<u>\$ 232,010</u>	<u>\$ 683,552</u>
<u>Non-current</u>		
Domestic investment		
Pledged time deposit (3)	\$ 20,390	\$ 15,513
Barclays Bank Coupon Bond (USD) (4)	14,895	15,807
Prufin Perpetual Corp. Bond (USD) (5)	29,166	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>\$ 64,451</u>	<u>\$ 79,079</u>

- (1) As of December 31, 2020 and 2019, the market interest rate intervals of time deposit over 3 months portion were 0.77%~2.10% and 1.02%~2.33%, respectively.
- (2) As of December 31, 2019, the market interest rate of repurchase bond over 3 months portion was 2.70%~2.90%.
- (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%, in August, 2019.
- (5) The Company purchased Prufin Perpetual Corp (USD) by USD 1,040 thousand, with a coupon rate of 4.875%, in August, 2019.
- (6) The Company purchased AT&T Corp (USD) by USD 553 thousand, with a coupon rate of 4.50%, in November, 2019. In November, 2020, the Company sold all the bonds at \$17,130 thousand in order to adjust the portion of the investment, \$1,260 thousand recognized as net gain on derecognition of financial assets at amortized cost.
- (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%, in August, 2018, and then sold all bonds by \$64,954 thousand, for adjustment for the portion of the investment in August, 2019, \$3,745 thousand recognized as net gain on derecognition of financial assets at amortized cost.

10. NOTES AND TRADE RECEIVABLE

	December 31, 2020	December 31, 2019
Measured at amortized cost		
Notes receivable	\$ 230,490	\$ 276,895
Trade receivable	1,882,626	1,757,064
Overdue receivables	1,474	20,816
Less: Allowances for impairment loss - trade receivable	(11,432)	(14,694)
Less: Allowances for impairment loss - overdue receivables	(1,474)	(20,816)
	<u>\$ 2,101,684</u>	<u>\$ 2,019,265</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 approach to providing for expected credit losses 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, 2020

	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	\$ 2,099,693	\$ 2,687	\$ 10,160	\$ 576	\$ 1,474	\$ 2,114,590
Loss allowance (Lifetime ECLs)	(5,895)	(899)	(4,344)	(294)	(1,474)	(12,906)
Amortized cost	<u>\$ 2,093,798</u>	<u>\$ 1,788</u>	<u>\$ 5,816</u>	<u>\$ 282</u>	<u>\$ -</u>	<u>\$ 2,101,684</u>

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>

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

	2020	2019
Balance at January 1	\$ 35,510	\$ 41,411
Less: Amounts written off	(19,342)	-
Less: Reversal of loss allowance	(3,262)	(5,901)
Balance at December 31	<u>\$ 12,906</u>	<u>\$ 35,510</u>

11. INVENTORIES

	December 31, 2020	December 31, 2019
Commodities	<u>\$ 1,223,050</u>	<u>\$ 1,306,416</u>

Cost of goods sold for inventories were \$8,661,534 thousand, and \$7,960,716 thousand, respectively, in 2020 and 2019. Cost of goods sold included reversals of inventory write-downs of \$7,898 thousand, and inventory write-downs of \$29,563 thousand, respectively, in 2020 and 2019. The reversals of previous write-downs resulted from disposal of the commodities that had been listed previously for loss in price.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31, 2020	December 31, 2019
Investments in subsidiaries	<u>\$ 206,746</u>	<u>\$ 143,945</u>

(1) Investments in subsidiaries

	December 31, 2020	December 31, 2019
Zotech Technology Co., Ltd.	\$ 43,132	\$ 43,671
Zerone Win Investment Co., Ltd.	154,088	90,729
Asiaone Holdings Ltd.	<u>9,526</u>	<u>9,545</u>
	<u>\$ 206,746</u>	<u>\$ 143,945</u>

	Percentage of owners' equity and voting right	
	December 31, 2020	December 31, 2019
Name of subsidiaries		
Zotech Technology Co., Ltd.	85.37%	85.37%
Zerone Win Investment Co., Ltd.	100.00%	100.00%
Asiaone Holdings Ltd.	100.00%	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%.

The Company participated in the capital injection of Zerone Win Investment Co. Ltd. at \$49,000 thousand in May, 2020. The share-holding ratio remains unchanged after capital injection.

(2) Investments in associates

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 \$7,243 thousand of impairment losses in 2015, and recognized book value of \$0 thousand after recognized deficits. In April, 2020, the Company disposed all shares and recognized \$275 thousand in gains.

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Office equipment	Delivery equipment	Other equipment	Total
<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>

(Continued)

	Land	Buildings	Machinery and equipment	Office equipment	Delivery equipment	Other equipment	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 234,892	\$ 128,185	\$ 8,173	\$ 34,586	\$ 2,458	\$ 15,535	\$ 423,829
Additions	-	-	-	3,129	-	3,230	6,359
Disposals	-	-	(133)	(505)	-	(926)	(1,564)
Reclassification	-	-	-	1,753	-	891	2,644
Balance at December 31, 2020	<u>\$ 234,892</u>	<u>\$ 128,185</u>	<u>\$ 8,040</u>	<u>\$ 38,963</u>	<u>\$ 2,458</u>	<u>\$ 18,730</u>	<u>\$ 431,268</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2020	\$ -	\$ 71,666	\$ 8,173	\$ 23,832	\$ 984	\$ 5,183	\$ 109,838
Disposals	-	-	(133)	(505)	-	(386)	(1,024)
Depreciation	-	1,816	-	7,407	492	5,463	15,178
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 73,482</u>	<u>\$ 8,040</u>	<u>\$ 30,734</u>	<u>\$ 1,476</u>	<u>\$ 10,260</u>	<u>\$ 123,992</u>
Carrying amounts at December 31, 2020	<u>\$ 234,892</u>	<u>\$ 54,703</u>	<u>\$ -</u>	<u>\$ 8,229</u>	<u>\$ 982</u>	<u>\$ 8,470</u>	<u>\$ 307,276</u>

(Concluded)

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

	December 31, 2020	December 31, 2019
Carrying amounts of right-of-use assets		
Buildings	\$ 6,418	\$ 6,787
Office equipment	<u>344</u>	<u>545</u>
	<u>\$ 6,762</u>	<u>\$ 7,332</u>
	2020	2019
Additions to right-of-use assets	<u>\$ 4,507</u>	<u>\$ 8,193</u>
Depreciation charge for right-of-use assets	\$ 4,876	\$ 4,165
Buildings	<u>201</u>	<u>201</u>
Office equipment	<u>\$ 5,077</u>	<u>\$ 4,366</u>

(2) Lease liabilities

	December 31, 2020	December 31, 2019
Carrying amounts of lease liabilities		
Current	<u>\$ 5,223</u>	<u>\$ 3,576</u>
Non-current	<u>\$ 1,597</u>	<u>\$ 3,803</u>

Range of discount rate for lease liabilities were as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Buildings	1.20%	1.20%
Office equipment	1.20%	1.20%

(3) Other lease information

	<u>2020</u>	<u>2019</u>
Expenses relating to short-term leases	<u>\$ 168</u>	<u>\$ 353</u>
Expenses relating to low-value asset leases	<u>\$ 32</u>	<u>\$ 34</u>
Total cash (outflow) for leases	<u>(\$ 5,358)</u>	<u>(\$ 4,797)</u>

15. SHORT-TERM LOANS

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<u>Unsecured loans</u>		
—Line of credit loans	<u>\$ -</u>	<u>\$ 150,000</u>

Interest rate of bank loans was 0.94% on December 31, 2019.

16. OTHER PAYABLE

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Salaries and bonuses payable	\$ 84,202	\$ 78,281
Employees', directors', and supervisors' compensation payable	35,420	28,367
Others	<u>112,906</u>	<u>267,393</u>
	<u>\$ 232,528</u>	<u>\$ 374,041</u>

17. BOND PAYABLE

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, 2019, liability components	\$ 5,085
Interest (2.0618%)	15
Convertible bonds changed into ordinary shares	(<u>5,100</u>)
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, ZOTC has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts.

(2) Defined benefit plans

ZOTC 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, 2020	December 31, 2019
Present value of defined benefit obligation	\$ 60,393	\$ 58,307
Fair value of plan assets	(39,411)	(36,389)
Contribution	20,982	21,918
Net defined benefit liability	<u>\$ 20,982</u>	<u>\$ 21,918</u>

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability/assets
Balance at 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 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>
Balance at December 31, 2019	<u>\$ 58,307</u>	<u>(\$ 36,389)</u>	<u>\$ 21,918</u>

(Continued)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability/assets
Balance at January 1, 2020	<u>\$ 58,307</u>	<u>(\$ 36,389)</u>	<u>\$ 21,918</u>
Service cost			
Current service cost	256	-	256
Interest expense (income)	<u>437</u>	<u>(275)</u>	<u>162</u>
Recognized in profits or losses	<u>693</u>	<u>(275)</u>	<u>418</u>
Remeasurements			
Return on plan assets (excluding amounts included in interest, net)	-	(1,181)	(1,181)
Actuarial loss arising from changes in demographic assumptions	185	-	185
Actuarial loss arising from changes in financial assumptions	1,320	-	1,320
Actuarial gain arising from experience adjustments	<u>(112)</u>	<u>-</u>	<u>(112)</u>
Recognized in other comprehensive income	<u>1,393</u>	<u>(1,181)</u>	<u>212</u>
Contribution from employer	<u>-</u>	<u>(1,566)</u>	<u>(1,566)</u>
Balance at December 31, 2020	<u>\$ 60,393</u>	<u>(\$ 39,411)</u>	<u>\$ 20,982</u>

(Concluded)

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

	<u>2020</u>	<u>2019</u>
Selling and marketing expenses	\$ 181	\$ 237
General and administrative expenses	<u>237</u>	<u>286</u>
	<u>\$ 418</u>	<u>\$ 523</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, 2020</u>	<u>December 31, 2019</u>
Discount rate	0.500%	0.750%
Future salary increase rate	2.750%	2.750%

If main actuarial assumptions vary 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, 2020</u>	<u>December 31, 2019</u>
Discount rate		
increases by 0.25%	(\$ <u>1,321</u>)	(\$ <u>1,333</u>)
decreases by 0.25%	<u>\$ 1,368</u>	<u>\$ 1,382</u>
Future salary increase rate		
increases by 0.25%	<u>\$ 1,317</u>	<u>\$ 1,335</u>
decreases by 0.25%	(\$ <u>1,280</u>)	(\$ <u>1,295</u>)

As actuarial assumptions may be correlative with one another, it is less likely that only one single assumption will be changed, the above sensitive analysis cannot indicate actual changes of the present value of defined benefit obligation.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Contribution amounts within 1 year	<u>\$ 1,609</u>	<u>\$ 657</u>
Average due period of the defined benefit obligation	8.8 Years	9.3 Years

19. EQUITY

(1) Ordinary Shares

	<u>December 31, 2020</u>	<u>December 31, 2019</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>125,640</u>	<u>124,635</u>
Issued capital	<u>\$ 1,256,402</u>	<u>\$ 1,246,352</u>

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

(2) Capital Surplus

	<u>December 31, 2020</u>	<u>December 31, 2019</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	\$ 418,488	\$ 408,165
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
Invalid employees stock options	300	300
<u>May not be used for any purpose</u>		
Restricted Stock Awards	8,276	8,156
Employees stock options	<u>26,350</u>	<u>25,691</u>
	<u>\$ 478,757</u>	<u>\$ 470,136</u>

A. Such capital surplus may be used to offset a deficit; in addition, when ZOTC has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of ZOTC'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

ZOTC'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 ZOTC's Articles of Incorporation of employees', directors' and supervisors' compensation for Note 20(7).

Distribution of earnings shall be made preferably by way of surplus cash dividend, according to future capital budget plan, and operating fund requirements. ZOTC 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 ZOTC'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 ZOTC 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", ZOTC shall appropriate or reverse to a special reserve.

The appropriations of 2019 and 2018 earnings have been approved by ZOTC's shareholder's meeting held on June 10, 2020 and June 13, 2019, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share(NT\$)	
	For Fiscal Year 2019	For Fiscal Year 2018	For Fiscal Year 2019	For Fiscal Year 2018
Legal capital reserve	\$ 35,131	\$ 25,294		
(Reversal of) Special reserve	(16,844)	1,343		
Cash dividends	249,574	184,603	\$ 2.0	\$ 1.5

The appropriations of earnings for 2020 had been proposed by ZOTC's board of directors on February 24, 2021. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 44,100	
Cash dividends	377,836	\$ 3.0

The appropriations of earnings for 2020 are subject to the resolution of the shareholders' meeting to be held on May 28, 2021.

(4) Other equity

A. Exchange differences on translation

	2020	2019
Balance at January 1	\$ -	\$ -
In respect of the current year		
Share of subsidiaries accounted for using the equity method	74	-
Balance at December 31	\$ 74	\$ -

B. Unrealized Gain (loss) from financial assets measured at FVTOCI

	2020	2019
Balance at January 1	\$ 17,865	(\$ 16,844)
In respect of the current year		
Unrealized gain (loss)—equity instruments	3,974	20,757
Share of subsidiaries accounted for using the equity method	17,997	6,847
Cumulative gain (loss) of equity instruments transferred to retained earnings due to disposal	(259)	7,105
Balance at December 31	\$ 39,577	\$ 17,865

C. 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.

	<u>2020</u>	<u>2019</u>
Balance at January 1	(\$ 10,389)	\$ -
Issued at the current period	-	(15,156)
Share-based payment expenses recognized	<u>5,088</u>	<u>4,767</u>
Balance at December 31	<u>(\$ 5,301)</u>	<u>(\$ 10,389)</u>

20. NET INCOME

(1) Interest income

	<u>2020</u>	<u>2019</u>
Bank deposits	\$ 2,618	\$ 3,491
Financial assets at amortized cost	14,912	18,891
Others	<u>210</u>	<u>106</u>
	<u>\$ 17,740</u>	<u>\$ 22,488</u>

(2) Other income

	<u>2020</u>	<u>2019</u>
Dividend income	\$ 8,535	\$ 4,366
Others	<u>2,478</u>	<u>6,867</u>
	<u>\$ 11,013</u>	<u>\$ 11,233</u>

(3) Other gains and losses

	<u>2020</u>	<u>2019</u>
Gain (loss) on financial assets/liabilities at FVTPL	\$ 5,050	\$ 7,359
Net foreign currency exchange gain (loss)	10,777	(163)
Loss on disposal of Property, plant and equipment	(40)	-
Gain on disposal of investment accounted for using the equity method	<u>275</u>	<u>-</u>
	<u>\$ 16,062</u>	<u>\$ 7,196</u>

(4) Finance costs

	<u>2020</u>	<u>2019</u>
Interests on bank borrowings	\$ 1,953	\$ 1,949
Interest on lease liabilities	92	90
Interests on convertible bonds	-	15
	<u>\$ 2,045</u>	<u>\$ 2,054</u>

(5) Depreciation & amortization

	<u>2020</u>	<u>2019</u>
Property, plant and equipment	\$ 15,178	\$ 13,692
Right-of-use assets	5,077	4,366
Intangible assets	<u>778</u>	<u>776</u>
	<u>\$ 21,033</u>	<u>\$ 18,834</u>
An analysis of depreciation by function		
Operating expenses	<u>\$ 20,255</u>	<u>\$ 18,058</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 778</u>	<u>\$ 776</u>

(6)Employee benefits expense

	<u>2020</u>	<u>2019</u>
Post-employment benefits		
Defined contribution plans	\$ 9,454	\$ 8,458
Defined benefit plans (Note 18)	<u>418</u>	<u>523</u>
	<u>9,872</u>	<u>8,981</u>
Share-based payment		
Equity-settled	<u>11,982</u>	<u>16,198</u>
Other employee benefits		
Salaries expense	290,705	259,051
Labor and health insurance expenses	19,701	17,287
Others	<u>18,156</u>	<u>18,857</u>
	<u>328,562</u>	<u>295,195</u>
Total employee benefits expense	<u>\$ 350,416</u>	<u>\$ 320,374</u>
Employee benefits expense summarized by function		
Operating expenses	<u>\$ 350,416</u>	<u>\$ 320,374</u>

(7)Compensation for employees and directors

ZOTC shall allocate compensation to employees and Directors of ZOTC not less than 1%~15% and not more than 3% of annual profits during the period, respectively, and the amount of employees' and Directors' compensation for the years ended December 31, 2020 and 2019, with resolution of the board of directors on Feb. 24, 2021 and Feb. 26, 2020, were as follows:

Estimate Rate

	<u>2020</u>	<u>2019</u>
Employee compensation	4.00%	4.00%
Directors' compensation	2.00%	2.00%

Amount

	<u>2020</u>		<u>2019</u>	
	<u>Cash</u>	<u>Stock</u>	<u>Cash</u>	<u>Stock</u>
Employee compensation	\$ 23,613	\$ -	\$ 18,911	\$ -
Director's compensation	11,807	-	9,456	-

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' and director's compensation in 2019, and 2018 has no difference compared to the recognized amount of the parent company only financial statements in 2019 and 2018.

Relevant information about employees' and director's compensation can be found on the website of "Market Observation Post System" of TWSE.

21. INCOME TAXES

(1)Income tax recognized in profit or loss

The major components of tax expenses were as follows:

	<u>2020</u>	<u>2019</u>
Current tax		
In respect of the current year	\$ 105,290	\$ 95,484
Surtax on undistributed retained earnings	3,771	2,269
Adjustments for previous years	(<u>901</u>)	(<u>408</u>)
	<u>108,160</u>	<u>97,345</u>
Deferred tax		
In respect of the current year	<u>5,126</u>	(<u>4,243</u>)
Income tax expense recognized in profit or loss	<u>\$ 113,286</u>	<u>\$ 93,102</u>

A reconciliation of accounting profit and income tax expense was as follows:

	<u>2020</u>	<u>2019</u>
Profit before income tax from continuing operations	<u>\$ 554,909</u>	<u>\$ 444,415</u>
Income tax expense calculated at the statutory rate	\$ 110,982	\$ 88,883
Tax-exempt income	(2,640)	(1,771)
Tax effect of expenses not deductible for tax	3,052	3,825
Surtax on undistributed retained earnings	3,771	2,269
The adjustment of current income tax expenses for previous years	(901)	(408)
Others	(<u>978</u>)	<u>304</u>
Total income tax expense recognized in profit or loss	<u>\$ 113,286</u>	<u>\$ 93,102</u>

(2) Income tax expense recognized in other comprehensive income

	<u>2020</u>	<u>2019</u>
<u>Deferred tax</u>		
In respect of the current year		
– Remeasurement of defined benefit plans	<u>\$ 43</u>	<u>\$ 231</u>

(3) Deferred tax balances

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

2020

	<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	\$ 28,661	(\$ 1,580)	\$ -	\$ 27,081
Allowance for bad debts	2,993	(2,993)	-	-
Defined benefit plans	4,383	(229)	43	4,197
Others	<u>5,815</u>	<u>(1,117)</u>	-	<u>4,698</u>
	<u>\$ 41,852</u>	<u>(\$ 5,919)</u>	<u>\$ 43</u>	<u>\$ 35,976</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Unrealized foreign exchange gains	<u>\$ 793</u>	<u>(\$ 793)</u>	<u>\$ -</u>	<u>\$ -</u>

2019

	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	\$ 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 gains	<u>\$ 736</u>	<u>\$ 57</u>	<u>\$ -</u>	<u>\$ 793</u>

(4) Income tax assessment

The Company's tax returns through 2018 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 Year

	2020	2019
Net profit for the year	\$ 441,623	\$ 351,313
Effect of potentially dilutive ordinary shares:		
Effect of convertible bonds after tax	-	<u>15</u>
Earnings in computation of diluted earnings per share	<u>\$ 441,623</u>	<u>\$ 351,328</u>
<u>Shares</u>		Units: Thousand shares
	2020	2019
Weighted average number of ordinary shares outstanding in computation of basic earnings per share	124,381	123,354
Effect of potentially dilutive ordinary shares :		
Convertible bonds	-	56
Employee compensation	702	839
Employee stock options	2,674	2,167
Restricted stock award	<u>448</u>	<u>202</u>
Weighted average number of ordinary shares outstanding in computation of diluted earnings per share	<u>128,205</u>	<u>126,618</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.

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 ZOTC, and each option entitles the holder to subscribe for 1,000 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 ZOTC'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	2020		2019	
	Number of Options (In Thousands)	Weighted Average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted Average Exercise Price (NT\$)
Balance, beginning of period	5,653	\$ 17.18	6,468	\$ 17.68
Options exercised	(1,017)	14.02	(701)	13.30
Invalid options	(168)	17.51	(114)	15.91
Outstanding options at the end of the period	<u>4,468</u>	16.70	<u>5,653</u>	17.18
Options exercised at the end of the period	<u>1,820</u>		<u>1,049</u>	

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

December 31, 2020		December 31, 2019	
Range of Exercise Price (US\$)	Weighted-Over-Age Remaining Contractual Life (Years)	Range of Exercise Price (US\$)	Weighted-Over-Age Remaining Contractual Life (Years)
\$ 11.70 (Note)	0.67	\$ 12.40 (Note)	1.67
13.40 (Note)	1.68	14.20 (Note)	2.68
16.80 (Note)	3.01	17.80 (Note)	4.01
18.40 (Note)	3.67	19.50 (Note)	4.67

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 \$6,894 thousand and \$11,431 thousand for the years ended December 31, 2020 and 2019, respectively.

(2) Restricted stock awards

The shareholders meeting of the company, on June 11, 2018, resolved to issue restricted stock awards amounting to \$7,000 thousand, consisting of 700 thousand shares, respectively, par value in \$10, the subscription price is \$0 (The issue price is \$ 0), and authorized the Board to decide the issue price at the issuance date. The Board resolved to issue \$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 \$5,088 thousand and \$4,767 thousand in 2020 and 2019 respectively. As of December 31, 2020 and 2019, unearned employee benefits totaled \$5,301 thousand and \$10,389 thousand respectively, accounted for as a 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, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial Assets</u>				
Measured at amortized cost				
– Foreign corporate bonds	\$ 44,061	\$ 45,323	\$ 63,566	\$ 64,992

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

A. Fair value hierarchy

December 31, 2020

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Convertible bonds	\$ 15,966	\$ -	\$ -	\$ 15,966
Listed shares and emerging market shares	16,188	-	-	16,188
Fund beneficiary certificate	344,978	-	8,529	353,507
Total	<u>\$ 377,132</u>	<u>\$ -</u>	<u>\$ 8,529</u>	<u>\$ 385,661</u>

Financial assets at FVTOCI

Equity investments				
– Domestic listed shares and emerging market shares	\$ 223,085	\$ -	\$ 12,092	\$ 235,177
– Domestic unlisted shares	-	-	18,142	18,142
Total	<u>\$ 223,085</u>	<u>\$ -</u>	<u>\$ 30,234</u>	<u>\$ 253,319</u>

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

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

There were no transfers between Level 1 and Level 2 in 2020 and 2019, respectively.

B. 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

	December 31, 2020	December 31, 2019
<u>Financial assets</u>		
Financial assets measured at FVTPL		
Mandatorily measured at FVTPL	\$ 385,661	\$ 64,462
Financial assets measured at amortized cost (Note 1)	2,972,799	3,107,140
Financial assets measured at FVTOCI—		
Investments in equity instruments	253,319	192,423
<u>Financial liabilities</u>		
Measured at amortized cost (Note 2)	2,460,375	2,549,613

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, investments in debt instruments, notes 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, 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 2020 and 2019 would increase/decrease by \$41,819 thousand and \$21,166 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, 2020	December 31, 2019
Interest rate risks at fair value		
– Financial assets	\$ 197,519	\$ 854,095
– Financial liabilities	6,820	157,379
Interest rate risks at cash flows		
– Financial assets	666,171	206,706

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 2020 and 2019 would increase/ decrease by \$3,331 thousand and \$1,034 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 and fund beneficiary certificates. 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 \$19,283 thousand and \$3,223 thousand, because of the change in fair value of financial assets at FVTPL, respectively., at the end of the reporting period in 2020 and 2019, the other comprehensive income would have increased/decreased by \$12,666 thousand and \$9,621 thousand, because of the change in fair value of financial assets at FVTOCI, respectively, at the end of the reporting period in 2020 and 2019.

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, 2020 and 2019, 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, 2020

	<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	\$ 2,459,575	\$ -	\$ -
Lease liabilities	<u>5,271</u>	<u>1,599</u>	<u>-</u>
	<u>\$ 2,464,846</u>	<u>\$ 1,599</u>	<u>\$ -</u>

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>

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, 2020 and 2019, the Company's unused short-term credit of limit of the bank were \$1,250,000 thousand and \$920,000 thousand, respectively.

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 Technology Co., Ltd.	Subsidiaries
Zerone Win Investment Co., Ltd.	Subsidiaries
PetaCom Technology Co., Ltd.	Subsidiaries
Wing Will International Co., Ltd.	Subsidiaries
AsiaOne Holdings Ltd.	Subsidiaries
Techone (Shanghai) Co., Ltd.	Subsidiaries
Kaway Information Corp.	Other related parties

(2) Operating revenue

<u>Line Items</u>	<u>Types of related parties</u>	<u>2020</u>	<u>2019</u>
Sales revenue	Subsidiaries	\$ 28,350	\$ 17,310
	Other related parties	<u>244</u>	<u>123</u>
		<u>\$ 28,594</u>	<u>\$ 17,433</u>
Services revenue	Subsidiaries	<u>\$ 2,838</u>	<u>\$ 2,476</u>

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

(3) Purchases

<u>Types of related parties</u>	<u>2020</u>	<u>2019</u>
Subsidiaries	<u>\$ 12,505</u>	<u>\$ 6,472</u>

(4) Receivables from related parties (excluding loans and contract assets to related parties)

<u>Line Items</u>	<u>Types of related parties</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Trade receivable	Subsidiaries	\$ 8,236	\$ 6,090
	Other related parties	223	-
Other receivable	Subsidiaries	<u>-</u>	<u>104</u>
		<u>\$ 8,459</u>	<u>\$ 6,194</u>

For the year ended December 31, 2020 and 2019 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, 2020</u>	<u>December 31, 2019</u>
Trade payable	Subsidiaries	<u>\$ 8,413</u>	<u>\$ 6,300</u>

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

<u>Types of related parties / Name</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Subsidiaries	<u>\$ -</u>	<u>\$ 10,000</u>
<u>Interest income</u>		
<u>Types of related parties / Name</u>	<u>2020</u>	<u>2019</u>
Subsidiaries	<u>\$ 205</u>	<u>\$ 104</u>

(7) Non-operating income

<u>Line Items</u>	<u>Types of related parties</u>	<u>2020</u>	<u>2019</u>
Rental income	Subsidiaries	<u>\$ 743</u>	<u>\$ 743</u>

(8) Compensation of key management personnel

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	<u>\$ 43,730</u>	<u>\$ 38,724</u>

Salaries of the members of the Board and other key management personnel are determined by personal performance and economic market trend by the Compensation Committee.

27. PLEDGED 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.

	December 31, 2020	December 31, 2019
Property, plant and equipment, Net	\$ 207,620	\$ 209,009
Pledged time deposits (Financial assets at amortized cost – non-current)	<u>20,390</u>	<u>15,513</u>
	<u>\$ 228,010</u>	<u>\$ 224,522</u>

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

(1) As of December 31, 2020, the Company issued \$87,000 thousand of cashier order for payment guaranteed for Microsoft Taiwan Corporation.

(2) As of December 31, 2020, the Company issued \$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:

December 31, 2020

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 11,659	28.48 (USD:NTD)	\$ <u>332,048</u>

<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	41,026	28.48 (USD:NTD)	\$ <u>1,168,420</u>

December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<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>

The material foreign exchange gains (losses) (realized and unrealized) were as follows:

	2020		2019	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
USD	29.549 (USD:NTD)	\$ <u>10,777</u>	30.912 (USD:NTD)	(\$ <u>163</u>)

30. SEPARATELY DISCLOSED ITEMS

(1) Significant Transactional Items

- 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: None.

(2) Information on investees: Table 3.

(3) Information on investment in Mainland China :

- A. The name of the investee in mainland China, the main business and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Table 4.
- B. Significant direct or indirect transactions with the investee, its price and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in mainland China on financial reports: None.
 - (i) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - (ii) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - (iii) The amount of property transactions and the amount of the resultant gains or losses.
 - (iv) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - (v) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - (vi) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

(4) Information on major shareholder : List of all shareholders with ownership of 5 percent or greater showing the names and the number of shares and percentage of ownership held by each shareholder: Table 5.

ZERO ONE TECHNOLOGY CO., LTD.
FINANCING PROVIDED TO OTHERS
FOR THE YEARS ENDED DECEMBER 31, 2020

Table 1

(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	ZOTC	Zerone Win Investment Co. Ltd.	Other receivables from related parties	Yes	\$ 40,000	\$ 40,000	\$ -	3%	2	\$ -	Operating Capital	\$ -	—	\$ -	\$ 265,727	\$ 531,454	
0	ZOTC	WingWill Co. Ltd.	Other receivables from related parties	Yes	20,000	20,000	-	3%	2	-	Operating Capital	-	—	-	265,727	531,454	

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, 2020

Table 2

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	D e c e m b e r 3 1 , 2 0 2 0				N o t e
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/ Net value of equities	
ZOTC	Beneficiary certificates							
	KGI Emerging Market Bond 1-5 ETF Fund	—	Financial assets at FVTPL — current	65,000	\$ 2,473	-	\$ 2,473	
	Taishin 1699 Money Market Fund	—	Financial assets at FVTPL — current	10,993,924	150,022	-	150,022	
	Jih Sun Money Market Fund	—	Financial assets at FVTPL — current	10,034,989	150,023	-	150,023	
	Prudential Financial Money Market Fund	—	Financial assets at FVTPL — current	1,880,394	30,001	-	30,001	
	KGI Kaefer Fund	—	Financial assets at FVTPL — non-current	170,199	3,354	-	3,354	
	KGI Taiwan Multi-Asset Income Fund	—	Financial assets at FVTPL — non-current	1,198,020	12,459	-	12,459	
	KGI Taiwan Select-Asset Income Fund	—	Financial assets at FVTPL — non-current	500,325	5,175	-	5,175	
	Corporate bond							
	Tong Ming Enterprise Co., Ltd. — 1 st domestic unsecured convertible corporate bonds	—	Financial assets at FVTPL — current	10 (Units)	1,000	-	1,000	
	Quang Viet Enterprise Co., Ltd. — 1 st convertible corporate bonds	—	Financial assets at FVTPL — current	30 (Units)	3,132	-	3,132	
	M.J. International Co. Ltd. — 1 st convertible corporate bonds	—	Financial assets at FVTPL — current	20 (Units)	2,099	-	2,099	
	Rossmax International Ltd. — 2 nd convertible corporate bonds	—	Financial assets at FVTPL — current	20 (Units)	2,200	-	2,200	
	Jentech Precision Industrial Co. Ltd. — 3 rd convertible corporate bonds	—	Financial assets at FVTPL — current	30 (Units)	3,178	-	3,178	
	Anli International Co. Ltd. — 1 st convertible corporate bonds	—	Financial assets at FVTPL — current	20 (Units)	2,052	-	2,052	
	Marketch International Corp. — 4 th convertible corporate bonds	—	Financial assets at FVTPL — current	10 (Units)	1,126	-	1,126	
	Chung-Hsin Electric & Machinery Mfg. Corp. — 2 nd convertible corporate bonds	—	Financial assets at FVTPL — current	10 (Units)	1,179	-	1,179	

(Continued)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	D e c e m b e r 3 1 , 2 0 2 0				N o t e
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/ Net value of equities	
ZOTC	Barclays Bank Coupon Bond (USD)	—	Financial assets at amortized cost — non-current	5 (Units)	\$ 14,895	-	\$ 16,154	
	Prufin Coupon Bond (USD)	—	Financial assets at amortized cost — non-current	10 (Units)	29,166	-	29,169	
	Securities							
	Actron Technology Corp.	—	Financial assets at FVTPL — current	15,000	1,785	-	1,785	
	Cathay Financial Holdings Preferred Stock A	—	Financial assets at FVTPL — non-current	166,000	10,259	-	10,259	
	Union Bank of Taiwan Preferred Stock A	—	Financial assets at FVTPL — non-current	80,000	4,144	-	4,144	
	Kaway Information Corp.	Note 3	Financial assets at FVTOCI — non-current	490,000	16,243	1.60	16,243	
	China Electric Mfg. Corp.	—	Financial assets at FVTOCI — non-current	2,689,200	37,514	0.83	37,514	
	ASIX Electronics Corp.	—	Financial assets at FVTOCI — non-current	81,066	4,880	0.16	4,880	
	Promaster Technology Corp	—	Financial assets at FVTOCI — non-current	1,157,137	12,092	2.72	12,092	
	Unex Technology Corporation	—	Financial assets at FVTOCI — non-current	175,000	3,231	1.68	3,231	
	Da-Chang Start-Up Investment Co. Ltd.	—	Financial assets at FVTOCI — non-current	1,500,000	14,911	2.73	14,911	
	Cathay Financial Holdings Preferred Stock A	—	Financial assets at FVTOCI — non-current	134,000	8,281	-	8,281	
	Union Bank of Taiwan Preferred Stock A	—	Financial assets at FVTOCI — non-current	70,000	3,626	-	3,626	
	Fubon Financial Holding Co., Ltd. Preferred Shares B	—	Financial assets at FVTOCI — non-current	400,000	25,000	-	25,000	
	Taishin Financial Holding Co., Ltd. Preferred Stock E	—	Financial assets at FVTOCI — non-current	240,000	12,624	-	12,624	
	CTBC Financial Holding Co., Ltd. Preferred Shares B	—	Financial assets at FVTOCI — non-current	90,000	5,706	-	5,706	
Cathay Financial Holding Co., Ltd. Preferred Stock B	—	Financial assets at FVTOCI — non-current	230,000	14,467	-	14,467		

(Continued)

Holding Company	Marketable Securities Type and Issuer's Name (Note 1)	Security Issuer's Relationship with the Holding Company	Financial Statement Account	D e c e m b e r 3 1 , 2 0 2 0				N o t e
				Shares/Units	Carrying Values	Percentage of Ownership (%)	Market Prices/ Net value of equities	
ZOTC	Kwong Lung Enterprise Co. Ltd. Preferred Stock A	—	Financial assets at FVTOCI – non-current	270,000	\$ 13,581	-	\$ 13,581	
	WPG Holdings Limited Preferred Stock A	—	Financial assets at FVTOCI – non-current	700,000	35,070	-	35,070	
	United Orthopedic Corporation Preferred Shares A.	—	Financial assets at FVTOCI – non-current	200,000	9,500	-	9,500	
	QST International Corporation Preferred Shares A.	—	Financial assets at FVTOCI – non-current	150,000	6,713	-	6,713	
	Chailease Holding Company Limited Class A Preferred Shares	—	Financial assets at FVTOCI – non-current	300,000	29,880	-	29,880	
	Miiicasa Holdings (Cayman) Inc.	—	Financial assets at FVTOCI – non-current	2,500,000	-	3.45	-	
	Duofu Co., Ltd.	—	Financial assets at FVTOCI – non-current	10,000	-	0.22	-	
	Jotangi Technology Co., Ltd.	—	Financial assets at FVTOCI – non-current	796,250	-	9.32	-	
Zerone Win Investment Co.	Securities							
	WPG Holdings Limited Preferred Stock A	—	Financial assets at FVTOCI – non-current	240,000	12,024	-	12,024	
	Shin Kong Financial Holding Co.,Ltd. Preferred Stock A	—	Financial assets at FVTOCI – non-current	50,000	2,188	-	2,188	
	Chailease Holding Company Limited Class A Preferred Shares	—	Financial assets at FVTOCI – non-current	89,000	8,864	-	8,864	
	Tatung System Technologies Inc.	—	Financial assets at FVTOCI – non-current	2,000,000	53,100	2.26	53,100	
PetaCom Technology Co. Ltd.	Beneficiary certificates							
	Taishin 1699 Money Market Fund	—	Financial assets at FVTPL – current	777,000	10,603	-	10,603	
Zotech Technology Co. Ltd.	Securities							
	WPG Holdings Limited Preferred Stock A	—	Financial assets at FVTOCI – non-current	200,000	10,020	-	10,020	

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.

Note 3 : Effective June 10, 2020, the status of Kaway Information Corp. was changed from Supervisor to Director of the Company.

(Concluded)

ZERO ONE TECHNOLOGY CO., LTD.
 INFORMATION ON INVESTEES
 FOR THE YEAR ENDED DECEMBER 31, 2020

Table 3

(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses	Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2020	December 31, 2019	Number of Ownership	Percentage of Ownership	Carrying Values			
ZOTC	Zotech Technology Co., Ltd.	Taipei City	Services of telecommunication apparatus	\$ 35,000	\$ 35,000	3,500,000	85.37	\$ 43,132	\$ 426	\$ 364	Subsidiary
	Chi-Ta International Co., Ltd.	Taipei City	Services of telecommunication apparatus	-	10,000	-	-	-	-	-	Disposed in April, 2020
	ZeroneWin Investment Co., Ltd.	Taipei City	Investment	149,000	100,000	14,900,000	100.00	154,088	(712)	(712)	Subsidiary
	Asiaone Holdings Ltd.	Republic of Seychelles	Holding company	10,063	10,063	320,000	100.00	9,526	(93)	(93)	Subsidiary
ZeroneWin Investment Co., Ltd.	WingWill International Co., Ltd.	Taipei City	Services of cloud information software	25,500	7,000	25,500,000	87.93	5,981	(6,858)	(5,582)	Sub-subsubsidiary
	PetaCom Technology Co., Ltd.	Taipei City	Services of information product agent	50,000	50,000	50,000,000	100.00	47,551	4,057	4,057	Sub-subsubsidiary

Note: Please refer to Table 4 for Information on investment in Mainland China.

ZERO ONE TECHNOLOGY CO., LTD.
 INFORMATION ON INVESTMENTS IN MAINLAND CHINA
 FOR THE YEAR ENDED DECEMBER 31, 2020

Table 4

(In Thousands of New Taiwan Dollars/Foreign Currency)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of 31 December, 2020	Accumulated Repatriation of Investment Income as of 31 December, 2020	Note
					Outward	Inward							
Techone (Shanghai) Co., Ltd.	Services of Network Technology	\$ 13,131 (RMB 3,000)	(Note 1)	\$ -	\$ 9,118	\$ -	\$ 9,118	(\$ 39)	70%	(\$ 27)	\$ 9,164	\$ -	—

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2020	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA (Note 3)
\$ 8,673 (USD 305)	\$ 8,673 (USD 305)	\$ 1,594,362

Note 1 : The company directly holds 100% of a subsidiary-Asiaone Holdings Ltd., which reinvests the company in Mainland China.

Note 2 : Amount was recognized based on the financial statements which were not audited by CPAs on December 31, 2020.

Note 3 : Determined by sixty percent (60%) of the Company's consolidated net worth, audited by CPAs on December 31, 2020 (2,657,270×60% = 1,594,362).

Note 4 : For foreign currency conversion, gain (loss) are converted by the average exchange rate in 2020. Other amounts are converted into New Taiwan Dollars by the exchange rate on December 31, 2020.

ZERO ONE TECHNOLOGY CO., LTD.
 INFORMATION ON MAJOR SHAREHOLDERS
 December 31, 2020

Table 5

Shareholders	Shares	
	Total Shares Owned (In Thousands)	Ownership Percentage
Ceres Investment Co., Ltd.	9,506,594	7.56%
Chia Hsin, Lin	9,338,292	7.43%

Note : This table presents information provided by the Taiwan Depository & Clearing Corporation on stockholders holding greater than 5% of the Company's ordinary and preference shares including treasury stock in dematerialized form that have completed the process of registration and delivery by book-entry transfer as of the last business day for the current quarter. The share capital recorded, and the actual registered non-physical shares in this parent company only financial statements may differ due to different basis of preparation.

§THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS§

ITEMS	NO. / INDEX
MAJOR ACCOUNTING ITEMS IN ASSETS, LIABILITIES AND EQUITY	
STATEMENT OF CASH AND CASH EQUIVALENTS	Statement 1
STATEMENT OF FINANCIAL ASSETS AT FVTPL – CURRENT	Statement 2
STATEMENT OF FINANCIAL ASSETS AT AMORTIZED COST – CURRENT	Note 9
STATEMENT OF NOTES RECEIVABLE	Statement 3
STATEMENT OF TRADE RECEIVABLE	Statement 4
STATEMENT OF INVENTORIES	Statement 5
STATEMENT OF FINANCIAL ASSETS AT FVTPL – NON-CURRENT	Statement 6
STATEMENT OF FINANCIAL ASSETS AT FVTOCI – NON-CURRENT	Statement 7
STATEMENT OF FINANCIAL ASSETS AT AMORTIZED COST – NON-CURRENT	Note 9
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	Statement 8
STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT	Note 13
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	Note 13
STATEMENT OF DEFERRED INCOME TAX ASSETS	Note 21
STATEMENT OF TRADE PAYABLES	Statement 9
STATEMENT OF OTHER PAYABLES	Note 16
STATEMENT OF OTHER CURRENT LIABILITIES	Statement 10
MAJOR ACCOUNTING ITEMS IN PROFIT OR LOSS	
STATEMENT OF OPERATING REVENUE	Statement 11
STATEMENT OF OPERATING COST	Statement 12
STATEMENT OF OPERATING EXPENSES	Statement 13
STATEMENT OF EMPLOYEE BENEFITS, DEPRECIATION, DEPLETION AND AMORTIZATION BY FUNCTION	Note 20

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2020

STATEMENT 1 (In Thousands of New Taiwan Dollars)

Item	Description	Amount
Demand deposits	New Taiwan dollar	\$ 486,708
	USD 1,820 thousand@ 28.48;EUR 6 thousand@ 35.02	52,041
Repurchase bond	USD 1,000 thousand@ 28.48; annual interest rate at 0.45%; Expired by 2021.03.04	28,480
Cash on hand and revolving funds		<u>207</u>
		<u>\$ 567,436</u>

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF FINANCIAL ASSETS AT FVTPL – CURRENT
DECEMBER 31, 2020

Statement 2

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 certificates	65,000	10	\$ 650	\$ 2,600	38.0465	\$ 2,473
Taishin 1699 Money Market Fund	Fund beneficiary certificates	10,993,924	10	109,939	150,000	13.6459	150,022
Jih Sun Money Market Fund	Fund beneficiary certificates	10,034,989	10	100,350	150,000	14.95	150,023
Prudential Financial Money Market Fund	Fund beneficiary certificates	1,880,394	10	18,804	30,000	15.9549	30,001
Tong Ming Enterprise Co., Ltd. – 1 st domestic unsecured convertible corporate bonds	Convertible bond	10 (Units)	100,000	1,000	1,005	100	1,000
Quang Viet Enterprise Co., Ltd. – 1 st convertible corporate bonds	Convertible bond	30 (Units)	100,000	3,000	3,060	104.40	3,132
M.J. International Co. Ltd. – 1 st convertible corporate bonds	Convertible bond	20 (Units)	100,000	2,000	2,026	104.95	2,099
Rossmax International Ltd. – 2 nd convertible corporate bonds	Convertible bond	20 (Units)	100,000	2,000	2,024	110	2,200
Jentech Precision Industrial Co. Ltd. – 3 rd convertible corporate bonds	Convertible bond	30 (Units)	100,000	3,000	3,030	105.95	3,178
Anli International Co. Ltd. – 1 st convertible corporate bonds	Convertible bond	20 (Units)	100,000	2,000	2,014	102.60	2,052
Marketch International Corp. – 4 th convertible corporate bonds	Convertible bond	10 (Units)	100,000	1,000	1,002	112.55	1,126
Chung-Hsin Electric & Machinery Mfg. Corp. – 2 nd convertible corporate bonds	Convertible bond	10 (Units)	100,000	1,000	1,010	117.85	1,179
Actron Technology Corp.	Securities	15,000	10	150	1,256	119	1,785
					349,027		\$ 350,270
Add (Less) : Valuation adjustment					1,243		
					<u>\$ 350,270</u>		

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF NOTES RECEIVABLE
DECEMBER 31, 2020

Statement 3

(In Thousands of New Taiwan Dollars)

<u>The firm name</u>	<u>Description</u>	<u>Amount</u>
Non-related parties		
Genesis Technology Inc.	Payment for goods	\$ 70,471
NTT Taiwan Solutions Ltd.	Payment for goods	25,873
Stark Technology Inc.	Payment for goods	22,422
Apex Fong Yi Technology Co. Ltd.	Payment for goods	16,341
Rays Information & Technology Co. Ltd.	Payment for goods	11,800
Others (Note)	Payment for goods	<u>83,583</u>
		230,490
Less: Allowance for doubtful accounts		<u>-</u>
		<u>\$ 230,490</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
DECEMBER 31, 2020

Statement 4 (In Thousands of New Taiwan Dollars)

<u>The Company's name</u>	<u>Description</u>	<u>Amount</u>
Hwacom Systems Inc.	Payment for goods	\$ 168,522
IBM	Payment for goods	168,275
Syscom Computer Engineering Co.	Payment for goods	134,926
Stark Technology Inc.	Payment for goods	122,558
Kinmax Technology Inc.	Payment for goods	115,249
Others (Note)	Payment for goods	<u>1,173,096</u>
		1,882,626
Less: Allowance for doubtful accounts		<u>11,432</u>
Total		<u>\$ 1,871,194</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
DECEMBER 31, 2020

Statement 5

(In Thousands of New Taiwan Dollars)

<u>Items</u>	<u>Book value</u>	<u>Market value (Note)</u>
Commodities	<u>\$ 1,223,050</u>	<u>\$ 1,234,437</u>

Note : Market value shall be net realizable value.

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF FINANCIAL ASSETS AT FVTPL – NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2020

Statement 6

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name	Beginning Balance		Addition		Decrease		Valuation for the current year	Balance, December 31, 2020		Remark
	Shares	Book value	Shares	Amount	Shares	Amount		Shares	Book value	
Cathay Financial Holding Co., Ltd. Preferred Stock A	166,000	\$ 10,657	-	\$ -	-	\$ -	(\$ 398)	166,000	\$ 10,259	
Union Bank of Taiwan Preferred Stock A	80,000	4,384	-	-	-	-	(240)	80,000	4,144	
KGI Kaefer Fund	170,437	3,079	170,199	3,079	170,437	3,079	275	170,199	3,354	
KGI Taiwan Multi-Asset Income Fund	1,198,020	12,160	-	-	-	-	299	1,198,020	12,459	
KGI Taiwan Select-Asset Income Fund	-	-	500,325	5,000	-	-	175	500,325	5,175	
		<u>\$ 30,280</u>		<u>\$ 8,079</u>		<u>\$ 3,079</u>	<u>\$ 111</u>		<u>\$ 35,391</u>	

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF FINANCIAL ASSETS AT FVTOCI – NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2020

Statement 7

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name	Beginning Balance		Addition		Decrease		Valuation for the current year	Balance, December 31, 2020		Remark
	Shares	Book value	Shares	Amount	Shares	Amount		Shares	Book value	
Kaway Information Corp.	490,000	\$ 17,150	-	\$ -	-	\$ -	(\$ 907)	490,000	\$ 16,243	
China Electric Mfg. Corp	2,988,000	33,167	-	-	298,800	2,988	7,335	2,689,200	37,514	
ASIX Electronics Corp.	90,074	3,418	-	-	9,008	90	1,552	81,066	4,880	
Promaster Technology Corp.	1,111,563	10,438	45,574	-	-	-	1,654	1,157,137	12,092	
Unex Technology Corp.	175,000	3,743	-	-	-	-	(512)	175,000	3,231	
Da-Chang Start-Up Investment Co. Ltd.	-	-	1,500,000	15,000	-	-	(89)	1,500,000	14,911	
Cathay Financial Holding Co., Ltd. Preferred Stock A	54,000	3,467	80,000	4,796	-	-	18	134,000	8,281	
Union Bank of Taiwan Preferred Stock A	70,000	3,836	-	-	-	-	(210)	70,000	3,626	
Fubon Financial Holding Co., Ltd. Preferred Shares B	400,000	25,720	-	-	-	-	(720)	400,000	25,000	
Taishin Financial Holding Co., Ltd. Preferred Stock E	240,000	13,296	-	-	-	-	(672)	240,000	12,624	
CTBC Financial Holding Co., Ltd. Preferred Shares B	90,000	5,958	-	-	-	-	(252)	90,000	5,706	
Cathay Financial Holding Co., Ltd. Preferred Stock B	230,000	14,720	-	-	-	-	(253)	230,000	14,467	
Kwong Lung Enterprise Co., Ltd. Preferred Stock A	200,000	10,760	70,000	3,337	-	-	(516)	270,000	13,581	
WPG Holdings Limited Preferred Stock A	700,000	36,190	80,000	3,584	80,000	4,002	(702)	700,000	35,070	
United Orthopedic Corporation Preferred Stock A	200,000	10,560	-	-	-	-	(1,060)	200,000	9,500	
QST International Corp. Preferred Stock A	-	-	150,000	7,500	-	-	(787)	150,000	6,713	
Chailease Holding Company Limited Class A Preferred Shares	-	-	500,000	50,000	200,000	20,128	8	300,000	29,880	
Miiicasa Holdings (Cayman) Inc.	2,500,000	-	-	-	-	-	-	2,500,000	-	
Ijoing Inc.	500,000	-	-	-	500,000	87	87	-	-	
DuoFu Co., Ltd	10,000	-	-	-	-	-	-	10,000	-	
Jotangi Technology Ltd.	796,250	-	-	-	-	-	-	796,250	-	
		<u>\$ 192,423</u>		<u>\$ 84,217</u>		<u>\$ 27,295</u>	<u>\$ 3,974</u>		<u>\$ 253,319</u>	

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2020

Statement 8

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name	Beginning Balance		Addition		Decrease		Increase (Decrease) in using the equity method (Note 1)	Balance, December 31, 2020			Collateral/Pledge	
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Percentage of ownership%	Amount		Net value of equity
ZeroneWin Investment Co., Ltd.	10,000,000	\$ 90,729	4,900,000	\$ 49,000	-	\$ -	\$ 14,359	14,900,000	100	\$154,088	\$154,088	None
Zotech Technology Co., Ltd.	3,500,000	43,671	-	-	-	-	(539)	3,500,000	85.37	43,132	43,132	None
Asiaone Holdings Ltd.	320,000	9,545	-	-	-	-	(19)	320,000	100	9,526	9,526	None
Chi-Ta International Co., Ltd. (Note 2)	597,960	-	-	-	597,960	-	-	-	-	-	-	-
		<u>\$ 143,945</u>		<u>\$ 49,000</u>			<u>\$ 13,801</u>			<u>\$206,746</u>		

Note 1 : Including :

1. Share of profit (loss) of subsidiaries accounted for using equity method	(\$ 441)
2. Changes in ownership interest in subsidiaries	(3,199)
3. Share of other comprehensive income (loss) of subsidiaries accounted for using equity method.	17,997
4. Cash dividend from subsidiaries	(630)
5. Exchange differences on translation of the financial statements of foreign operations	74
	<u>\$ 13,801</u>

Note 2 : Disposed in April, 2020. °

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF TRADE PAYABLES
DECEMBER 31, 2020

Statement 9

(In Thousands of New Taiwan Dollars)

<u>The Company's name</u>	<u>Amount</u>
CISCO SYSTEMS INTERNATIONAL B.V.	\$ 950,875
Trend Micro Inc.	264,408
Net App, Inc.	119,603
Others (Note)	<u>892,161</u>
	<u>\$ 2,227,047</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
DECEMBER 31, 2020

Statement 10

(In Thousands of New Taiwan Dollars)

<u>Items</u>	<u>Amount</u>
Receipts under custody	\$ 180,289
Contract liability—current	17,423
Temporary receipts	<u>13,197</u>
	<u>\$ 210,909</u>

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2020

Statement 11

(In Thousands of New Taiwan Dollars)

Items	Description	Amount
Sales revenue	Selling hardware and software suite	\$9,636,401
Other operating revenues		<u>63,982</u>
		9,700,383
Less: sales returns		35,069
sales discounts		<u>6,536</u>
		<u>\$ 9,658,778</u>

ZERO ONE TECHNOLOGY CO., LTD.
STATEMENT OF OPERATING COST
FOR THE YEAR ENDED DECEMBER 31, 2020

Statement 12

(In Thousands of New Taiwan Dollars)

Items	Amount
Costs of goods sold	
Initial inventory	\$ 1,449,719
Add : Purchases	8,633,706
Ending inventory	(1,358,455)
Others	(<u>61,759</u>)
Total costs of sales and purchases	8,663,211
Reversal of write-down of inventories	(7,898)
Losses on scrap of inventories	<u>6,221</u>
	<u>\$ 8,661,534</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, 2020

Statement 13

(In Thousands of New Taiwan Dollars)

Items	Selling and marketing expenses	General and administrativ e expenses	Reversal of expected credit losses	Total
Payroll Expenses	\$ 233,122	\$ 79,437	\$ -	\$ 312,559
Entertainment expense	37,212	1,453	-	38,665
Insurance expense	26,311	6,801	-	33,112
Reversal of expected credit losses	-	-	(3,262)	(3,262)
Depreciation expense	8,852	11,403	-	20,255
Others (Note)	<u>59,929</u>	<u>24,666</u>	<u>-</u>	<u>84,595</u>
	<u>\$ 365,426</u>	<u>\$ 123,760</u>	<u>(\$ 3,262)</u>	<u>\$ 485,924</u>

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

ZERO ONE TECHNOLOGY CO., LTD.

STATEMENT OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Statement 14

(In Thousands of New Taiwan Dollars)

	2020			2019		
	Classified as Operating Cost	Classified as Operating Expenses	Total	Classified as Operating Cost	Classified as Operating Expenses	Total
Employee benefit expenses (Note)						
Salary and bonus	\$ -	\$ 291,972	\$ 291,972	\$ -	\$ 267,994	\$ 267,994
Labor and health insurance	-	19,701	19,701	-	17,287	17,287
Pension	-	9,872	9,872	-	8,981	8,981
Directors' compensation	-	10,715	10,715	-	7,255	7,255
Others	-	18,156	18,156	-	18,857	18,857
	<u>\$ -</u>	<u>\$ 350,416</u>	<u>\$ 350,416</u>	<u>\$ -</u>	<u>\$ 320,374</u>	<u>\$ 320,374</u>
Depreciation	<u>\$ -</u>	<u>\$ 20,255</u>	<u>\$ 20,255</u>	<u>\$ -</u>	<u>\$ 18,058</u>	<u>\$ 18,058</u>
Amortization	<u>\$ -</u>	<u>\$ 778</u>	<u>\$ 778</u>	<u>\$ -</u>	<u>\$ 776</u>	<u>\$ 776</u>

Note 1: As of December 31, 2020 and 2019, the Company had 267 and 235 employees, respectively. There were 6 and 5 non-employee directors, respectively, and the calculation basis is consistent to labor cost.

Note 2: (1) Average labor cost for 2020 and 2019 were \$1,302 thousand and \$1,361 thousand, respectively.

(2) Average salary and bonus for 2020 and 2019 were \$1,119 thousand and \$1,165 thousand, respectively.

(3) The average salary and bonus adjustment ratio is (3.95%).

Note 3: In accordance with Securities and Exchange Act, the Company set up the Audit Committee to replace supervisors on June 10, 2020. The compensation for supervisors in 2020 and 2019 were \$1,116 thousand and \$2,133 thousand, respectively.

Note 4: The Company's compensation policies (including directors, supervisors, managers and employees) are as follows:

(1) Directors and supervisors : Accordingly to Article 19 of the Company's Articles of Incorporation, the compensation for directors and supervisors shall be no more than 3% of annual profits. The Company allocates 2% of the current year's annual profits for the compensation to directors and supervisors, and will provide reasonable reward by taking into account of the Company's operating results and the contribution

they made. The procedures to determine the compensation is based on the Company's "Rules for Distribution of Compensation to Directors and Supervisors." Apart from referencing the company's overall operational efficiencies, future management risk and developing trend of the industry, the personal efficiency achievement rate, contribution to the overall performance, and devotion to company performance, achievement rate, profitability rate, operational efficiency and contribution are also collectively evaluated before calculating the compensation ratio. Relevant performance appraisals and the soundness of the compensation are reviewed and approved by the Compensation Committee and the Board in accordance with the charter of relevant laws and requirements, so as to achieve the balance of the Company's sustainability and risk management.

- (2) Managers: Based on the Company's compensation policy to managers, criteria such as industry standards and personal performance evaluation items, which include financial indicators (such as the Company's revenue, achievement rate for profit before tax and after tax) and non-financial related indicators (such as taking on the role as trainer and any gross misconduct of the department in terms of legal and compliance and operational risks incidents) are also included in the evaluation. The procedures to determine and distribute the compensation is based on the Company's performance appraisal evaluation guidelines. Relevant performance appraisals and the soundness of the compensation are reviewed and approved by the Compensation Committee and the Board in accordance with the charter of relevant laws and requirements, so as to achieve the balance of the Company's sustainability and risk management.
- (3) Employees: The Company conducts annual market survey regularly by analyzing salary, bonus and annual income statistics. Salary adjustment is processed based on Company's work rules and the results of individual performance appraisals so as to ensure the fairness of internal and external practices which meets the market standards.