

ALPHA NETWORKS INC. AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Report
For the Years Ended December 31, 2020 and 2019**

Address: No. 8, Li-shing 7th Road, Science-based Park, Hsinchu,
Taiwan (R.O.C.)

Telephone: (03)563 6666

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Alpha Networks Inc. and Subsidiaries as of and for the year ended December 31, 2020 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10, "Consolidated Financial Statements", endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Alpha Networks Inc. and Subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Company name: Alpha Networks Inc.
Chairman: Wen-Feng Huang
Date: March 19, 2021

Independent Auditors' Report

To the Board of Directors of Alpha Networks Inc.:

Opinion

We have audited the consolidated financial statements of Alpha Networks Inc. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2020 and 2019, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, based on our audit and the report of other auditor (Please refer to the paragraph on Other Matter of our report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Alpha Networks Inc, and its subsidiaries as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audit results and other CPA's audit report We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Revenue recognition from contracts with customers

Please refer to note 4 (14) and note 6 (25) for accounting policy and detailed disclosure of revenue, respectively.

In explanation of key audit matters:

The Group's major revenue is derived from the sales of goods to its customers. Revenue is recognized when the control over a product has been transferred to the customer as specified in each individual contract with customers. The Group recognizes revenue depending on the various sales terms in each individual contract with customers to ensure its performance obligation has been satisfied by transferring its control over a product to its customer. Consequently, revenue recognition is one of our key audit matters.

How the matter was addressed in our audit

In relation to the key audit matter above, our principal audit procedures included understanding and testing the Group's internal controls surrounding the revenue process and cash collection transaction process; understanding the terms and types of the major sales transactions and assessing whether they were recorded in the proper period; selecting samples and inspecting customers' orders, bills of lading, raw data on e-commerce transactions, and outsourced transportation delivery orders, to assess the adequacy of the Group's timing on revenue recognition; understanding the rationale for any identified significant sales fluctuations which incurred within a certain period before or after the balance sheet date; inspecting customers' orders, bill of lading, and outsourcing transportation delivery orders, to determine whether they have been recorded in a proper period.

2. Valuation of inventories

Please refer to the note 4(8) for the accounting policy, note 5 for significant accounting assumptions and judgments, and major sources of estimation uncertainty, and note 6(4) for summary of inventory.

In explanation of key audit matters:

Inventories are measured at the lower of cost or net realizable value at the reporting date. The net realizable value of the inventory is determined by the Group based on the assumptions of the estimated selling price of the products. Due to the rapid development of technology and introduction of new products, the old models produced by the Group may be replaced by new ones, which may result to product obsolescence and the cost of inventory to be higher than the net realizable value. Therefore, the valuation of inventory is one of our key audit matters.

How the matter was addressed in our audit

In relation to the key audit matter above, our principal audit procedures included evaluating the reasonableness of the management's assessment and judgment on the method used in calculating the net realizable value, including data used, assumption, and formula; inspecting the appropriate supporting documentation to determine whether the estimation of provision for inventory obsolescence is accurate; testing the accuracy of the ageing of inventory and net realizable value through sampling and testing the report generated from system, evaluating the accuracy and reasonableness of the Group in providing inventory loss allowances based on the run rate and disposal of slow-moving inventory.

Other Matter

We did not audit the financial statements of certain subsidiary of the Group. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the subsidiary, is based solely on the report of another auditor. The financial statements of the subsidiary reflected the total assets amounting to \$362,527 thousand, constituting 1.34% of the consolidated total assets at December 31, 2020, and the total operating revenue amounting to \$582,353 thousand, constituting 1.81% of the consolidated total operating revenues for the year ended December 31, 2020.

The Group has additionally prepared its parent-company only financial statement as of and for the year ended December 31, 2020 and 2019, on which we have issued an unmodified opinion with other matter section.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (inclusive of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Cheng-Chien Chen and Hai-Ning Huang.

KPMG

Taipei, Taiwan (Republic of China)
March 19, 2021

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

| | | December 31, 2020 | | December 31, 2019 | | | | December 31, 2020 | | December 31, 2019 | |
|----------------------------|---|----------------------|------------|-------------------|------------|-------------------------------|---|----------------------|------------|-------------------|------------|
| | | Amount | % | Amount | % | | | Amount | % | Amount | % |
| Assets | | | | | | Liabilities and Equity | | | | | |
| Current assets: | | | | | | Current liabilities: | | | | | |
| 1100 | Cash and cash equivalents (note 6(1)) | \$ 5,710,004 | 21 | 5,918,331 | 24 | 2100 | Short-term borrowings (note 6(14)) | \$ 2,842,762 | 11 | 952,701 | 4 |
| 1110 | Current financial assets at fair value through profit or loss (note 6(2)) | 82,311 | - | 99,705 | - | 2120 | Current financial liabilities at fair value through profit or loss (note 6(2)) | 10,517 | - | 377 | - |
| 1136 | Current financial assets at amortized cost (notes 6(1), (5) and 8) | 226,577 | 1 | 3,146,690 | 13 | 2170 | Accounts payable (including related parties) (note 7) | 6,828,103 | 25 | 4,310,745 | 17 |
| 1170 | Notes and accounts receivable, net (note 6(3)) | 6,801,078 | 25 | 3,764,696 | 15 | 2209 | Accrued expenses | 417,384 | 2 | 556,416 | 2 |
| 1180 | Accounts receivable due from related parties, net (notes 6(3) and 7) | - | - | 528,144 | 2 | 2230 | Current tax liabilities | 267,687 | 1 | 130,756 | 1 |
| 130x | Inventories (note 6(4)) | 7,029,370 | 26 | 5,089,181 | 20 | 2250 | Current provisions (note 6(15)) | 358,850 | 1 | 393,041 | 2 |
| 1470 | Other current assets (note 6(13)) | 856,997 | 3 | 601,754 | 2 | 2321 | Bonds payable, current portion (note 6(18)) | 526,507 | 2 | - | - |
| | | <u>20,706,337</u> | <u>76</u> | <u>19,148,501</u> | <u>76</u> | 2322 | Long-term borrowings (note 6(17)) | - | - | 120,000 | - |
| Non-current assets: | | | | | | 2399 | Other current liabilities (note 6(16) and 7) | <u>2,463,391</u> | <u>9</u> | <u>3,120,572</u> | <u>12</u> |
| 1517 | Non-current financial assets at fair value through other comprehensive income (note 6(6)) | 21,245 | - | 161,614 | 1 | | | <u>13,715,201</u> | <u>51</u> | <u>9,584,608</u> | <u>38</u> |
| 1535 | Non-current financial assets at amortized cost (notes 6(3), (5) and 8) | 156,475 | 1 | 39,745 | - | 2500 | Non-Current liabilities: | | | | |
| 1600 | Property, plant and equipment (note 6(10)) | 3,936,709 | 15 | 3,231,397 | 13 | | Non-current financial liabilities at fair value through profit or loss (note 6(18)) | - | - | 1,560 | - |
| 1755 | Right-of use asset (note 6(11)) | 427,337 | 2 | 473,667 | 2 | 2530 | Bonds payable (note 6(18)) | - | - | 571,047 | 2 |
| 1780 | Intangible assets (note 6(12)) | 1,435,575 | 5 | 1,529,044 | 6 | 2540 | Long-term borrowings (note 6(17)) | - | - | 150,000 | 1 |
| 1840 | Deferred tax assets (note 6(21)) | 250,836 | 1 | 209,124 | 1 | 2580 | Non-current lease liabilities (note 6(19)) | 201,065 | 1 | 224,639 | 1 |
| 1990 | Other non-current assets (note 6(13) and (20)) | 71,069 | - | 207,276 | 1 | 2640 | Net defined benefit liability (note 6(20)) | 220,367 | 1 | 288,999 | 1 |
| | | <u>6,299,246</u> | <u>24</u> | <u>5,851,867</u> | <u>24</u> | 2670 | Other non-current liabilities (notes 6(15) and (21)) | 130,619 | - | 132,221 | - |
| | | | | | | | | <u>552,051</u> | <u>2</u> | <u>1,368,466</u> | <u>5</u> |
| | | | | | | | Total liabilities | <u>14,267,252</u> | <u>53</u> | <u>10,953,074</u> | <u>43</u> |
| | | | | | | | Equity (note 6(22)): | | | | |
| | | | | | | 3110 | Ordinary share capital | 5,417,185 | 20 | 5,427,273 | 23 |
| | | | | | | 3170 | Share capital awaiting retirement | - | - | (1,372) | - |
| | | | | | | | | <u>5,417,185</u> | <u>20</u> | <u>5,425,901</u> | <u>23</u> |
| | | | | | | 3200 | Capital surplus | <u>3,004,591</u> | <u>11</u> | <u>3,001,756</u> | <u>12</u> |
| | | | | | | | Retained earnings: | | | | |
| | | | | | | 3310 | Legal reserve | 1,127,420 | 4 | 1,107,188 | 4 |
| | | | | | | 3320 | Special reserve | 731,766 | 3 | 627,926 | 3 |
| | | | | | | 3350 | Unappropriated retained earnings(Deficit to be compensated) | (127,976) | - | 566,846 | 2 |
| | | | | | | | | <u>1,731,210</u> | <u>7</u> | <u>2,301,960</u> | <u>9</u> |
| | | | | | | 3400 | Other equity interest | (448,804) | (2) | (748,819) | (3) |
| | | | | | | | Total equity attributable to owners of parent: | <u>9,704,182</u> | <u>36</u> | <u>9,980,798</u> | <u>41</u> |
| | | | | | | 36XX | Non-controlling interests (note 6(7)) | <u>3,034,149</u> | <u>11</u> | <u>4,066,496</u> | <u>16</u> |
| | | | | | | | Total equity | <u>12,738,331</u> | <u>47</u> | <u>14,047,294</u> | <u>57</u> |
| | Total assets | <u>\$ 27,005,583</u> | <u>100</u> | <u>25,000,368</u> | <u>100</u> | | Total liabilities and equity | <u>\$ 27,005,583</u> | <u>100</u> | <u>25,000,368</u> | <u>100</u> |

See accompanying notes to consolidated financial statements.

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

ALPHA NETWORKS INC. AND SUBSIDIARIES**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)**

| | | 2020 | | 2019 | |
|------|--|---------------|-----|------------|-----|
| | | Amount | % | Amount | % |
| 4000 | Operating revenue (notes 6(25) and 7) | \$ 32,170,649 | 100 | 15,825,808 | 100 |
| 5000 | Operating costs (notes 6(4) and 7) | 27,164,356 | 84 | 13,211,807 | 83 |
| | Gross profit | 5,006,293 | 16 | 2,614,001 | 17 |
| | Operating expenses (notes 6(3) and 7): | | | | |
| 6100 | Selling expenses | 1,276,014 | 4 | 444,241 | 3 |
| 6200 | Administrative expenses | 1,254,842 | 4 | 575,166 | 4 |
| 6300 | Research and development expenses | 1,604,780 | 5 | 1,353,111 | 9 |
| 6450 | Expected credit loss (gain) (note 6(3)) | (26,950) | - | 9,378 | - |
| | Total operating expenses | 4,108,686 | 13 | 2,381,896 | 16 |
| | Net operating income | 897,607 | 3 | 232,105 | 1 |
| | Non-operating income and expenses: | | | | |
| 7010 | Other income (note 6(28)) | 118,256 | - | 55,985 | - |
| 7020 | Other gains and losses, net (note 6(29)) | (85,636) | - | (5,656) | - |
| 7050 | Finance costs (note 6(30)) | (44,010) | - | (3,487) | - |
| 7100 | Interest income (note 6(27)) | 33,289 | - | 60,846 | 1 |
| | Total non-operating income and expenses | 21,899 | - | 107,688 | 1 |
| | Profit from continuing operations before tax | 919,506 | 3 | 339,793 | 2 |
| 7950 | Less: Income tax expenses (note 6(21)) | 194,403 | 1 | 100,890 | 1 |
| | Profit | 725,103 | 2 | 238,903 | 1 |
| 8300 | Other comprehensive income: | | | | |
| 8310 | Components of other comprehensive income (loss) that will not be reclassified to profit or loss | | | | |
| 8311 | Remeasurements of defined benefit plans (note 6(20)) | 55,193 | - | (18,919) | - |
| 8316 | Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income (note 6(22)) | 92,512 | - | 13,193 | - |
| | Components of other comprehensive income (loss) that will not be reclassified to profit or loss | 147,705 | - | (5,726) | - |
| 8360 | Components of other comprehensive loss that will be reclassified to profit or loss | | | | |
| 8361 | Exchange differences on translation (note 6(22)) | (25,497) | - | (146,291) | (1) |
| 8399 | Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(21)) | 2,295 | - | 29,258 | - |
| | Components of other comprehensive loss that will be reclassified to profit or loss | (23,202) | - | (117,033) | (1) |
| 8300 | Other comprehensive income (loss) | 124,503 | - | (122,759) | (1) |
| 8500 | Total comprehensive income | \$ 849,606 | 2 | 116,144 | |
| | Income (loss), attributable to: | | | | |
| 8610 | Shareholder of Alpha Network Inc. | \$ 556,997 | 1 | 238,903 | 1 |
| 8620 | Non-controlling interests | 168,106 | 1 | - | - |
| 8700 | | \$ 725,103 | 2 | 238,903 | 1 |
| 8700 | Comprehensive income attributable to: | | | | |
| 8710 | Shareholder of Alpha Network Inc. | \$ 695,527 | 2 | 116,144 | - |
| 8720 | Non-controlling interests | 154,079 | - | - | - |
| | | \$ 849,606 | 2 | 116,144 | - |
| | Earnings per share (New Taiwan dollars) (note 6(24)) | | | | |
| | Basic earnings per share | \$ 1.03 | | 0.44 | |
| | Diluted earnings per share | \$ 1.03 | | 0.44 | |

See accompanying notes to consolidated financial statements.

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

ALPHA NETWORKS INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

| | Share capital | | Retained earnings | | | | Exchange differences on translation of foreign financial statements | Total other equity interest | | Total equity attributable to owners of parent | Non-controlling interests | Total equity | | |
|--|-----------------|----------------------------|-------------------|---------------|-----------------|--|---|-----------------------------|---|---|---------------------------|--------------|---|-----------------------------|
| | Ordinary shares | Shares awaiting retirement | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings (Deficit to be compensated) | | Total retained earnings | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | | | | Deferred compensation cost arising from issuance of restricted stock awards | Total other equity interest |
| Balance at January 1, 2019 | \$ 5,435,172 | - | 3,557,356 | 1,107,188 | 226,968 | 765,485 | 2,099,641 | (322,596) | (305,330) | (70,492) | (698,418) | 10,393,751 | - | 10,393,751 |
| Effects of retrospective application | - | - | - | - | - | (17,665) | (17,665) | - | - | - | - | (17,665) | - | (17,665) |
| Equity at beginning of period after adjustments | 5,435,172 | - | 3,557,356 | 1,107,188 | 226,968 | 747,820 | 2,081,976 | (322,596) | (305,330) | (70,492) | (698,418) | 10,376,086 | - | 10,376,086 |
| Profit | - | - | - | - | - | 238,903 | 238,903 | - | - | - | - | 238,903 | - | 238,903 |
| Other comprehensive income | - | - | - | - | - | (18,919) | (18,919) | (117,033) | 13,193 | - | (103,840) | (122,759) | - | (122,759) |
| Total comprehensive income | - | - | - | - | - | 219,984 | 219,984 | (117,033) | 13,193 | - | (103,840) | 116,144 | - | 116,144 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | | |
| Special reserve | - | - | - | - | 400,958 | (400,958) | - | - | - | - | - | - | - | - |
| Due to donated assets received | - | - | 66 | - | - | - | - | - | - | - | - | 66 | - | 66 |
| Cash dividends from capital surplus | - | - | (543,262) | - | - | - | - | - | - | - | - | (543,262) | - | (543,262) |
| Compensation cost of issued restricted stock awards | - | - | (21,675) | - | - | - | - | - | - | 53,439 | 53,439 | 31,764 | - | 31,764 |
| Non-controlling interests generated from acquisition | - | - | - | - | - | - | - | - | - | - | - | - | 4,066,496 | 4,066,496 |
| Share retirement for expiration of restricted stock awards | (7,899) | - | 7,899 | - | - | - | - | - | - | - | - | - | - | - |
| Share awaiting retirement for expiration of restricted stock awards | - | (1,372) | 1,372 | - | - | - | - | - | - | - | - | - | - | - |
| Balance at December 31, 2019 | 5,427,273 | (1,372) | 3,001,756 | 1,107,188 | 627,926 | 566,846 | 2,301,960 | (439,629) | (292,137) | (17,053) | (748,819) | 9,980,798 | 4,066,496 | 14,047,294 |
| Profit | - | - | - | - | - | 556,997 | 556,997 | - | - | - | - | 556,997 | 168,106 | 725,103 |
| Other comprehensive income | - | - | - | - | - | 55,193 | 55,193 | (9,175) | 92,512 | - | 83,337 | 138,530 | (14,027) | 124,503 |
| Total comprehensive income | - | - | - | - | - | 612,190 | 612,190 | (9,175) | 92,512 | - | 83,337 | 695,527 | 154,079 | 849,606 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | 20,232 | - | (20,232) | - | - | - | - | - | - | - | - |
| Special reserve | - | - | - | - | 103,840 | (103,840) | - | - | - | - | - | - | - | - |
| Cash dividends of ordinary shares | - | - | - | - | - | (238,692) | (238,692) | - | - | - | - | (238,692) | - | (238,692) |
| Disposal of FVTOCI financial asset | - | - | - | - | - | (199,625) | (199,625) | - | 199,625 | - | 199,625 | - | - | - |
| Due to donated assets received | - | - | 60 | - | - | - | - | - | - | - | - | 60 | - | 60 |
| Acquisition of non-controlling interests | - | - | (39) | - | - | (744,623) | (744,623) | - | - | - | - | (744,662) | (1,012,411) | (1,757,073) |
| Changes in ownership interests in subsidiaries | - | - | 10,208 | - | - | - | - | - | - | - | - | 10,208 | 3,907 | 14,115 |
| Compensation cost of issued restricted stock awards | - | - | (16,110) | - | - | - | - | - | - | 17,053 | 17,053 | 943 | - | 943 |
| Share retirement for expiration of restricted stock awards | (10,088) | 1,372 | 8,716 | - | - | - | - | - | - | - | - | - | - | - |
| Distribution cash dividend by subsidiaries to non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | - | (218,069) | (218,069) |
| Changes in the investee's capital surplus | - | - | - | - | - | - | - | - | - | - | - | - | 32,408 | 32,408 |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | 7,739 | 7,739 |
| Balance at December 31, 2020 | \$ 5,417,185 | - | 3,004,591 | 1,127,420 | 731,766 | (127,976) | 1,731,210 | (448,804) | - | - | (448,804) | 9,704,182 | 3,034,149 | 12,738,331 |

See accompanying notes to consolidated financial statements.

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

ALPHA NETWORKS INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the years ended December 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars)**

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|------------------|
| Cash flows from (used in) operating activities: | | |
| Profit before tax | \$ 919,506 | 339,793 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation expense | 515,152 | 264,375 |
| Amortization expense | 193,604 | 65,255 |
| Expected credit loss (gain) | (26,950) | 9,378 |
| Net gain on financial assets or liabilities at fair value through profit or loss | (2,900) | (6,462) |
| Interest expense | 44,010 | 3,487 |
| Interest income | (33,289) | (60,846) |
| Dividend income | (4,259) | (2,111) |
| Share-based payments | 943 | 31,764 |
| Loss on disposal of property, plant and equipment | 3,327 | 445 |
| Provisions (reversal) for inventory obsolescence and devaluation loss | 211,384 | (41,161) |
| Other | 32,028 | - |
| Total adjustments to reconcile profit (loss) | <u>933,050</u> | <u>264,124</u> |
| Changes in operating assets and liabilities: | | |
| Increase in notes and accounts receivable | (2,481,288) | (803,087) |
| Decrease in financial assets mandatorily at fair value through profit or loss | 11,612 | 1,696 |
| Decrease (increase) in inventories | (2,151,573) | 442,149 |
| Increase in other current assets | (444,163) | (20,826) |
| Total changes in operating assets | <u>(5,065,412)</u> | <u>(380,068)</u> |
| Decrease in financial liabilities held for trading | (1,937) | (97) |
| Increase in accounts payable | 2,517,358 | 158,320 |
| Decrease in other payable to related parties | (1,103) | (3,594) |
| Increase in other current liabilities | 821,980 | 30,060 |
| Decrease in net defined benefit liability | (13,439) | (24,803) |
| Total changes in operating liabilities | <u>3,322,859</u> | <u>159,886</u> |
| Total changes in operating assets and liabilities | <u>(1,742,553)</u> | <u>(220,182)</u> |
| Total adjustments | <u>(809,503)</u> | <u>43,942</u> |

(Continued)

See accompanying notes to consolidated financial statements.

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

ALPHA NETWORKS INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows(Continued)****For the years ended December 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars)**

| | 2020 | 2019 |
|---|---------------------|------------------|
| Cash inflow generated from operations | 110,003 | 383,735 |
| Interest received | 32,439 | 60,961 |
| Dividends received | 4,259 | 2,111 |
| Interest paid | (32,406) | (3,487) |
| Income taxes paid | (127,824) | (51,004) |
| Net cash flows from (used in) operating activities | (13,529) | 392,316 |
| Cash flows from (used in) investing activities: | | |
| Acquisition of financial assets at amortized cost | (606,737) | (6,834,950) |
| Proceeds from repayments of financial assets at amortized cost | 3,533,836 | 7,654,349 |
| Acquisition of financial assets at fair value through profit or loss | (26,382) | - |
| Proceeds from disposal of financial assets at fair value through profit or loss | 45,581 | - |
| Consideration paid to non-controlling interests | (3,389,967) | - |
| Disposal of financial assets at fair value through other comprehensive income | 232,881 | - |
| Net cash from acquisition of subsidiaries | - | 2,996,008 |
| Acquisition of property, plant and equipment | (1,234,953) | (79,274) |
| Proceeds from disposal of property, plant and equipment | 67,787 | 1,428 |
| Decrease (increase) in refundable deposits | 13,439 | (2,062) |
| Acquisition of intangible assets | (99,969) | (47,819) |
| Decrease (increase) in other non-current assets | 136,705 | (35,309) |
| Net cash flows from (used in) investing activities | (1,327,779) | 3,652,371 |
| Cash flows from (used in) financing activities: | | |
| Increase in short-term loans | 1,890,061 | - |
| Repayments of long-term debt | (270,000) | - |
| Increase (decrease) in guarantee deposits received | (1,377) | 1,740 |
| Payment of lease liabilities | (64,269) | (7,584) |
| Cash dividends paid distributed to shareholders | (238,692) | (543,262) |
| Donation received | 60 | 66 |
| Cash dividends paid to non-controlling interest | (218,069) | - |
| Net cash flows from (used in) financing activities | 1,097,714 | (549,040) |
| Effect of exchange rate changes on cash and cash equivalents | 35,267 | (106,599) |
| Net increase (decrease) in cash and cash equivalents | (208,327) | 3,389,048 |
| Cash and cash equivalents at beginning of period | 5,918,331 | 2,529,283 |
| Cash and cash equivalents at end of period | \$ 5,710,004 | 5,918,331 |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. Company history

ALPHA NETWORKS INC. (“Alpha”) was established by a spin-off arrangement whereby on August 16, 2003, D-Link Corporation (“D-Link”) separated its operation business unit of original design manufacturing and original equipment manufacturing (“ODM/OEM”) and had transferred its related transferred related operating assets and liabilities to Alpha. Alpha was then incorporated on September 4, 2003, through obtained the registration approval from the Hsinchu Science Park Bureau (HSPB). The registered address of Alpha is No. 8, Li-shing 7th Road, Science-based Park, Hsinchu, Taiwan (R.O.C.). As of December 31, 2020, the consolidated financial statements comprise Alpha and its subsidiaries (together referred to as the “Group”) and Alpha’s interest in associates.

The Group’s main activities include the research, development, design, production and sale of broadband products, computer network systems, wireless local area networks (“LANs”), related accessories.

On July 23, 2020, Qisda Corporation (“Qisda”) acquired 19.02% of Alpha’s ordinary shares, resulting in its shares to increase from 23.84% to 42.86%. Thereafter, Qisda became the parent company of Alpha.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 19, 2021.

3. New standards, amendments and interpretations adopted:

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

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2020:

- Amendments to IFRS 3 “Definition of a Business”
- Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”
- Amendments to IAS 1 and IAS 8 “Definition of Material”
- Amendments to IFRS 16 “COVID-19-Related Rent Concessions”

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (2) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its consolidated financial statements:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”

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

The following new and amended standards, which may be relevant to the Group, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

| Standards or Interpretations | Content of amendment | Effective date per IASB |
|---|---|--------------------------------|
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current” | <p>The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.</p> <p>The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.</p> | January 1, 2023 |

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

The Group does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1 “Disclosure of Accounting Policies”

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Amendments to IAS 8 “Definition of Accounting Estimates”

4. Summary of significant accounting policies:

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

(1) Statement of compliance

These consolidated financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to as the IFRSs endorsed by FSC).

(2) Basis of preparation

A. Basis of measurement

Except for the following significant account, the consolidated financial statements have been prepared on a historical cost basis:

- (a) Financial assets measured at fair value through profit or loss are measured at fair value;
- (b) Financial assets measured at fair value through other comprehensive income are measured at fair value;
- (c) The net defined benefit liability is measured at the fair value of the plan assets less the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of each Group’ s entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollars (NTD), which is Alpha’ s functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(3) Basis of consolidation

A. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise Alpha and its subsidiaries. Alpha controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, income and expenses are eliminated in the consolidated financial statements. Total comprehensive income (loss) in a subsidiary is allocated to the shareholders of Alpha and the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Subsidiaries' financial statements are adjusted to align the accounting policies with those of the Group.

Changes in the Group's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

B. List of subsidiaries in the consolidated financial statements

| <u>Name of Investor</u> | <u>Name of Investee</u> | <u>Main Business Activities</u> | <u>Shareholding</u> | |
|-------------------------|---|--|--------------------------|--------------------------|
| | | | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
| Alpha | Alpha Holdings Inc. (Alpha Holdings) | Investment holding | 100.00% | 100.00% |
| Alpha | Alpha Solutions Co., Ltd. (Alpha Solutions) | Sale of network equipment, components and technical services | 100.00% | 100.00% |
| Alpha | Alpha Networks Inc. (Alpha USA) | Sale, marketing and procurement service in USA | 100.00% | 100.00% |
| Alpha | Alpha Networks (Hong Kong) Limited (Alpha HK) | Investment holding | 100.00% | 100.00% |
| Alpha | Alpha Technical Services Inc. (ATS) | Post-sale service | 100.00% | 100.00% |
| Alpha | Global Networks Trading Limited (Global)(note 1) | Sale of network equipment | - % | 100.00% |
| Alpha | Enrich Investment Corporation (Enrich Investment) | Investment holding | 100.00% | 100.00% |
| Alpha | D-Link Asia Investment Pte. Ltd. (D-Link Asia) (note 2) | Investment in manufacturing business | 100.00% | - % |
| Alpha Holdings | D-Link Asia (note 2) | Investment in manufacturing business | - % | 100.00% |
| Alpha Holdings | Alpha Investment Pte, Ltd. (Alpha Investment) (note 3) | Investment holding | - % | 100.00% |
| Alpha Holdings | Universal Networks Trading Limited (Universal) (note 4) | Sale of electrical products | - % | 100.00% |
| D-Link Asia | Alpha Networks (Chengdu) Co., Ltd. (Alpha Chengdu)) | Research and development of network products | 100.00% | 100.00% |
| D-Link Asia | Alpha Networks (Dongguan) Co., Ltd. (Alpha Dongguan) | Production and sale of network products | 100.00% | 100.00% |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| Name of Investor | Name of Investee | Main Business Activities | Shareholding | |
|-------------------------|--|--|--------------------------|--------------------------|
| | | | December 31, 2020 | December 31, 2019 |
| Alpha Dongguan | Mirac Networks (Dongguan) Co., Ltd. (Mirac) | Production and sale of network products | 100.00% | 100.00% |
| Alpha HK | Alpha Networks (Changshu) Co., Ltd. (Alpha Changshu) | Production and sale of network products | 100.00% | 100.00% |
| Enrich Investment | Transnet Corporation (Transnet) | Operating in network communication products, provide system support services, integrated supply and import and export of network equipment | 100.00% | 100.00% |
| Alpha | Hitron Technologies Inc. (Hitron Technologies) | Marketing on system integration of communication product and telecommunication products | 62.24% | 47.00% |
| Hitron Technologies | Hitron Technologies (samoa) Inc (Hitron Samoa) | International trade | 100.00% | 100.00% |
| Hitron Technologies | Interactive Digital Technologies Inc. (Interactive Digital) (note 5) | Telecommunication and broadband network system services | 44.28% | 45.21% |
| Hitron Technologies | Hitron Technologies Europe Holding B.V. (Hitron Europe) | International trade | 100.00% | 100.00% |
| Hitron Technologies | Hitron Technologies (Americas) Inc. (Hitron Americas) | International trade | 100.00% | 100.00% |
| Hitron Technologies | Innoauto Technologies Inc. (Innoauto Technologies) | Investment and automotive electronics products | 100.00% | 100.00% |
| Hitron Technologies | Hitron Technologies (Vietnam) Inc. (Hitron Vietnam) | Production and sale of broadband telecommunication products | 100.00% | 100.00% |
| Hitron Samoa | Hitron Technologies (SIP) Inc (Hitron Suzhou) | Production and sale of broadband telecommunications products | 100.00% | 100.00% |
| Hitron Samoa | Jietech Trading (Suzhou) Inc. (Jietech Suzhou) | Sale of broadband network products and related services | 100.00% | 100.00% |
| Interactive Digital | Hwa Chi Technologies (Shanghai) Inc. (Hwa Chi Technologies) | Technical consultation on electronic communication, technology research and development, maintenance and after-sale service | 100.00% | 100.00% |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| <u>Name of Investor</u> | <u>Name of Investee</u> | <u>Main Business Activities</u> | <u>Shareholding</u> | |
|-------------------------|-------------------------|---|--------------------------|--------------------------|
| | | | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
| Enrich Investment | Interactive Digital | Telecommunication and broadband network system services | 6.83% | - % |

Note 1 : The liquidation procedures of Global had been completed in June 2020 based on the resolution approved during the shareholders' meeting.

Note 2 : In response to the organization restructure of Alpha Holdings, a resolution was approved during the board meeting held on December 31, 2020 for the capital reduction of Alpha Holdings, whose assets including other assets, other receivables and 100% shares of D Link Asia will be transferred to Alpha Networks Inc. to offset its share capital payable.

Note3: The liquidation procedures of Alpha Investment had been completed in November 2020 based on the resolution approved during its shareholders' meeting held on July 2020.

Note4: The liquidation procedures of Universal had been completed in July 2020 based on the resolution approved during its shareholders' meeting held on June 2020.

Note5: The convertible bonds issued by Interactive Digital in November 2019 were converted into common stocks in December 2020, wherein Hitron Technologies did not subscribe.

C. Subsidiaries excluded from the consolidated financial statements: None.

(4) Foreign currencies

A. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currencies at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are retranslated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date when fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- (a) an investment in equity securities designated as at fair value through other comprehensive income; or

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective.

B. Foreign operations

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

When a foreign operation is disposed of such that control, joint control, or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. For a partial disposal of the Company's ownership interest in an associate or joint venture, the proportionate share of the accumulated exchange differences in equity is reclassified to profit or loss.

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

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

- A. It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is expected to be realized within twelve months after the reporting period; or
- D. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

- A. It is expected to be settled in its normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is due to be settled within twelve months after the reporting period; or
- D. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

(7) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

A. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(a) Financial assets measured at amortized cost

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

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

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

Dividend income derived from equity investment is recognized in profit or loss on the date on which the Group's right to receive payment is established (usually the ex dividend date)

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

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

(d) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses ("ECL") on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivables, leases receivables, guarantee deposits paid and other financial assets) and contract assets.

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

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

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

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment, as well as forward-looking information. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or tWA or higher per Taiwan Ratings'.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset is breached of contract when the financial asset is more than 270 days past due, or the borrower is unlikely to pay its credit obligations to the Group in full.

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

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

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

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;
or

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

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

(e) Derecognition of financial assets

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

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

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

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

(b) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(c) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

(d) Financial liabilities

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

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

(e) Derecognition of financial liabilities

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

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

(f) Offsetting of financial assets and liabilities

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

C. Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(8) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(9) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. Subsequent expenditure

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

C. Depreciation

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

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

(a) Buildings and improvements: 5 to 56 years

(b) Machinery and equipment: 1 to 10 years

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

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
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(10) Lessee

A. Identifying a lease

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

- (a) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- (b) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (c) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

When the lease is established or the contract is reassessed whether consists of lease, the Group allocates the consideration in the contract to individual lease components on the basis of respective individual prices. However, when leasing land and buildings, the Group elected not to distinguish between non-lease components, and treat the lease components and non-lease components as a single lease component.

B. As a lessee

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

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

- (a) fixed payments, including in-substance fixed payments;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable under a residual value guarantee; and
- (d) payments for purchase or termination options that are reasonably certain to be exercised.

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

- (a) there is a change in future lease payments arising from the change in an index or rate; or
- (b) there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- (c) there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- (d) there is a change of its assessment on whether it will exercise a extension or termination option; or
- (e) there is any lease modifications

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

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

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of office, warehouse, parking space, staff dormitory and printer that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

C. As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(11) Intangible assets

A. Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

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

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

Other intangible assets, including core-technology, brand name and customers relationship, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

B. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

C. Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The estimated useful lives for current and comparative periods are as follows:

- (a) Trademarks and patents: 7 years
- (b) Brand name: 10 years
- (c) Customer relationships: 9 years

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

(12) Impairment of non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

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

(13) Provisions

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

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

(14) Revenue for contracts with customers

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

A. Sale of goods

The Group involves in research, develop, design, manufacture and sale of broadband products, wireless networking products, and computer network system equipment and components. The Group recognizes the revenue when the control of the product is transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group's broadband products, wireless network products and computer network system equipment and its components are subject to standard warranty and are therefore subject to refund obligations.

The warranty liabilities have been recognized for this obligation, please refer to Note 6 (15).

B. Product development services

The Group provides enterprise product development and recognizes the relevant income during the financial reporting of the labor service. Fixed price contracts are based on the proportion of services actually provided as a percentage of total services as of the reporting date. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management. Under the fixed price contract, the customer pays a fixed amount in accordance with the agreed time schedule.

When the services provided exceed the payment, the contract assets are recognized; if the payment exceeds the services provided, the contract liabilities are recognized.

If the contract includes an hourly fee, revenue is recognized in the amount to which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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C. Financial component

The Group expects that all customer contracts will transfer goods or services to customers for a period of no more than one year from the customer's payment for the goods or services. Therefore, the Group does not adjust the currency time value of the transaction price.

(15) Government grants and government assistance

The Group recognizes an unconditional government grant related to the research in profit or loss as other income when the grant becomes receivable. Grants that compensate the Group for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

(16) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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

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

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(17) Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

Grant date of share-based payment award is the date which the Board of Directors authorized the price and number of a new award.

(18) Income tax

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

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

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

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

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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- B. temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- C. taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

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

- A. The Group has a legal enforceable right to setoff current tax assets against current tax liabilities and
- B. The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (a) the same taxable entity; or
 - (b) different taxable entity which intends to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

(19) Business combination

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the Group's financial statements. During the measurement period, the provisional amounts recognized at the acquisition date are retrospectively adjusted, or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period will not exceed one year from the acquisition date.

(20) Earnings per share

The Group discloses basic and diluted earnings per share attributable to ordinary shareholders of Alpha. Basic earnings per share is calculated as the profit attributable to the ordinary shareholders of Alpha divided by the weighted-average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of Alpha, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as employee remuneration through the issuance of shares and unvested restricted stock awards.

(21) Operating segments

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

5. Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRS endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follow:

Valuation of inventories

Inventories are stated at the lower of cost or net realizable value, the Group uses judgments and estimates to determine the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. However, due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(4) for further description of the valuation of inventories.

The Group's financial division conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial division also periodically adjusts valuation models, conducts retrospective testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.

The Group strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

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

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

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

Please refer to note 6(31) of the financial instruments.

6. Explanation of significant accounts:

(1) Cash and cash equivalents

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Cash on hand | \$ 4,545 | 3,647 |
| Checking and savings accounts | 2,991,447 | 4,202,501 |
| Time deposits | <u>2,714,012</u> | <u>1,712,183</u> |
| Cash and cash equivalents in the consolidated statement of cash flows | <u>\$ 5,710,004</u> | <u>5,918,331</u> |

Please refer to note 6(31) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Group.

As of December 31, 2020 and 2019, deposits with original maturities of more than three months were \$138,680 thousand and \$1,054,394 thousand, respectively, and were recorded in financial assets measured at amortized cost.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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(2) Financial assets and liabilities at fair value through profit or loss

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Financial assets mandatorily measured at fair value through profit or loss – current | | |
| Derivative instruments not used for hedging | | |
| Forward exchange contracts | \$ 12,874 | 6,839 |
| Non-derivative financial assets | | |
| Stocks listed on domestic markets | 68,894 | 92,866 |
| Derivatives instrument – Convertible Bonds | 543 | - |
| Total | \$ 82,311 | 99,705 |
| Financial liabilities hold for trading— current | | |
| Forward exchange contracts | \$ 10,517 | 377 |

The Group uses derivative financial instruments to hedge the certain currency risk arising from its operating activities. The derivative financial instrument at fair value through profit or loss and financial liabilities held for trading as the Group did not apply hedge accounting are as follows:

| December 31, 2020 | | | |
|----------------------------|----------------------------------|-----------------|------------------------------|
| | Amount (in thousands) | Currency | Maturity date |
| Forward exchange contracts | USD 42,000 | USD to NTD | January 2021~February 2021 |
| Forward exchange contracts | USD 17,000 | USD to CNY | January 2021 |
| Forward exchange contracts | USD 3,590 | USD to EUR | January 2021~March 2021 |
| Forward exchange contracts | EUR 7,130 | EUR to NTD | February 2021~March 2021 |
| December 31, 2019 | | | |
| | Amount (in thousands) | Currency | Maturity date |
| Forward exchange contracts | USD 33,000 | USD to NTD | January 2020 ~ February 2020 |

(3) Notes and accounts receivable, and other receivable, net

| | December 31, 2020 | December 31, 2019 |
|-------------------------------|------------------------------|------------------------------|
| Notes and accounts receivable | \$ 6,844,859 | 3,809,465 |
| Less: loss allowances | (43,781) | (44,769) |
| | \$ 6,801,078 | 3,764,696 |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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The overdue accounts receivable was reclassified to overdue receivables under financial assets measured at amortized cost– non-current and loss allowances are fully provided as follows:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Financial assets measured at amortized cost– non-current | \$ 68,113 | 73,342 |
| Less: loss allowances | (68,113) | (73,342) |
| | \$ - | - |

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

| | December 31, 2020 | | |
|-----------------------------|----------------------------------|--|-------------------------------------|
| | Gross carrying amount | Weighted- average loss rate | Loss allowance provision |
| Current | \$ 6,504,010 | 0.002% | 151 |
| 1 to 30 days past due | 250,177 | 0.66% | 1,642 |
| 31 to 120 days past due | 1,380 | 0.51% | 7 |
| 121 to 365 days past due | 11,331 | 100% | 11,331 |
| More than 365 days past due | 146,074 | 67.61% | 98,763 |
| | \$ 6,912,972 | | 111,894 |
| | December 31, 2019 | | |
| | Gross carrying amount | Weighted- average loss rate | Loss allowance provision |
| Current | \$ 3,893,392 | 0.01% | 495 |
| 1 to 30 days past due | 312,274 | 0.19% | 587 |
| 31 to 120 days past due | 41,777 | 1.99% | 832 |
| 121 to 365 days past due | 12,205 | 100% | 12,205 |
| More than 365 days past due | 172,036 | 72.50% | 124,725 |
| | \$ 4,431,684 | | 138,844 |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The movement in the allowance for notes and trade receivables (including over due receivables and accounts receivable due from related parties) were as follows:

| | <u>2020</u> | <u>2019</u> |
|---|--------------------------|-----------------------|
| Balance at January 1 | \$ 138,844 | 97,701 |
| Impairment losses recognized (reversal) | (26,950) | 9,378 |
| Acquired through business combination | <u>-</u> | <u>31,765</u> |
| Balance at December 31 | <u>\$ 111,894</u> | <u>138,844</u> |

As of December 31, 2019, impairment allowance accounts with respect to account receivables from related parties was \$20,733 thousand. For more information please refer to note 7.

(4) Inventories

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|------------------------------|------------------------------|
| Raw materials | \$ 3,344,384 | 2,431,190 |
| Work in progress and semi-finished products | 736,198 | 684,576 |
| Finished goods and merchandises | <u>2,948,788</u> | <u>1,973,415</u> |
| | <u>\$ 7,029,370</u> | <u>5,089,181</u> |

Component of operating cost were as below:

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|--------------------------|
| Cost of goods sold | \$ 26,952,972 | 13,252,968 |
| Provision (reversal) for inventory obsolescence and devaluation loss | <u>211,384</u> | <u>(41,161)</u> |
| | <u>\$ 27,164,356</u> | <u>13,211,807</u> |

As of December 31, 2020 and 2019, the Group's inventories were not pledged.

(5) Financial assets measured at amortized cost current and non-current

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---------------------|------------------------------|------------------------------|
| Current: | | |
| Time deposits | \$ 138,680 | 1,054,394 |
| Restricted deposits | 14,227 | 2,029,959 |
| Other receivables | <u>73,670</u> | <u>62,337</u> |
| | <u>\$ 226,577</u> | <u>3,146,690</u> |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|-----------------------|------------------------------|------------------------------|
| Non-current: | | |
| Restricted deposits | \$ 20,900 | 20,602 |
| Refundable deposits | 135,575 | 19,143 |
| Overdue receivables | 68,113 | 73,342 |
| Less: loss allowances | <u>(68,113)</u> | <u>(73,342)</u> |
| | <u>\$ 156,475</u> | <u>39,745</u> |

The Group has assessed that these financial assets are held-to-maturity to collect contractual cashflows, which consist solely of payments of principal and interest on principal amount outstanding. Therefore, these investments were classified as financial assets measured at amortized cost.

The Group held bank time deposits with variable interest rates, and the average interest rates ranged between 0.12%~2.40% and 0.22%~2.98% for the years ended December 31, 2020 and 2019, respectively.

For the restricted cash in banks please refer to note 8.

(6) Non-current financial assets at fair value through other comprehensive income

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|------------------------------|------------------------------|
| Equity instrument at fair value through other comprehensive income: | | |
| Publicly traded stock – D-Link | \$ - | 140,369 |
| Non-publicly traded – CHAO LONG | <u>21,245</u> | <u>21,245</u> |
| | <u>\$ 21,245</u> | <u>161,614</u> |

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

Based on the consideration of factors such as the recovery of original investment funds and the enrichment of working capital, the Group disposed its entire 10,554 shares in D-Link which were financial assets measured at fair value through other comprehensive profits and losses between November 11th to 30th, 2020, at the average price of \$22.07, wherein the fair value at the time of disposition was \$232,881 thousand, resulting in a cumulative disposition loss of \$199,625 thousand, which had been reclassified from other equity to retained earnings.

As of December 31, 2020 and 2019, the Group's financial assets above were not pledged.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(7) Business combination

The Board of Directors of the Group resolved to subscribe for 100,000 thousand ordinary shares of Hitron Technologies' private shares at NTD16.11 per share, and to acquire ordinary shares of Hitron Technologies' at NTD32 per share through tender offer. As of December 26, 2019, the tender offer criteria have been fulfilled in accordance with the Regulations Governing Public Tender Offers for Securities of Public Companies. The shareholders of Hitron Technologies may not revoke to sell the shares as the minimum number of shares acquired is achieved. As of December 31, 2019, total ordinary shares acquired privately and irrevocable shares of Hitron Technologies Inc held by the Group were 47% , thus, the management evaluated that the acquisition date was December 31, 2019, and included Hitron Technologies and its subsidiaries into the consolidated financial statements since then. As of December 31, 2019, the total ordinary shares acquired through tender offer were 51,028 thousand shares. The Group estimates the total amount of investment payable is \$1,632,894 thousand, please refer to note 6 (15).

Hitron Technologies has operated in network communication industry for many years and has expertise in communication network with good reputation, it may enhance the current technologies and products of the Group. This acquisition has been considered as the long-term development plan of the Group, industrial environment and market competition, the industry trend on the integration of the network communication application, as well as the demand from customers.

If the acquisition had occurred on January 1, 2019, management estimates that consolidated revenue and consolidated profit for the year would have been \$26,151,308 thousand and \$589,246 thousand, respectively. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2019.

A. The following table summarizes the recognized amounts of assets acquired, liabilities assumed and goodwill at the acquisition date

(a) The following table summarizes the acquisition date fair value of major class of consideration transferred.

| | <u>Amount</u> |
|--------------------|---------------------|
| Cash | \$ 1,611,000 |
| Investment payable | <u>1,632,894</u> |
| Total | <u>\$ 3,243,894</u> |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) The following table summarizes the recognized amounts of assets acquired and liabilities assumed:

| | <u>Amount</u> |
|--|---------------------|
| Cash and cash equivalents | \$ 4,607,008 |
| Financial assets at fair value through profit or loss-current | 92,866 |
| Financial assets measured at amortized cost-current | 88,181 |
| Notes and account receivables | 1,330,627 |
| Inventories | 1,767,865 |
| Other current assets | 369,067 |
| Equity instrument at fair value through other comprehensive income | 21,245 |
| Property, plant and equipment (note 6(10)) | 1,583,427 |
| Right-of-use assets (note 6(11)) | 225,485 |
| Intangible assets (note 6(12)) | 898,023 |
| Deferred income taxes (note 6(21)) | 78,917 |
| Financial assets measured at amortized cost- non-current | 13,873 |
| Other non-current assets | 167,075 |
| Short-term borrowing (note 6(14)) | (952,701) |
| Accounts payables | (1,269,726) |
| Current tax liabilities | (62,654) |
| Provisions-current/non-current (note 6(15)) | (230,807) |
| Lease liabilities -current/non-current | (68,626) |
| Accrued expenses | (110,838) |
| Other current liabilities | (826,196) |
| Financial liabilities at fair value through profit or loss-non-current | (1,560) |
| Bonds payable (note 6(18)) | (571,047) |
| Long-term borrowings (note 6(17)) | (270,000) |
| Deferred tax liabilities (note 6(21)) | (7,070) |
| Other non-current liabilities(note 6(20)) | (6,061) |
| Total identifiable net assets acquired | <u>\$ 6,866,373</u> |

- (c) Goodwill arising from the acquisition has been recognized as follows:

| | <u>Amount</u> |
|---|--------------------|
| Consideration transferred | \$ 3,243,894 |
| Non-controlling interest in the acquiree, if any (proportionate share of the fair value of the identifiable net assets) | 4,066,496 |
| Less: Fair value of identifiable net assets | <u>(6,866,373)</u> |
| Goodwill | <u>\$ 444,017</u> |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

B. Net cash inflow from acquisition of subsidiaries

The impact of the Group's acquisition of subsidiaries to cash flow in 2019 is as follows:

| | <u>Amount</u> |
|---|------------------------------|
| Cash and cash equivalents | \$ 4,607,008 |
| Current assets | 3,648,606 |
| Non-current assets | 2,988,045 |
| Goodwill | 444,017 |
| Current liabilities | (3,573,693) |
| Non-current liabilities | (803,593) |
| Non-controlling interest | <u>(4,066,496)</u> |
| Acquisition of the fair value of the subsidiaries' equity at the acquisition date | 3,243,894 |
| Less: cash from subsidiaries | (4,607,008) |
| Investment payables | <u>(1,632,894)</u> |
| Net cash inflow from acquisition of subsidiaries | <u><u>\$ (2,996,008)</u></u> |

Goodwill arises primarily from the market shares and profit abilities of the product of Hitron Technologies and subsidiaries, which is expected to benefit from the synergies of the integration between the Group and Hitron Technologies. There is no tax impact expected on the goodwill recognition.

(8) Changes in a parent's ownership interest in a subsidiary

On January 6, 2020, the Group acquired the additional equity in Hitron Technologies for \$1,567,106 thousand in cash, increasing its ownership from 47% to 62.24%.

The effects of the changes in shareholdings were as follows:

| | <u>For the year ended December 31, 2020</u> |
|--|---|
| Carrying amount of non-controlling interest on acquisition | \$ 905,331 |
| Consideration paid to non-controlling interests | <u>(1,567,106)</u> |
| Retained earnings differences between consideration and carrying amounts subsidiaries acquired | <u><u>\$ (661,775)</u></u> |

In 2020, the Group's subsidiary, Enrich Investment, acquired the equity of Interactive Digital for \$189,523 thousand in cash, increasing its ownership to 6.83%.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The effects of the changes in shareholdings were as follows:

| | For the year ended December 31, 2020 |
|--|---|
| | |
| Carrying amount of non-controlling interest on acquisition | \$ 107,080 |
| Consideration paid to non-controlling interests | <u>(189,967)</u> |
| Capital surplus/Retained earnings incurred from the differences between the consideration and the carrying amounts subsidiaries acquired | <u><u>\$ (82,887)</u></u> |

(9) Material non-controlling interests of subsidiaries

The material non-controlling interests of subsidiaries were as follows:

| | | Percentage of non- controlling interests | |
|---------------------|-----------------------------|---|------------------------------|
| Subsidiaries | Main operation place | December 31, 2020 | December 31, 2019 |
| Hitron Technologies | Taiwan | 37.76% | 53.00% |

The following information of the aforementioned subsidiaries have been prepared in accordance with the IFRSs endorsed by the FSC. Included in these information are the fair value adjustment made during the acquisition and relevant difference in accounting principles between the Group as at the acquisition date. Intragroup transactions were not eliminated in this information.

Hitron Technologies and subsidiaries' collective financial information:

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| | | |
| Current assets | \$ 10,109,051 | 8,255,614 |
| Non-current assets | 4,120,950 | 2,988,045 |
| Current liabilities | (6,910,808) | (3,573,694) |
| Non-current liabilities | <u>(67,903)</u> | <u>(803,593)</u> |
| Net assets | <u><u>\$ 7,251,290</u></u> | <u><u>6,866,372</u></u> |
| Non-controlling interests | <u><u>\$ (929,643)</u></u> | <u><u>(912,379)</u></u> |
| Net assets of investees | <u><u>\$ 6,321,647</u></u> | <u><u>5,953,993</u></u> |
| Book value of non-controlling interests | <u><u>\$ 2,219,393</u></u> | <u><u>2,920,281</u></u> |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | For the year ended December 31, 2020 |
|---|---|
| Operating revenue | \$ <u>10,278,461</u> |
| Profit | \$ 300,838 |
| Other comprehensive income | <u>(39,074)</u> |
| Total Comprehensive income | \$ <u>261,764</u> |
| Profit attributable to non-controlling interests | \$ <u>98,556</u> |
| Comprehensive income, attributable to non-controlling interests | \$ <u>122,659</u> |
| Net cash flows used in operating activities | \$ (453,232) |
| Net cash flows used in investing activities | (976,520) |
| Net cash flows from financing activities | 765,564 |
| Effect of exchange rate changes on cash and cash equivalents | <u>(7,596)</u> |
| Net decreased in cash and cash equivalents | \$ <u>(671,784)</u> |
| Dividends paid to non-controlling interests | \$ <u>(97,064)</u> |

(10) Property, plant and equipment

| | Land | Building | Machinery and equipment | Office, transportation and other facilities | Construction in progress | Total |
|---------------------------------------|--------------------------|-------------------------|--|--|-------------------------------------|-------------------------|
| Cost: | | | | | | |
| Balance at January 1, 2020 | \$ 444,290 | 3,485,532 | 2,019,398 | 425,515 | 199,219 | 6,573,954 |
| Additions | 205,246 | 414,629 | 527,540 | 87,538 | - | 1,234,953 |
| Disposals | - | (16,164) | (101,529) | (37,865) | - | (155,558) |
| Reclassification | - | 188,262 | 144 | - | (188,262) | 144 |
| Effect of changes in exchange rates | <u>(3,617)</u> | <u>(5,477)</u> | <u>(9,455)</u> | <u>(93)</u> | <u>(10,957)</u> | <u>(29,599)</u> |
| Balance at December 31, 2020 | \$ <u>645,919</u> | <u>4,066,782</u> | <u>2,436,098</u> | <u>475,095</u> | <u>-</u> | <u>7,623,894</u> |
| Balance at January 1, 2019 | \$ 64,228 | 2,913,255 | 1,943,087 | 312,527 | - | 5,233,097 |
| Acquired through business combination | 381,400 | 637,943 | 218,268 | 146,597 | 199,219 | 1,583,427 |
| Additions | - | 10,389 | 58,745 | 10,140 | - | 79,274 |
| Disposals | - | (7,385) | (147,570) | (36,409) | - | (191,364) |
| Effect of changes in exchange rates | <u>(1,338)</u> | <u>(68,670)</u> | <u>(53,132)</u> | <u>(7,340)</u> | <u>-</u> | <u>(130,480)</u> |
| Balance at December 31, 2019 | \$ <u>444,290</u> | <u>3,485,532</u> | <u>2,019,398</u> | <u>425,515</u> | <u>199,219</u> | <u>6,573,954</u> |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | <u>Land</u> | <u>Building</u> | <u>Machinery and equipment</u> | <u>Office, transportation and other facilities</u> | <u>Construction in progress</u> | <u>Total</u> |
|-------------------------------------|-------------------|------------------|--|--|-------------------------------------|------------------|
| Depreciation and impairment loss: | | | | | | |
| Balance at January 1, 2020 | \$ - | 1,641,127 | 1,467,776 | 233,654 | - | 3,342,557 |
| Depreciation | - | 136,305 | 203,759 | 106,451 | - | 446,515 |
| Disposals | - | (14,509) | (46,120) | (23,815) | - | (84,444) |
| Effect of changes in exchange rates | - | (1,008) | (16,769) | 334 | - | (17,443) |
| Balance at December 31, 2020 | <u>\$ -</u> | <u>1,761,915</u> | <u>1,608,646</u> | <u>316,624</u> | <u>-</u> | <u>3,687,185</u> |
| Balance at January 1, 2019 | \$ - | 1,570,694 | 1,548,788 | 254,026 | - | 3,373,508 |
| Depreciation | - | 122,292 | 110,995 | 20,986 | - | 254,273 |
| Disposals | - | (7,147) | (147,480) | (34,864) | - | (189,491) |
| Effect of changes in exchange rates | - | (44,712) | (44,527) | (6,494) | - | (95,733) |
| Balance at December 31, 2019 | <u>\$ -</u> | <u>1,641,127</u> | <u>1,467,776</u> | <u>233,654</u> | <u>-</u> | <u>3,342,557</u> |
| Carrying amounts: | | | | | | |
| Balance at December 31, 2020 | <u>\$ 645,919</u> | <u>2,304,867</u> | <u>827,452</u> | <u>158,471</u> | <u>-</u> | <u>3,936,709</u> |
| Balance at January 1, 2019 | <u>\$ 64,228</u> | <u>1,342,561</u> | <u>394,299</u> | <u>58,501</u> | <u>-</u> | <u>1,859,589</u> |
| Balance at December 31, 2019 | <u>\$ 444,290</u> | <u>1,844,405</u> | <u>551,622</u> | <u>191,861</u> | <u>199,219</u> | <u>3,231,397</u> |

The amount and interest rate for the Group to capitalize the interest paid for the expenditure on the assets during the construction of PPE are as follows:

| | |
|--|---|
| | For the year ended December 31, 2020 |
| Amount of interest capitalization | <u>\$ 2,868</u> |
| Interest rate of interest capitalization | <u>1.5146%</u> |

As of December 31, 2020 and 2019, the Group's property, plant and equipment were not pledged.

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Notes to the Consolidated Financial Statements

(11) Right-of-use assets

The Group leases many assets including land, buildings and transportation. Information about leases for which the Group as a lessee was presented below:

| | <u>Land</u> | <u>Buildings</u> | <u>Transportation and other equipment</u> | <u>Total</u> |
|---|-------------------|------------------|---|----------------|
| Cost: | | | | |
| Balance at January 1, 2020 | \$ 408,399 | 70,388 | 4,879 | 483,666 |
| Additions | - | 31,971 | 4,810 | 36,781 |
| Disposals | - | (7,891) | (1,195) | (9,086) |
| Effect of changes in exchange rates | (6,995) | (876) | (1,169) | (9,040) |
| Balance at December 31, 2020 | <u>\$ 401,404</u> | <u>93,592</u> | <u>7,325</u> | <u>502,321</u> |
| Balance at January 1, 2019 | \$ - | - | - | - |
| Effects of retrospective application | 249,999 | 7,901 | - | 257,900 |
| Acquisitions through business combination | 160,472 | 60,134 | 4,879 | 225,485 |
| Additions | - | 2,559 | - | 2,559 |
| Effect of changes in exchange | (2,072) | (206) | - | (2,278) |
| Balance at December 31, 2019 | <u>\$ 408,399</u> | <u>70,388</u> | <u>4,879</u> | <u>483,666</u> |
| Accumulated depreciation and impairment losses: | | | | |
| Balance at January 1, 2020 | \$ 7,426 | 2,573 | - | 9,999 |
| Effects of retrospective application | - | - | - | - |
| Depreciation | 18,815 | 46,371 | 3,451 | 68,637 |
| Disposals | - | (1,907) | (1,163) | (3,070) |
| Effect of changes in exchange rates | (304) | 207 | (485) | (582) |
| Balance at December 31, 2020 | <u>\$ 25,937</u> | <u>47,244</u> | <u>1,803</u> | <u>74,984</u> |
| Balance at January 1, 2019 | \$ - | - | - | - |
| Effect of retrospective application | - | - | - | - |
| Depreciation | 7,471 | 2,631 | - | 10,102 |
| Effect of changes in exchange rates | (45) | (58) | - | (103) |
| Balance at December 31, 2019 | <u>\$ 7,426</u> | <u>2,573</u> | <u>-</u> | <u>9,999</u> |
| Carrying amount: | | | | |
| Balance at December 31, 2020 | <u>\$ 375,467</u> | <u>46,348</u> | <u>5,522</u> | <u>427,337</u> |
| Balance at December 31, 2019 | <u>\$ 400,973</u> | <u>67,815</u> | <u>4,879</u> | <u>473,667</u> |
| Balance at January 1, 2019 | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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As of December 31, 2020 and 2019, the right-of-use assets of the Group were not pledged.

(12) Intangible asset

| | <u>Core Technology</u> | <u>Brand Name</u> | <u>Customer relationship</u> | <u>Goodwill</u> | <u>Software application and other</u> | <u>Total</u> |
|---|----------------------------|-----------------------|----------------------------------|-----------------|---|------------------|
| Cost: | | | | | | |
| Balance at January 1, 2020 | \$ 220,281 | 229,877 | 396,949 | 578,900 | 274,584 | 1,700,591 |
| Additions | - | - | - | - | 99,969 | 99,969 |
| Disposals | - | - | - | - | (56,900) | (56,900) |
| Effect of changes in exchange rates | - | - | - | - | 1,324 | 1,324 |
| Balance at December 31, 2020 | <u>\$ 220,281</u> | <u>229,877</u> | <u>396,949</u> | <u>578,900</u> | <u>318,977</u> | <u>1,744,984</u> |
| Balance at January 1, 2019 | \$ - | - | - | 134,883 | 267,781 | 402,664 |
| Acquisitions through business combination | 220,281 | 229,877 | 396,949 | 444,017 | 50,916 | 1,342,040 |
| Additions | - | - | - | - | 47,819 | 47,819 |
| Derecognition | - | - | - | - | (89,411) | (89,411) |
| Effect of changes in exchange rates | - | - | - | - | (2,521) | (2,521) |
| Balance at December 31, 2019 | <u>\$ 220,281</u> | <u>229,877</u> | <u>396,949</u> | <u>578,900</u> | <u>274,584</u> | <u>1,700,591</u> |
| Amortization and impairment: | | | | | | |
| Balance at January 1, 2020 | \$ - | - | - | - | 171,547 | 171,547 |
| Amortization | 31,469 | 22,988 | 44,105 | - | 95,042 | 193,604 |
| Disposals | - | - | - | - | (55,942) | (55,942) |
| Effect of changes in exchange rates | - | - | - | - | 200 | 200 |
| Balance at December 31, 2020 | <u>\$ 31,469</u> | <u>22,988</u> | <u>44,105</u> | <u>-</u> | <u>210,847</u> | <u>309,409</u> |
| Balance at January 1, 2019 | \$ - | - | - | - | 197,945 | 197,945 |
| Amortization | - | - | - | - | 65,255 | 65,255 |
| Derecognition | - | - | - | - | (89,411) | (89,411) |
| Effect of changes in exchange rates | - | - | - | - | (2,242) | (2,242) |
| Balance at December 31, 2019 | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>171,547</u> | <u>171,547</u> |
| Carrying amount | | | | | | |
| Balance at December 31, 2020 | <u>\$ 188,812</u> | <u>206,889</u> | <u>352,844</u> | <u>578,900</u> | <u>108,130</u> | <u>1,435,575</u> |
| Balance at January 1, 2019 | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>134,883</u> | <u>69,836</u> | <u>204,719</u> |
| Balance at December 31, 2019 | <u>\$ 220,281</u> | <u>229,877</u> | <u>396,949</u> | <u>578,900</u> | <u>103,037</u> | <u>1,529,044</u> |

A. The amortization of intangible assets is included in the statement of comprehensive income:

| | <u>For the years ended December 31,</u> | |
|-------------------|---|---------------|
| | <u>2020</u> | <u>2019</u> |
| Operating cost | \$ 1,046 | 650 |
| Operating expense | 192,558 | 64,605 |
| Total | <u>\$ 193,604</u> | <u>65,255</u> |

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B. Impairment test for Goodwill

As of December 31, 2020 and 2019, the goodwill arising from business combination was allocated to the following cash-generating units (or groups of cash-generating units) because this CGU is expected to benefit from the synergies of the combination.

| | December 31, 2020 | December 31, 2019 |
|---------------------|------------------------------|------------------------------|
| Interactive Digital | \$ 354,656 | 354,656 |
| Hitron Technologies | 89,361 | 89,361 |
| IP Camera | <u>134,883</u> | <u>134,883</u> |
| | <u>\$ 578,900</u> | <u>578,900</u> |

As of December 31, 2020 and 2019, these cash-generating units determines the recoverable amount based on it's value in use, and the recoverable amount of these were greater than their carrying amount and no impairment loss were recognized.

The key assumptions used in the estimation of value in use were as follows:

| | December 31, 2020 | December 31, 2019 |
|----------------------------|------------------------------|------------------------------|
| IP Camera | | |
| Discount rate | 7.13 % | 8.48 % |
| Terminal value growth rate | 3.74 % | 3.98 % |
| Interactive Digital | | |
| Discount rate | 7.57 % | |
| Terminal value growth rate | 3.74 % | |
| Hitron Technologies | | |
| Discount rate | 8.88 % | |
| Terminal value growth rate | 3.74 % | |

As of December 31, 2020 and 2019, the following is the key assumption of the estimation of value in use:

The discount rate was a pre-tax measure based on the rate of 10-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific CGU.

Cash flow projection was based on a five-year financial projection which was approved by the management.

In addition, the Group has engaged experts to issue a purchase price allocation report when it acquired Hitron Technologies and subsidiaries on December 31, 2019, and the Group continues to evaluate goodwill impairment tests regularly.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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C. Collateral

As of December 31, 2020 and 2019, the Group's intangible assets were not pledged.

(13) Other current assets and other non-current assets

The other current assets and other non-current assets of the Group were as follows:

| | December 31, 2020 | December 31, 2019 |
|---------------------------|------------------------------|------------------------------|
| Advance payment | \$ 415,706 | 298,310 |
| Prepayments for equipment | 65,325 | 269,704 |
| Business tax receivables | 186,290 | 55,271 |
| Others | <u>260,745</u> | <u>185,745</u> |
| | <u>\$ 928,066</u> | <u>809,030</u> |

(14) Short-term borrowings

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Unsecured bank loans | <u>\$ 2,842,762</u> | <u>952,701</u> |
| Unused short-term and long-term credit lines | <u>\$ 5,759,213</u> | <u>5,965,876</u> |
| Range of interest rates | <u>0.60%~1.35%</u> | <u>1.15%~4.35%</u> |

The financial commitment of transfer of short-term loans with Taipei Fubon Bank the current year (after the first transfer, the following financial ratios must be maintained:)

- A. A minimum current ratio of 100%
- B. A maximum financial debt ratio of 70%
- C. A minimum of 5 times of the Times Interest Earned

The above financial commitment ratio is calculated based on the annual and semi-annual consolidated financial statements audited/reviewed by the auditors semi-annually. If the financial ratio limit has not been improved after two consecutive periods, the credit lines will be examined again.

(15) Provisions

| | Warranties |
|---|--------------------------|
| Balance at January 1, 2020 | \$ 434,744 |
| Provisions made during the year | 259,006 |
| Provisions used during the year | (288,481) |
| Effect of changes in foreign exchange rates | <u>(720)</u> |
| Balance at December 31, 2020 | <u>\$ 404,549</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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| | Warranties |
|--------------------------------------|-------------------|
| Current | \$ 358,850 |
| Non-current | 45,699 |
| | \$ 404,549 |
| Balance at January 1, 2019 | \$ 206,130 |
| Assumed through business combination | 230,807 |
| Provisions made during the year | 88,847 |
| Provisions used during the year | (90,444) |
| Effect of changes in foreign rates | (596) |
| Balance at December 31, 2019 | \$ 434,744 |
| Current | 393,041 |
| Non-current | 41,703 |
| | \$ 434,744 |

The provision for warranties relates mainly to network product sold and professional services provide during the years ended 31 December 2020 and 2019. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the majority of the liability over the next year.

(16) Other current liabilities

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Payroll and bonus payable | \$ 895,690 | 840,419 |
| Contract liabilities (note6(25)) | 964,609 | 493,920 |
| Lease payable (note6(19)) | 40,683 | 50,560 |
| Investment payable (note6(7)) | - | 1,632,894 |
| Other accounts payable-related parties (note7) | 11 | 1,114 |
| Others | 562,398 | 101,665 |
| | \$ 2,463,391 | 3,120,572 |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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(17) Long-term borrowings

The details were as follows:

| | <u>Currency</u> | <u>Maturity year</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|-------------------------------|-----------------|--|------------------------------|------------------------------|
| Unsecured bank loans | NTD | Contract period from December 22, 2017 to December 22, 2020, it will be revolved during the credit period. | \$ - | 120,000 |
| Unsecured bank loans | NTD | Contract period from July 17, 2019 to October 7, 2024, it will be revolved during the credit period. | - | 150,000 |
| Total | | | - | 270,000 |
| Less: Expires within one year | | | - | (120,000) |
| Total | | | <u>\$ -</u> | <u>150,000</u> |
| Range of interest rate | | | - | <u>1.80%~2.89%</u> |

The Group signed a joint credit agreement with the First Bank and other banks totaling \$2.2 billion to enhance the medium-term working capital and support its Vietnam's investment plan to set up factories. According to the contracts, the Group shall maintain the current ratio, debt ratio, interest protection multiple and tangible net financial ratio of the semiannual and annual ratios during the duration of the loan.

The borrowings above had been paid in 2020.

Unused long-term credit lines please refer to note 6(14).

(18) Bonds payable

A. The details of unsecured convertible corporate bonds assumed through business combination were as follows:

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|------------------------------|------------------------------|
| Total convertible corporate bonds issued | \$ 600,000 | 600,000 |
| Unamortized discounted payable | (17,393) | (28,953) |
| Cumulative converted amount | (56,100) | - |
| Subtotal | 526,507 | 571,047 |
| Less: Bonds payable due within one year | (526,507) | - |
| Total | <u>\$ -</u> | <u>571,047</u> |
| Embedded derivative – call and put options, included in financial assets (liabilities) at fair value through profit or loss | <u>\$ 543</u> | <u>(1,560)</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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The conversion price was set at NTD78.50 at the time of issue. As of December 31, 2020 and 2019, the conversion price were \$72.5 and \$78.5, respectively.

Interactive Digital, a subsidiary of Alpha issued the above convertible corporate bonds, the conversion options were separated from the liabilities, and the equity and liabilities components were recognized separately as follows:

| Subjects | Amount |
|---|------------------|
| Total amounts of convertible corporate bonds issued | \$ 600,000 |
| Fair value of embedded non-equity derivative issued | (2,040) |
| Cost of issuing | (5,000) |
| Fair value of bonds payable issued | (569,041) |
| Equity component – conversion options | \$ 23,919 |

After the separation of the above-mentioned embedded derivatives, the effective interest rate of Interactive Digital Technologies Inc.'s unsecured convertible corporate bonds was 1.7%.

- B. In response to future operational needs, Interactive Digital Technologies Inc. intends to purchase office buildings and warehouses. The Financial Supervision and Administration Commission of the Executive Yuan approved the issuance on November 6, 2019. The first unsecured convertible corporate bonds are issued under the following conditions:

| | |
|---|---|
| Total amount issued | \$600 million |
| Date of issued | 11.22.2019 |
| coupon rate | 0% |
| Period of issue | 11.22.2019~11.22.2022 |
| Repayment method | Other than converting as Interactive Digital's ordinary share in accordance to the regulation no.10, or exercising put option in accordance to the regulation no.19, or early redeeming in accordance to the regulation no.18, or repurchasing the written-off stock from Securities Dealers, Interactive Digital will repay the convertible bond one-off in cash at face value at maturity. |
| Redeem method | <p>1.If the closing price for the Interactive Digital exceeds 30% of the conversion price for 30 consecutive days for the period 3 months after bond issuance until 40 days before maturity, Digital Interactive will redeem the outstanding bonds based on the face value.</p> <p>2.If the balance of the outstanding bonds lower than \$60,000 thousand, Digital Interactive will redeem the outstanding bonds based on the face value.</p> |
| Bond holder request for repurchase method | If the bond has issued for 2 years, the bond holder may request Interactive Digital to repurchase the bond at face value plus interest at 40 days before the maturity. Interest rate for the bond issued for 2 years is 0.5% at face value. |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | |
|-------------------|---|
| Conversion period | Other than the transfer restriction period, bond holder may request the shares agent of Interactive Digital to convert the bond to ordinary shares during the period 3 months after issuance until the maturity date. |
| Conversion price | The conversion price was set at \$78.5 at the time of issuance. As of July 27, the conversion price had been adjusted from \$78.5 to \$72.5. |

(19) Lease liabilities

| | December 31, 2020 | December 31, 2019 |
|------------------------------|------------------------------|------------------------------|
| Current | <u>\$ 40,683</u> | <u>50,560</u> |
| Non-current financial assets | <u>\$ 201,065</u> | <u>224,639</u> |

For the maturity analysis, please refer to note 6(31).

The amounts recognized in profit or loss was as follows:

| | For the year ended December 31, | |
|---|--|---------------|
| | 2020 | 2019 |
| Interest on lease liabilities | <u>\$ 4,600</u> | <u>3,120</u> |
| Expenses relating to short-term leases and leases of low-value assets | <u>\$ 37,162</u> | <u>12,733</u> |

The amounts recognized in the statement of cash flows for the Group was as follows:

| | For the year ended December 31, | |
|-------------------------------|--|---------------|
| | 2020 | 2020 |
| Total cash outflow for leases | <u>\$ 106,031</u> | <u>23,437</u> |

A. Real estate leases

As of December 31, 2020 and 2019, the Group leases land for factory and office buildings use. The leases of land typically run for a period of 19 and 39 years. For office building, the terms range between 1 to 5 years, some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

The lease payment of the land contract depends on the land price announced by the Science Park, plus adjustments for public facilities construction costs, which are adjusted after amortization. These costs usually occur once a year.

B. Other leases

The Group leases office, transportation equipment, and other with lease terms of 1 to 5 years. In some cases, the Group has options to purchase the assets at the end of the contract term; in other cases, it guarantees the residual value of the leased assets at the end of the contract term.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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As of December 31, 2020 and 2019, the Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of office, warehouse, parking space, staff dormitories and printer that have a lease term of 12 months or less or leases of low-value assets.

(20) Employee benefits

A. Defined benefit plans

The recognized liabilities of the defined benefit obligations were consisted of as follows:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Present value of the defined benefit obligations | \$ 299,986 | 397,407 |
| Fair value of plan assets | <u>(80,382)</u> | <u>(109,278)</u> |
| Net defined benefit liabilities | <u>\$ 219,604</u> | <u>288,129</u> |

The Group's employee benefit liabilities were as follows:

| | December 31, 2020 | December 31, 2019 |
|-------------------------------|------------------------------|------------------------------|
| Other non-current assets | <u>\$ 763</u> | <u>870</u> |
| Net defined benefit liability | <u>\$ 220,367</u> | <u>288,999</u> |

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average salary for the six months prior to retirement.

(a) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by the local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$80,382 thousand as of December 31, 2020. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Fund, Ministry of Labor.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Movements in present value of the defined benefit obligations

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

| | For the years ended December 31, | |
|---|---|-----------------------|
| | 2020 | 2019 |
| Defined benefit obligations at January 1 | \$ 397,407 | 382,871 |
| Liabilities assumed through business combination | - | 2,376 |
| Benefits paid from the plan assets | (50,074) | (15,674) |
| Current service costs and interest cost | 4,481 | 5,623 |
| Re-measurements of net defined benefit liabilities (asset): | | |
| - Actuarial gain (loss) arising from experience adjustment | (68,659) | 5,755 |
| - Actuarial loss arising from financial assumptions | <u>16,831</u> | <u>16,456</u> |
| Defined benefit obligation as of December 31 | <u>\$ 299,986</u> | <u>397,407</u> |

(c) Movements in the fair value of the defined benefit plan assets

The movements in the fair value of the defined benefit plan assets of the Group were as follows:

| | For the years ended December 31, | |
|---|---|-----------------------|
| | 2020 | 2019 |
| Fair value of plan assets as of January 1 | \$ 109,278 | 87,988 |
| Asset assumed through business combination | - | 3,246 |
| Interest Income | 29 | - |
| Benefits paid from the plan assets | (50,074) | (15,674) |
| Re-measurements of the net defined benefit liabilities (asset): | | |
| - Return on plan assets (excluding current Interest income) | 3,365 | 3,292 |
| Contribution made to plan assets | 16,874 | 29,305 |
| Expected return on plan assets | <u>910</u> | <u>1,121</u> |
| Fair value of plan assets as of December 31 | <u>\$ 80,382</u> | <u>109,278</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Expenses recognized in profit or loss

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

| | For the years ended December 31, | |
|--|---|--------------|
| | 2020 | 2019 |
| Current service costs | \$ 1,300 | 1,411 |
| Net interest of net liabilities for defined benefit obligation | 3,181 | 4,212 |
| Expected return on plan assets | (910) | (1,121) |
| | \$ 3,571 | 4,502 |
| Operating costs | \$ 1,412 | 1,088 |
| Selling expenses | 299 | 599 |
| Administration expenses | 461 | 517 |
| Research and development expenses | 1,399 | 2,298 |
| | \$ 3,571 | 4,502 |
| Actual return on plan assets | \$ 4,725 | 4,413 |

(e) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

| | December 31, 2020 | December 31, 2019 |
|-----------------------------|------------------------------|------------------------------|
| Discount rate | 0.40% | 0.80%~0.90% |
| Future salary increase rate | 1.00%~3.00% | 1.00%~3.00% |

The expected contribution to be made by the Group to the defined benefit plans for the one-year period after the reporting date is \$23,921 thousand.

The weighted average duration of the defined benefit plans is 14.2 years and 20 years, respectively.

(f) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

| December 31, 2020 | Loss(gain) due from influences of defined benefit obligations | |
|-------------------------------|--|-----------------------|
| | Increase 0.25% | Decrease 0.25% |
| Discount rate | \$ (10,751) | 11,226 |
| Future salary increasing rate | \$ 10,166 | (9,812) |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| <u>December 31, 2019</u> | Influences of defined benefit obligations | |
|-------------------------------|--|-----------------------|
| | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> |
| Discount rate | \$ <u>(13,904)</u> | <u>14,527</u> |
| Future salary increasing rate | \$ <u>13,187</u> | <u>(12,721)</u> |

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2020 and 2019.

B. Defined contribution plans

The domestic entities of Group contribute 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation. The Group's overseas subsidiaries establish their respective defined contribution plan and their contributions are made in accordance with their local regulations.

The pension costs under contribution plans amounted to \$111,156 thousand and \$117,618 thousand for the years ended December 31, 2020 and 2019, respectively.

(21) Income taxes

A. Income tax expenses

The components of income tax for the years ended December 31, 2020 and 2019, were as follows:

| | For the years ended December 31, | |
|---|---|----------------|
| | <u>2020</u> | <u>2019</u> |
| Current tax expense | | |
| Current period | \$ 236,425 | 74,787 |
| Adjustment for prior periods | <u>(5,531)</u> | <u>(5,855)</u> |
| | <u>230,894</u> | <u>68,932</u> |
| Deferred tax expense (benefit) | | |
| Origination and reversal of temporary differences and operating loss carryforward | <u>(36,491)</u> | <u>31,958</u> |
| Income tax expense | <u>\$ 194,403</u> | <u>100,890</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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The amount of income tax expense / (benefit) recognized in other comprehensive income for the years ended December 31, 2020 and 2019, was as follows:

| | For the years ended December 31, | |
|---|---|-----------------|
| | 2020 | 2019 |
| Exchange differences on translation of foreign financial statements | \$ <u>(2,295)</u> | <u>(29,258)</u> |

Reconciliation of income tax expense and profit before tax for the years ended December 31, 2020 and 2019 were as follows:

| | For the years ended December 31, | |
|--|---|-----------------------|
| | 2020 | 2019 |
| Profit before income tax | \$ <u>919,506</u> | <u>339,793</u> |
| Income tax at Alpha's domestic tax rate | 183,901 | 67,959 |
| Effect of tax rates variances in foreign jurisdictions | 156,819 | 14,265 |
| Tax effect of permanent difference | (48,111) | 2,595 |
| Tax incentives | (38,111) | (7,187) |
| Change in unrecognized temporary differences | 17,010 | (60,274) |
| Others | <u>(77,105)</u> | <u>83,532</u> |
| | \$ <u>194,403</u> | <u>100,890</u> |

B. Deferred tax assets and liabilities

(a) Unrecognized deferred tax asset

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

| | December 31, | December 31, |
|--|--------------------------|-----------------------|
| | 2020 | 2019 |
| Tax effect of deductible temporary differences | \$ 354,093 | 337,083 |
| The carry forwards of unused tax losses | <u>2,816</u> | <u>26,538</u> |
| | \$ <u>356,909</u> | <u>363,621</u> |

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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As of December 31, 2020, the information of Transnet Corporation's unused tax losses for which no deferred tax assets were recognized are as follows:

| Year of loss | Expiry date | Unutilized business loss |
|--------------|-------------|-----------------------------|
| 2018 | 2028 | \$ 654 |
| 2019 | 2029 | 2,808 |
| 2020 | 2030 | 10,617 |
| | | \$ 14,079 |

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2020 and 2019 were as follows:

Deferred tax assets:

| | January 1, 2019 | Acquisition of subsidiaries | Recognized in profit and loss | Recognized in other comprehensive income | Effect of change in exchange rate | December 31, 2019 | Recognized in profit and loss | Recognized in other comprehensive income | Effect of change in exchange rate | December 31, 2020 |
|--|--------------------|-----------------------------------|-------------------------------------|---|--|----------------------|-------------------------------------|---|--|----------------------|
| Provision for inventory devaluation | \$ 10,727 | 3,605 | (5,343) | - | - | 8,989 | (5,142) | - | - | 3,847 |
| Provision for warranties | 24,504 | 43,528 | 400 | - | - | 68,432 | (11,050) | - | - | 57,382 |
| Exchange different on transaction of foreign financial statement | 34,574 | - | - | 29,258 | - | 63,832 | - | 2,295 | - | 66,127 |
| Carry forward of tax losses | 42,245 | - | (26,388) | - | - | 15,857 | (840) | - | - | 15,017 |
| Others | 18,710 | 31,784 | 7,733 | - | (6,213) | 52,014 | 55,079 | - | 1,370 | 108,463 |
| | \$ 130,760 | 78,917 | (23,598) | 29,258 | (6,213) | 209,124 | 38,047 | 2,295 | 1,370 | 250,836 |

Deferred tax liabilities

| | January 1, 2019 | Acquisition of subsidiaries | Recognized in profit and loss | Recognized in other comprehensive income | Effect of change in exchange rate | December 31, 2019 | Recognized in profit and loss | Recognized in other comprehensive income | Effect of change in exchange rate | December 31, 2020 |
|--|--------------------|-----------------------------------|-------------------------------------|---|--|----------------------|-------------------------------------|---|--|----------------------|
| Investment accounted for using equity method | \$ (39,267) | - | (2,595) | - | - | (41,862) | (2,860) | - | - | (44,722) |
| Goodwill | (26,976) | - | - | - | - | (26,976) | - | - | - | (26,976) |
| Others | (320) | (7,070) | (5,765) | - | - | (13,155) | 1,304 | - | - | (11,851) |
| | \$ (66,563) | (7,070) | (8,360) | - | - | (81,993) | (1,556) | - | - | (83,549) |

As of December 31, 2020, the Company's tax returns for the years through 2018 were assessed by the R.O.C. income tax authorities.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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(22) Capital and other equity

Reconciliation of shares outstanding for the years ended December 31, 2020 and 2019 was as follows (in thousands of shares):

| | Ordinary share capital | |
|-----------------------------------|-------------------------------|----------------|
| | 2020 | 2019 |
| Balance on January 1 | 539,349 | 536,983 |
| Vested of restricted stock awards | 2,289 | 2,366 |
| Balance on December 31 | 541,638 | 539,349 |

A. Ordinary share capital

As of December 31, 2020 and 2019, the authorized capital of Alpha amounted to \$6,600,000 thousand, of which included the amount of \$500,000 thousand reserved for employee share options; the issued capital amounted to \$5,417,185 thousand and \$5,427,273 thousand, respectively.

A resolution was approved during the Board of Directors' meeting held on March 19, May 3, August 14 and November 6, 2019, to cancel 256 thousand shares, 133 thousand shares, 238 thousand shares and 163 thousand shares, respectively, of employee restricted stocks. The aforementioned capital reductions were completed on March 25, June 17, August 20 and November 11, 2019, respectively, through the statutory registration procedures.

A resolution was approved during the Board of Directors' meeting held on March 17, May 20, August 10 and November 9, 2020, to cancel 245 thousand shares, 235 thousand shares, 430 thousand shares and 99 thousand shares, respectively, of employee restricted stocks. The aforementioned capital reductions were completed on March 18, May 21, August 11 and November 10, 2020, respectively, through the statutory registration procedures.

As of December 31, 2020 and 2019, a total of 0 thousand shares and 137 thousand shares, respectively of employee restricted stock were rescinded and subjected to cancel due to employee turnover or the performance issues.

B. Capital surplus

The balances of capital surplus were as follows:

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Capital surplus – premium | \$ 2,979,208 | 2,949,233 |
| Capital surplus – investments under equity method | 10,198 | 29 |
| Employee restricted stock | - | 37,369 |
| Other | 15,185 | 15,125 |
| | \$ 3,004,591 | 3,001,756 |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

Based on resolutions approved during the shareholders' meetings on June 14, 2019, the cash dividends of \$543,262 thousand, represents NTD1 payout per share, will be distributed out of capital surplus. The above-mentioned distribution was consistent with the resolution approved by the Board of Directors. Related information is available at the Market Observation Post System website.

C. Retained earnings

The Company's articles of incorporation stipulated that Company's earnings before tax, if any, shall be distributed in the following order:

- (a) payment of all taxes;
- (b) offset prior years' operating losses;
- (c) of the remaining balance, 10% to be appropriated as legal reserve;
- (d) set aside special reserve in accordance with the Securities and Exchange Act or reverse special reserve previously provided; and
- (e) after the above appropriations, current and prior-period earnings that remain undistributed will be proposed for distribution by the Board of Directors, and a meeting of shareholders will be held to decide on this matter.

According to the R.O.C. Company Act, the Company shall distribute the legal reserve and capital reserve as cash dividends fully or partially, if the resolution is passed in majority with two third of attendance in Board of Directors' meeting and is submitted to the stockholders' meeting.

According to the Company's dividend policy, the Company shall first take into consideration its investing environment, capital management and industry developments, as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in determining the stock or cash dividends to be paid. The cash dividends shall not be less than 10% of total dividends.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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(a) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

(b) Special reserve

In accordance with Ruling issued by the FSC a portion of current-period earnings and undistributed prior—period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior period. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

D. Earnings distribution

Earnings distribution for the years 2019 was approved by the shareholders during their meeting on March 17, 2020 as follows:

| | 2019 |
|--|--------------------------|
| Dividends distributed to ordinary shareholders | |
| Cash (dividends per share was \$0.44) | \$ <u>238,692</u> |

The above-mentioned earnings distribution was consistent with the resolutions approved by the Board of Directors. Related information would be available at the Market Observation Post System website.

The no appropriation of earnings in 2018 was proposed in the annual shareholders' meeting on June 14, 2019. The above-mentioned was consistent with the resolutions approved by the Board of Directors. Related information would be available at the Market Observation Post System website.

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E. Other equity

| | Differences on translation of foreign operation financial statements | Unrealized gains (losses) on financial assets at fair value through other comprehensive income | Deferred compensation cost arising from issuance of restricted stock awards | Non-controlling interests | Total |
|---|---|---|--|----------------------------------|------------------|
| Balance at 1 January 2020 | (439,629) | (292,137) | (17,053) | 4,066,496 | 3,317,677 |
| Differences on translation of foreign operation financial statements | (9,175) | - | - | (14,027) | (23,202) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | - | 92,512 | - | - | 92,512 |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | 199,625 | - | - | 199,625 |
| Compensation cost of restricted stock awards | - | - | 17,053 | - | 17,053 |
| Non controlling interests generated from acquisition | - | - | - | (1,012,411) | (1,012,411) |
| Changes in ownership interests in subsidiaries | - | - | - | 3,907 | 3,907 |
| Distribution cash dividend by subsidiaries to non-controlling interest | - | - | - | (218,069) | (218,069) |
| Changes in the investee's capital surplus | - | - | - | 32,408 | 32,408 |
| Increase in non-controlling interests | - | - | - | 175,845 | 175,845 |
| Balance at 31 December 2020 | <u>\$ (448,804)</u> | <u>-</u> | <u>-</u> | <u>3,034,149</u> | <u>2,585,345</u> |
| Balance at 1 January 2019 | \$ (322,596) | (305,330) | (70,492) | - | (698,418) |
| Differences on translation of foreign operation financial statements | (117,033) | - | - | - | (117,033) |
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | - | 13,193 | - | - | 13,193 |
| Compensation cost of restricted stock awards | - | - | 53,439 | - | 53,439 |
| Non controlling interests generated from acquisition | - | - | - | 4,066,496 | 4,066,496 |
| Balance at 31 December 2019 | <u>\$ (439,629)</u> | <u>(292,137)</u> | <u>(17,053)</u> | <u>4,066,496</u> | <u>3,317,677</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(23) Share-based payment

- A. As of December 31, 2020, Alpha's equity settled share-based payment transactions were as follows:

| | Restricted stock awards Issued in 2018 |
|-------------------------------|---|
| | <u>September 27, 2017</u> |
| Grant date | September 27, 2017 |
| Granted units (thousands) | 10,000 |
| Contractual life | 1~3 years |
| Vesting condition | Note |
| Price per share (NTD) | 0 |
| Adjusted exercise price (NTD) | 0 |

Note: Employees are entitled to receive restricted stock in the first, second and third year (from the grant date) of their service. The proportion of the shares granted are 30%, 30% and 40%, respectively.

- B. The closing price of Alpha's ordinary share on the grant date is the fair value of the share-based payment.
- C. Restricted stock awards

On June 16, 2017, pursuant to the resolutions of its shareholders' meeting, Alpha issued 10,000 shares of restricted stock awards to those full time employees who meet Alpha's requirements. These restricted stock awards have been registered and approved by the Securities and Futures Bureau of the FSC. On September 21, 2017, the Board of Directors approved a resolution to issue all of restricted stock awards to its employees. The effective date of the capital increase was October 2, 2017, and the registrations of the increase of share capital have been completed. The restricted stock is kept by a trust, which is appointed by Alpha, before the vesting condition is met. These shares shall not be sold, pledged, transferred, gifted, hypothecated or disposed of by any other means to third parties during the custody period. The shareholders of these restricted stock are entitled to the same rights as Alpha's existing ordinary shareholders except for the fact that the restricted stocks are held with trust and have vesting conditions. If the employees failed to comply the vesting conditions, Alpha will take back all the unvested shares without compensation and cancel the shares thereafter.

Details of the restricted stock of Alpha are as follows:

| | For the years ended December 31, | |
|---|---|---------------------|
| | 2020 | 2019 |
| Number at January 1 (unit in thousand) | 3,241 | 6,534 |
| Vested during the year (unit in thousand) | (2,289) | (2,366) |
| Forfeited during the year (unit in thousand) | (872) | (790) |
| Forfeited, to be cancelled at year end (unit in thousand) | - | (137) |
| Number of shares at December 31 | <u>80</u> | <u>3,241</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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The compensation costs recognized for the years ended December 31, 2020 and 2019 were \$943 thousand and \$31,764 thousand, respectively.

(24) Earnings per share

A. Basic earnings per share

| | For the years ended December 31, | |
|--|---|----------------|
| | 2020 | 2019 |
| Net income attributable to Alpha's ordinary shareholders | \$ <u>556,997</u> | <u>238,903</u> |
| Weighted-average number of shares outstanding (in thousands of shares) | <u>540,017</u> | <u>537,673</u> |
| Basic earnings per share (NTD) | \$ <u>1.03</u> | <u>0.44</u> |

B. Diluted earnings per share

| | For the years ended December 31, | |
|--|---|----------------|
| | 2020 | 2019 |
| Net income attributable to ordinary shareholders | \$ <u>556,997</u> | <u>238,903</u> |
| Weighted average number of shares outstanding (in thousands of shares) (basic) | 540,017 | 537,673 |
| Effect of employee remuneration in shares | 398 | 1,410 |
| Effect of restricted stock awards unvested | \$ <u>2,689</u> | <u>4,567</u> |
| Weighted average number of shares outstanding (in thousands of shares) (diluted) | <u>543,104</u> | <u>543,650</u> |
| Diluted earnings per share (NTD) | \$ <u>1.03</u> | <u>0.44</u> |

(25) Revenues for contracts with customers

A. The details of Revenues were as follows:

| | For the year ended December 31, | |
|-------------------------------|--|-------------------|
| | 2020 | 2019 |
| Primary geographical markets: | | |
| United States | \$ 21,170,158 | 7,986,117 |
| Taiwan | 3,653,720 | 835,245 |
| Singapore | 1,583,698 | 2,426,697 |
| China | 1,222,879 | 1,760,227 |
| Others | <u>4,540,194</u> | <u>2,817,522</u> |
| | \$ <u>32,170,649</u> | <u>15,825,808</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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| | For the year ended December 31, | |
|----------------------------------|--|-------------------|
| | 2020 | 2019 |
| Major products / services lines: | | |
| LAN/MAN | \$ 8,728,792 | 9,995,703 |
| Wireless Broadband | 13,760,423 | 3,449,129 |
| Digital Multimedia | 7,832,242 | 2,282,417 |
| Others | 1,849,192 | 98,559 |
| | \$ 32,170,649 | 15,825,808 |

B. Contract balances

| | December 31, 2020 | December 31, 2019 | January 1, 2019 |
|---|------------------------------|------------------------------|----------------------------|
| Trade receivables (including related parties) | \$ 6,801,078 | 4,292,840 | 2,168,504 |
| Contract liabilities - product | \$ 964,609 | 493,920 | 86,068 |

The amount of revenue recognized for the years ended December 31, 2020 and 2019 that was included in the contract liability balance at the beginning of the period were \$258,637 thousand and \$53,934 thousand, respectively.

The contract liabilities are primarily related due to the advance receipts from the Group's product sales contracts, wherein the Group will recognize the revenue when the product is transferred to the customer.

(26) Remuneration to employees and directors

In accordance with the Articles of incorporation, Alpha should contribute 10% to 22.5% of the profit as employee compensation and less than 1% as directors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The recipients of shares and cash may include the employees of the Alpha's affiliated companies who meet certain conditions.

For the year ended December 31, 2020, the Alpha's net profit of current period is not sufficient to compensate the cumulative loss, therefore, no remuneration to employees and directors was estimated. For the year ended December 31, 2019, Alpha accrued and recognized its remuneration to employees and directors amounting to \$33,198 thousand and \$2,753 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees and directors of the period, multiplied by the percentage of remuneration to employees and directors as specified in the Alpha's articles. These remunerations were expensed under operating costs or operating expenses. If there is any change on the actual amount incurred and estimated amount, this shall be accounted for change in accounting estimates and recognize as profit or loss in the following year. However, if the Board of Directors resolved that the employee remuneration to be distributed through stock dividends, the closing price of the ordinary share on the day before the Board of Directors' meeting is used in the calculation for stock remuneration. Related information would be available at the Market Observation Post System website.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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The abovementioned remuneration for employees and directors resolved through Board of Directors' meeting is consistent with the estimated amount as stated in the consolidated financial statements for the years 2020 and 2019.

(27) Interest income

The details of the Group's interest income of 2020 and 2019 were as follows:

| | For the years ended December 31, | |
|---|---|---------------|
| | 2020 | 2019 |
| Interest income from bank deposits and others | \$ <u>33,289</u> | <u>60,846</u> |

(28) Other income

The details of the Group's other income of 2020 and 2019 were as follows:

| | For the years ended December 31, | |
|--------------------------|---|----------------------|
| | 2020 | 2019 |
| Dividend income | \$ 4,259 | 2,111 |
| Government grants income | 79,294 | 30,507 |
| Others | <u>34,703</u> | <u>23,367</u> |
| | \$ <u>118,256</u> | <u>55,985</u> |

(29) Other gains and losses

The details of the Group's other gains and losses of 2020 and 2019 were as follows:

| | For the years ended December 31, | |
|---|---|-----------------------|
| | 2020 | 2019 |
| Gain on financial asset (liabilities) at fair value through profit or loss, net | \$ 48,588 | (1,653) |
| Foreign exchange loss, net | (76,510) | (1,454) |
| Others | <u>(57,714)</u> | <u>(2,549)</u> |
| | \$ <u>(85,636)</u> | <u>(5,656)</u> |

(30) Finance costs

The details of the Group's finance costs of 2020 and 2019 were as follows:

| | For the years ended December 31, | |
|--------------------------------------|---|---------------------|
| | 2020 | 2019 |
| Interest expense of borrowings, etc. | \$ 39,233 | 367 |
| Interest expense of lease liability | <u>4,777</u> | <u>3,120</u> |
| | \$ <u>44,010</u> | <u>3,487</u> |

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(31) Financial instruments

A. Credit risk

(a) Credit risk exposure

The carrying amounts of financial assets represents the maximum amount exposed to credit risk.

(b) Concentration of credit risk

The major customers of the Group are centralized in the networking related industries. The Group generally sets credit limits to its customers according to their credit evaluations. Therefore, the credit risk of the Group is mainly influenced by the networking industry. As of December 31, 2020 and 2019, 64% and 60%, respectively, of the Group's accounts receivable (including related parties) were from the top 7 customers. Although there is a potential in concentration of credit risk, the Group routinely assesses the collectability of its accounts receivable and makes a corresponding allowance for doubtful accounts.

(c) Credit risk of receivable

Risk exposure information for notes receivable and accounts receivable, please refer to note 6(3).

Other financial assets measured at amortized cost include time deposits with maturities of more than three months and restricted bank deposits, please refer to note 6(5) for details of relevant investments.

All of these financial assets are considered to have low credit risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(7).

B. Liquidity risk

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

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>Within 1 years</u> | <u>1 to 5 years</u> | <u>More than 5 years</u> |
|---|----------------------------|-----------------------------------|---------------------------|---------------------|------------------------------|
| December 31, 2020 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | \$ 2,842,762 | (2,849,071) | (2,849,071) | - | - |
| Accounts payable (Included related-parties) | 6,828,103 | (6,828,103) | (6,828,103) | - | - |
| Other payables to related parties (other current liabilities) | 11 | (11) | (11) | - | - |
| Accrued expenses | 417,384 | (417,384) | (417,384) | - | - |
| Bond payables due within one year | 526,507 | (600,000) | (600,000) | - | - |
| Lease liabilities | 241,748 | (282,398) | (44,051) | (45,084) | (193,263) |
| Derivative financial liabilities | | | | | |
| Forward exchange contracts: | | | | | |
| Outflows | 10,517 | (2,025,890) | (2,025,890) | - | - |
| Inflows | (12,874) | 2,028,247 | 2,028,247 | - | - |
| | <u>\$ 10,854,158</u> | <u>(10,974,610)</u> | <u>(10,736,263)</u> | <u>(45,084)</u> | <u>(193,263)</u> |
| December 31, 2019 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Accounts payable (Included related-parties) | \$ 4,310,745 | (4,310,745) | (4,310,745) | - | - |
| Other payables to related parties (other current liabilities) | 1,114 | (1,114) | (1,114) | - | - |
| Accrued expenses | 556,416 | (556,416) | (556,416) | - | - |
| Short-term borrowings | 952,701 | (960,159) | (960,159) | - | - |
| Long term borrowings (Included maturity within 1 year) | 270,000 | (278,868) | (123,468) | (155,400) | - |
| Bonds Payables | 571,047 | (600,000) | - | (600,000) | - |
| Lease Liabilities | 275,199 | (319,881) | (55,093) | (63,663) | (201,125) |
| Investment Payables (Other current liabilities) | 1,632,894 | (1,632,894) | (1,632,894) | - | - |
| Derivative financial liabilities | | | | | |
| Forward exchange contracts: | | | | | |
| Outflows | 377 | (990,121) | (990,121) | - | - |
| Inflows | (6,839) | 996,583 | 996,583 | - | - |
| | <u>\$ 8,563,654</u> | <u>(8,653,615)</u> | <u>(7,633,427)</u> | <u>(819,063)</u> | <u>(201,125)</u> |

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

C. Currency risk

(a) Exposure to currency risk

The Group's significant exposure to foreign currency risk was as follows:

| | <u>December 31, 2020</u> | | | <u>December 31, 2019</u> | | |
|-------------------------|-----------------------------|--------------------------|------------|-----------------------------|--------------------------|------------|
| | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>NTD</u> | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>NTD</u> |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | \$ 371,513 | 28.35 | 10,532,394 | 119,521 | 30.08 | 3,595,192 |
| CNY | 62,190 | 4.3216 | 268,760 | 19,349 | 4.3220 | 83,626 |

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| | December 31, 2020 | | | December 31, 2019 | | |
|------------------------------|---------------------|------------------|-----------|---------------------|------------------|-----------|
| | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD |
| <u>Non-Monetary items</u> | | | | | | |
| USD | 38,590 | 28.35 | Note | 24,000 | 30.08 | Note |
| EUR | 7,130 | 34.956 | Note | - | - | - |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | 331,965 | 28.35 | 9,411,208 | 92,171 | 30.08 | 2,772,504 |
| <u>Non-Monetary items</u> | | | | | | |
| USD | 24,000 | 28.35 | Note | 9,000 | 30.08 | Note |

Note : Please refer to note 6(2) for the information on forward exchange contracts at fair value.

(b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the foreign currency exchange gains and losses resulted from the translation of cash and cash equivalents, trade receivables, other receivables, short-term borrowings, trade payables and other payables which are denominated in foreign currencies. A strengthening (weakening) of 1% of the NTD against the USD and the CNY at December 31, 2020 and 2019, would have increased or decreased the profit before tax by \$13,899 thousand and \$9,063 thousand, respectively. The analysis assumed that all other variables remain constant, and is performed on the same basis for both periods.

(c) Exchange gains and losses on monetary items

Since the Group has different functional currencies, the information on foreign exchange gain (loss) on monetary items is disclosed in aggregate amount. For the years 2020 and 2019, foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$(73,540) thousand and \$(1,454) thousand, respectively.

D. Interest rate analysis

Please refer to the notes on liquidity risk management for interest rate exposure of the Group's financial assets and liabilities. The following sensitivity analysis is based on the exposure to the interest rate risk. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year.

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If the interest rate had increased or decreased by 0.25%, the Group's net income before tax would have increased or decreased by \$7,524 thousand and \$2,372 thousand, respectively for the years ended December 31, 2020 and 2019 with all other variable factors remaining constant. The change is mainly due to the Group's cash and cash equivalents, financial assets at amortized cost (non-current) and borrowings with variable rates.

E. Other market price risk

For the years ended December 31, 2020 and 2019, the sensitivity analyses for the changes in securities price at the reporting date were performed using the same basis for the profit and loss as illustrated below:

| Prices of securities at the reporting date | For the years ended December 31, | |
|---|---|----------------|
| | 2020 | 2019 |
| Increasing 5% | \$ 1,062 | 8,081 |
| Decreasing 5% | \$ (1,062) | (8,081) |

F. Fair value of financial instruments

(a) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for lease liabilities, disclosure of fair value information is not required:

| | December 31, 2020 | | | | |
|---|--------------------------|-------------------|----------------|----------------|---------------|
| | Carrying amount | Fair Value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at fair value under repetitive basis | | | | | |
| Financial assets mandatorily at fair value through profit or loss | \$ 82,311 | 68,894 | 13,417 | - | 82,311 |
| Non-current financial assets at fair value through other comprehensive income-non-current | \$ 21,245 | - | - | 21,245 | 21,245 |

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| | December 31, 2020 | | | | |
|--|----------------------|----------------|---------------|---------------|----------------|
| | Carrying amount | Fair Value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | \$ 5,710,004 | - | - | - | - |
| Notes and accounts receivable (including related parties) | 6,801,268 | - | - | - | - |
| Financial assets measured at amortized cost – current and non-current | <u>383,052</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 12,894,324</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financial liability measured at fair value under repetitive basis | | | | | |
| Financial liability at fair value through profit or loss-derivative | <u>\$ 10,517</u> | <u>-</u> | <u>10,517</u> | <u>-</u> | <u>10,517</u> |
| Financial liabilities measured at amortized cost | | | | | |
| Accounts payable (including related parties) | \$ 6,828,103 | - | - | - | - |
| Payable to related parties | 11 | - | - | - | - |
| Short-term borrowings | 2,842,762 | - | - | - | - |
| Bond payables (due within one year) | 526,507 | - | - | - | - |
| Lease liabilities – current and non- current | <u>241,748</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 10,439,131</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | December 31, 2019 | | | | |
| | Carrying amount | Fair Value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value under repetitive basis | | | | | |
| Financial assets mandatorily at fair value through profit or loss- derivative financial assets | <u>\$ 99,705</u> | <u>92,866</u> | <u>6,839</u> | <u>-</u> | <u>99,705</u> |
| Non-current financial assets at fair value through other comprehensive income - Non current | <u>\$ 161,614</u> | <u>140,369</u> | <u>-</u> | <u>21,245</u> | <u>161,614</u> |

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| | December 31, 2019 | | | | |
|--|-----------------------------|------------|---------------------|----------|---------------------|
| | Carrying amount | Fair Value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | 5,918,331 | - | - | - | - |
| Notes and accounts receivable (including related parties) | 4,292,840 | - | - | - | - |
| Financial assets measured at amortized cost – current and non-current | <u>3,186,435</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 13,397,606</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financial liability measured at fair value under repetitive basis | | | | | |
| Financial liabilities at fair value through profit or loss-derivative \$ | 377 | - | 377 | - | 377 |
| Financial liabilities at fair value through profit or loss-Non current | <u>1,560</u> | <u>-</u> | <u>1,560</u> | <u>-</u> | <u>1,560</u> |
| Total | <u>\$ 1,937</u> | <u>-</u> | <u>1,937</u> | <u>-</u> | <u>1,937</u> |
| Financial liabilities measured at amortized cost | | | | | |
| Accounts payable | 4,310,745 | - | - | - | - |
| Other Payable to related parties | 1,114 | - | - | - | - |
| Short-term borrowings | 952,701 | - | - | - | - |
| Long-term borrowings (Included maturity within 1 year) | 270,000 | - | - | - | - |
| Bonds Payable | 571,047 | - | - | - | - |
| Lease Liabilities (Current and non- current) | <u>275,199</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 6,380,806</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Fair value measured on non-recurring basis refers to occurrences in specific condition. The Company does not have any financial assets and liabilities measured on non-recurring basis.

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

i. Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

The categories and nature of the fair value for the Group's financial instruments which have active market are as below:

Publicly traded stock, bank draft and bond with standard terms, conditions and traded in active market. The fair value is based on quoted market prices.

Except for the above-mentioned financial instruments traded in active markets, the fair value of other financial instruments is based on the valuation techniques or refer to quoted price from counterparties. The fair value using valuation techniques refers to the current fair value of other financial instruments with similar conditions and characteristics, or using a discounted cash flow method, or other valuation techniques which include model calculating with observable market data at the reporting date (such as yield curve from Taipei Exchange, average interest rate from Reuters' commercial paper).

The categories and nature of the fair value for the Group's financial instruments which without an active market are as below:

The fair value for equity instruments which do not have public quoted price is measured based on net asset value of comparable companies. The main assumption is based on the market multiples derived from the net value per share of investees and quoted price of EV/EBIT's comparable listed companies. The estimated amount has adjusted the discounted effect due to the lack of liquidity in market for equity security.

ii. Derivative financial instruments

Measurement on fair value of derivative instruments is based on the valuation techniques generally accepted by market participants such as the discounted cash flow or option pricing models. Foreign currency forward contract is measured based on the current forward exchange rate. Structured interest rate derivative products are measured based on appropriate option pricing model.

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- (c) There was no transfer between the different levels of fair value hierarchy for the years ended December 31, 2020 and 2019.
- (d) Reconciliation of Level 3 fair values

| | At fair value through profit or loss |
|--|---|
| Opening Balance, January 1, 2020 (same as December 31, 2020) | \$ 21,245 |
| Opening Balance, January 1, 2019 | \$ - |
| Acquired through business combination | 21,245 |
| Ending Balance, December 31, 2019 | \$ 21,245 |

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

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

Quantified information of significant unobservable inputs was as follows:

| Item | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|--------------------------------|---|--|
| Financial assets at fair value through other comprehensive income-equity investments without an active market | Net Asset Value Method | As of December 31, 2020 and 2019, net asset value of comparable companies at 1.88 times and 1.77 times, respectively. As of December 31, 2020 and 2019, discount for lack of marketability of 21.14% and 17.85%, respectively. | Not applicable The fair value would decrease if lack of marketability with higher discount rate. |

(32) Financial risk management

A. Overview

The Group have exposures to the following risks from its financial instruments:

- (a) credit risk

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(b) liquidity risk

(c) market risk

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the above-mentioned risks. For more disclosures about the quantitative effects of these risk exposures, please refer to the respective notes in the accompanying consolidated financial statements.

B. Structure of risk management

The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit Committee, which is responsible for monitoring the compliance of the Group's risk management policies and procedures. Risk management policies and systems are also reviewed regularly by the Audit Committee to reflect the changes in market conditions and the Group's activities. Internal auditors are assisting Audit Committee in performing the monitoring role through periodic and ad hoc review procedures to risk management relevant control and process. The committee reports regularly to the Board of Directors on its activities.

C. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

(a) Accounts receivable and other receivables

The Group has established a credit policy, under which, each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer and represent the maximum open amount; these limits are reviewed periodically. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group did not have any collateral on accounts receivable and other receivable.

(b) Investment

The credit risk of bank deposits, fixed income investments, and other financial instruments, is measured and monitored by the financial department of the Group. There is no significant credit risk because the Group used to transact with or deal with counterparty with good credit ratings financial institutions, corporate organizations and government agencies.

(c) Guarantee

The Group's policy provides only financial security to fully owned subsidiaries. At December 31, 2020 and 2019, the Group did not provide any endorsement guarantee.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

D. Liquidity risk

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

Bank borrowing is an essential liquidity source for the Group. For the years ended December 31, 2020 and 2019, the Group did not utilize any credit line for both long-term and short-term bank borrowing. Please refer to note 6(14) for details.

E. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices that will affect the Group's income or the value of its holdings on financial instruments. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives instruments, and also incurs financial liabilities, in order to manage market risks. All such transactions are executed in accordance with the Group's procedures for conducting derivative transactions which were approved by the Board of Directors.

(a) Foreign currency risk

The Group's exposure to the risk of fluctuation in foreign currency exchange rates relates primarily to the Group's sales, purchases, and borrowings transactions, and those are denominated in a currency different from the functional currencies of the Group. These transactions are denominated in New Taiwan dollar (NTD), US dollar (USD) and Chinese Yuan (CNY).

The derivative financial products traded by the Group adopts economic hedging to avoid the exchange rate risk of foreign currency assets or liabilities held by the Group. The gains and losses arising from exchanges rate changes will offsets the hedged items, therefore, the market risk is usually low.

(b) Other market price risk

The Group is exposed to equity price risk due to its investments in equity securities. This is a strategic investment and is not held for trading. The Group does not actively trade in these investments. Therefore, the Group will be exposed to the risk of market price changes in its equity securities.

(33) Capital management

The Group's objective for managing its capital is to safeguard the capacity to continue as a going concern, to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
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In order to maintain or adjust its capital structure, the Group may adjust the dividend payment to its shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell its assets to settle any liabilities.

The Group and other entities in the same industry use the debt-to-equity ratio to manage their capital. This ratio is the total net debt divided by the total capital.

The net debt from the balance sheet is derived from the total liabilities, less, cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, and other equity.

The Group's debt-to-equity ratio at the end of the reporting period was as follows:

| | December 31, 2020 | December 31, 2019 |
|---------------------------------|------------------------------|------------------------------|
| Total liabilities | \$ 14,267,252 | 10,953,074 |
| Less: Cash and cash equivalents | <u>(5,710,004)</u> | <u>(5,918,331)</u> |
| Net debt | <u>\$ 8,557,248</u> | <u>5,034,743</u> |
| Total equity | <u>\$ 12,738,331</u> | <u>14,047,294</u> |
| Debt-to-equity ratio | <u>67.18%</u> | <u>35.84%</u> |

The debt to equity ratio was increased on December 31, 2020 due to the promising operating conditions of the Group, the increase in demand for raw materials, the increased of \$2,517,358 thousand in accounts payable (including related parties), and the increase of \$1,890,061 thousand in bank borrowings to increase working capital.

As of December 31, 2020, the Group had not changed its capital management method.

(34) Non-cash investing and financing activities

The Group's investing and financing activities which did not affect the current cash flow in the year ended December 31, 2020, were as follows:

A. For right of use assets obtained due to lease, please refer to note 6(11).

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

| | January 1, 2020 | Cash flows | Acquisition | Effect of changes in exchange rates and other | December 31, 2020 |
|---|----------------------------|-------------------|--------------------|--|------------------------------|
| Short-term borrowings | \$ 952,701 | 1,890,061 | - | - | 2,842,762 |
| Long-term borrowings (including maturity within 1 year) | 270,000 | (270,000) | - | - | - |
| Bonds payable (including maturity within 1 year) | 571,047 | - | - | (44,540) | 526,507 |
| Lease liabilities | <u>275,199</u> | <u>(64,269)</u> | <u>-</u> | <u>30,818</u> | <u>241,748</u> |
| Total liabilities from financing activities | <u>\$ 2,068,947</u> | <u>1,555,792</u> | <u>-</u> | <u>(13,722)</u> | <u>3,611,017</u> |

| | January 1, 2019 | Cash flows | Acquisition | Effect of changes in exchange rates and other | December 31, 2020 |
|---|----------------------------|-------------------|--------------------|--|------------------------------|
| Short-term borrowings | \$ - | - | 952,701 | - | 952,701 |
| Long-term borrowings (including maturity within 1 year) | - | - | 270,000 | - | 270,000 |
| Bonds payable | - | - | 571,047 | - | 571,047 |
| Lease liabilities | <u>211,757</u> | <u>(7,584)</u> | <u>68,626</u> | <u>2,400</u> | <u>275,199</u> |
| Total liabilities from financing activities | <u>\$ 211,757</u> | <u>(7,584)</u> | <u>1,862,374</u> | <u>2,400</u> | <u>2,068,947</u> |

7. Related-party transactions:

- (1) Parent company and ultimate controlling company

On July 23, 2020, Qisda acquired 19.02% of the Alpha's common shares, increasing its ownership from 23.84% to 42.86%. Qisda is the ultimate controlling party of the Group, and has issued the consolidated financial statements available for public use.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (2) Names and relationship with related parties. The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statement:

| <u>Name of related party</u> | <u>Relationship with the Group</u> |
|--|---|
| Qisda | Parent Company |
| AEWIN Technologies Co., Ltd. (AEWIN Technologies) | Qisda's subsidiary |
| DAWNING Technology Inc. (DAWNING Technology) | Qisda's subsidiary |
| SYSGE Technology Co.,Ltd. (SYSTEM Technology) | Qisda's subsidiary |
| Unictron Technologies Corporation (Unictron Technologies) | Qisda's subsidiary |
| D-Link Corporation (D-Link) (Note) | The entity with significant influence over the Group |
| D-Link International Pte. Ltd. (D-Link International) (Note) | D-Link Corporation and its subsidiary co-holding subsidiaries |
| D-Link (Shanghai) Ltd. (D-Link Shanghai) (Note) | D-Link Corporation and its subsidiary co-holding subsidiaries |

Note: D-Link, the director of Alpha, transferred more than one half of its shares held at the time of the election, wherein its representative was dismissed. Therefore, D Link was no longer a related party of the Group since December 1, 2020.

- (35) Significant related-party transactions

A. Sales

The amounts of sales from related parties were as follows:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|------------------|
| Entities with significant influence over the Group | \$ 117,074 | 228,644 |
| Other related parties – D-Link International | 1,154,429 | 2,032,855 |
| Other related parties – other | <u>813</u> | <u>87</u> |
| | <u>\$ 1,272,316</u> | <u>2,261,586</u> |

The price for sales to the above related parties was determined by general market conditions and adjusted by considering the geographic sales area and sales volumes.

The collection terms for third parties were 30 to 90 days, while those for related parties were 90 days.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

B. Purchases

The amounts of purchases by the Group from related parties were as follows:

| | For the years ended December 31, | |
|--|---|-------------------|
| | 2020 | 2019 |
| Parent Company | \$ 484 | - |
| Entities with significant influence over the Group | - | 161 |
| Other related parties | <u>80,827</u> | <u>-</u> |
| | <u>\$ 81,311</u> | <u>161</u> |

The payment terms for purchase from related parties were 30 to 90 days after purchase. The payment terms with related parties and the amounts of purchases from related parties were not materially different from those with third parties.

C. Receivables from Related Parties

The receivables from related parties were as follows:

| Account | Relationship | December 31, 2020 | December 31, 2019 |
|--|--|------------------------------|------------------------------|
| Accounts receivable from related parties | Entities with significant influence over the Group | \$ - | <u>82,324</u> |
| | Other related parties: | | |
| Accounts receivable from related parties | D-Link International (Note) | <u>-</u> | <u>445,820</u> |
| | | <u>\$ -</u> | <u>528,144</u> |

Note: Balances as of December 31, 2019 was deducted \$20,733 thousand of allowance for impairment.

D. Payables to Related Parties

The payables to related parties were as follows:

| Account | Relationship | December 31, 2020 | December 31, 2019 |
|-------------------------------------|-----------------------|------------------------------|------------------------------|
| Accounts payable to related parties | Parent Company | \$ - | <u>147</u> |
| Accounts payable to related parties | Other related parties | <u>51,112</u> | <u>-</u> |
| | | <u>\$ 51,112</u> | <u>147</u> |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

E. Rendering of services and other expenses

The Group obtained service from related parties, including product warranty and maintenance service, research and other service expense, as follows:

| | For the years ended December 31, | |
|--|---|---------------|
| | 2020 | 2019 |
| Parent Company | \$ 660 | - |
| Entities with significant influence over the Group | 378 | 940 |
| Other related parties | 3,937 | 10,708 |
| | \$ 4,975 | 11,648 |

The payables to related parties were as follows:

| Account | Related Party Category | December 31, 2020 | December 31, 2019 |
|----------------------------------|--|------------------------------|------------------------------|
| Other payable to related parties | Parent Company | \$ 11 | - |
| Other payable to related parties | Entities with significant influence over the Group | - | 160 |
| Other payable to related parties | Other related party | - | 846 |
| | | \$ 11 | 1,006 |

F. Transactions of property, plant and equipment

| | For the years ended December 31, | |
|--|---|-------------|
| | 2020 | 2019 |
| Parent Company | \$ - | 650 |
| Entities with significant influence over the Group | - | 103 |
| | \$ - | 753 |

The payables to related parties were as follows:

| Account | Related Party Category | December 31, 2020 | December 31, 2019 |
|----------------------------------|--|------------------------------|------------------------------|
| Other payable to related parties | Entities with significant influence over the Group | \$ - | 108 |

G. Rental income

The Group rented out an office to D-Link (shanghai) and the rental income for the years ended December 31, 2020 and 2019 was \$135 thousand and \$431 thousand, respectively. As of December 31, 2020 and 2019, the amounts had been collected.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

H. Various advances

As of December 31, 2020 and 2019, the receivable from related parties due to the payment on behalf of the Group by other current assets were as follows:

| | <u>December 31,</u> <u>2020</u> | <u>December 31,</u> <u>2019</u> |
|---------------------|------------------------------------|------------------------------------|
| Other related party | \$ <u>44</u> | <u>-</u> |

(36) Key management personnel compensation

| | <u>2020</u> | <u>2019</u> |
|------------------------------|-------------------|---------------|
| Short-term employee benefits | \$ 104,780 | 20,813 |
| Share-based payment | <u>3,584</u> | <u>11,080</u> |
| | <u>\$ 108,364</u> | <u>31,893</u> |

8. Pledged assets:

| <u>Pledged assets</u> | <u>Object</u> | <u>December 31,</u> <u>2020</u> | <u>December 31,</u> <u>2019</u> |
|--|--|------------------------------------|------------------------------------|
| Time deposit (recorded in financial assets measured at amortized cost–non-current) | Import guarantee for Customs | \$ 7,550 | 7,500 |
| Time deposit (recorded in financial assets measured at amortized cost–non-current) | Guarantee for land lease | 8,000 | 8,000 |
| Time deposit (recorded in financial assets measured at amortized cost–non-current) | Guarantee for construction project | 2,968 | 2,720 |
| Time deposit (recorded in financial assets measured at amortized cost–current) | Guarantee for open tender of Hitron Technologies Inc. | - | 2,029,959 |
| Time deposit (recorded in financial assets measured at amortized cost–non-current) | Guarantee for forward exchange contracts | 14,227 | - |
| Time deposit (recorded in financial assets measured at amortized cost–non-current) | Guarantee to land lease | 2,382 | 2,382 |
| Refundable deposit (recorded in financial assets measured at amortized cost–non-current) | Guarantee to local authority for sales to abroad customers | 11,547 | 11,491 |
| Refundable deposit (recorded in financial assets measured at amortized cost–non-current) | Guarantee for construction project | 80,144 | - |
| Refundable deposit (recorded in financial assets measured at amortized cost–non-current) | Guarantee to lawsuits | 24,000 | - |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| <u>Pledged assets</u> | <u>Object</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|------------------------------------|------------------------------|------------------------------|
| Refundable deposit (recorded in other non-current assets) | Guarantee for construction project | - | 95,224 |
| Refundable deposit (recorded in other non-current assets) | Guarantee to lawsuits | - | 24,000 |
| | | <u>\$ 150,818</u> | <u>2,181,276</u> |

9. Significant commitments and contingencies:

- (1) As of December 31, 2020 and 2019, the Group deposited notes in the bank amounting to \$4,439,397 thousand and \$3,986,675 thousand, respectively in order to obtain the credits limit of bank financing and foreign exchange facilities.
- (2) The Group had entered into technology license agreement with suppliers. According to the agreement, the Group is obligated to make payments for technology license fee and royalty based on the total sales of products by using such technology.
- (3) The Group had entered into a performance bond arrangement with a bank for the acquisition of 100,000 thousand ordinary shares of Hitron Technologies Inc.. According to the arrangement, the Group is obligated to make a payment of \$3,200,000 thousand within five working days after the acquisition due date. As of December 31, 2020, the amounts had been paid.
- (4) As of December 31, 2020, the contingent items assumed due to business combination transaction are as follows:

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|------------------------------|------------------------------|
| Guarantee notes payables due to business combination arrangement | \$ 8,938 | 8,256 |
| Guarantee for construction projects | 189,874 | 175,190 |
| Guarantee on tax advance for Taipei Customs | - | 3,000 |
| Guarantee on tax advance for Taipei Tax Authority | 7,825 | - |

Hitron Technologies, Inc (Hitron) had entered a contract on “Development of Wireless sharing platform at Kaohsiung” with eASPNet Taiwan Inc. (eASPNet). The contract has been terminated due to the failure of check and accept by Kaohsiung City Government. eASPNet has thus terminated the contract with Hitron. However, Hitron disagreed with the termination without reason by eASPNet, thus filed a lawsuit against eASPNet for a claim amounting to \$86,619 thousand. On February 27, 2011, Taipei Shilin District Court rendered judgment against eASPNet and imposed a claim to eASPNet amounting to \$72,916 thousand with interest of 5% per annum from April 12, 2008, until the claim is fully settled. eASPNet disagreed with the judgment and lodged an appeal as well as paid a guarantee fee amounting to \$72,916 thousand for preliminary injunction. On May 31, 2013, Taiwan High Court Civil Appeal rendered judgment against eASPNet, and the defendant lodged an appeal to the Supreme Court. The Supreme Court revoked the original decision and reversed the case to Taiwan High Court for rehearing. Hitron won the lawsuit at the first hearing at Taiwan High Court on March 29, 2016, and eASPNet should pay Hitron a claim amounting to \$71,115 thousand. Both parties have lodged an appeal for the first hearing.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Taiwan High Court overturned the initial preliminary injunction, and the lawsuit had proceeded to the Supreme Court for second hearing on January 5, 2017. However, the Supreme Court handed the case back to the Taiwan High Court on November 18, 2013 for reconsideration. On October 20, 2020, the Taiwan High Court dismissed the decision made in the first hearing. According to the opinions of experts, despite the situation above, Hitron still has the right to appeal. On November 17, 2020, Hitron filed an appeal to the Taiwan High Court, who then handed the case over to the Supreme Court on January 25, 2021.

10. Losses Due to Major Disasters: None

11. Subsequent Events: None

12. Other:

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

| By item | 2020 | | | 2019 | | |
|----------------------------|---------------|--------------------|-----------|---------------|--------------------|-----------|
| | Cost of sales | Operation expenses | Total | Cost of sales | Operation expenses | Total |
| Employee benefits | | | | | | |
| Salaries | 960,224 | 2,280,311 | 3,240,535 | 607,072 | 1,364,279 | 1,971,351 |
| Labor and health insurance | 53,293 | 146,329 | 199,622 | 34,152 | 103,314 | 137,466 |
| Pension | 31,661 | 83,066 | 114,727 | 37,889 | 84,231 | 122,120 |
| Remuneration of directors | - | 45,266 | 45,266 | - | 7,247 | 7,247 |
| Others | 63,544 | 100,625 | 164,169 | 42,815 | 62,324 | 105,139 |
| Depreciation | 228,549 | 286,603 | 515,152 | 119,536 | 144,839 | 264,375 |
| Amortization | 1,615 | 191,989 | 193,604 | 650 | 64,605 | 65,255 |

13. Other disclosures:

(1) Information on significant transactions:

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

- A. Loans to other parties: Please refer to Table 1.
- B. Guarantees and endorsements for other parties: Please refer to Table 2.
- C. Securities held as of December 31, 2020 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 3.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of \$300 million or 20% of the capital stock: Please refer to Table 4.

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ALPHA NETWORKS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- E. Acquisition of individual real estate with amount exceeding the lower of \$300 million or 20% of the capital stock: Please refer to Table 5.
- F. Disposal of individual real estate with amount exceeding the lower of \$300 million or 20% of the capital stock: None.
- G. Related-party transactions for purchases and sales with amounts exceeding the lower of \$100 million or 20% of the capital stock: Please refer to Table 6.
- H. Receivables from related parties with amounts exceeding the lower of \$100 million or 20% of the capital stock: Please refer to Table 7.
- I. Trading in derivative instruments: Please refer to note 6(2).
- J. Business relationships and significant intercompany transactions: Please refer to Table 8.
- (2) Information on investees (excluding information on investees in Mainland China): Please refer to Table 9.
- (3) Information on investment in mainland China:
- A. The names of investees in Mainland China, the main businesses and products, and other information: Please refer to Table 10.
- B. Limitation on investment in Mainland China: Please refer to Table 10.
- C. Significant transactions:
- The significant inter-company transactions with the subsidiaries in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions”.
- (4) Major shareholders:

| Shareholder's Name | Shareholding | Shares | Percentage |
|--------------------|--------------|-------------|------------|
| Qisda Corporation | | 295,163,126 | 54.48 % |

- A. The information on major shareholders who hold 5 percent or more of the issuer's common stocks and preferred stocks, including treasury stocks, is quarterly provided by Taiwan Depository and Clearing Corp. The share capital disclosed on the financial report, and the actual numbers of dematerialized securities, may be different due to their discrepancies in calculation.

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ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

B. If the shareholder entrusts the shares to the trust, the shareholding will be disclosed by the trustee's account individually. As for those shareholders who are responsible for the declaration of insiders' shareholding with more than 10 percent in accordance with the Securities and Exchange Act, their shareholdings shall include their own shares and the trust in which they have the authority to decide the allocation of their trust assets. Please refer to the Market Observation Post System for information on the insiders' shareholding.

14. Segment information:

(1) Operating segment information

The Group has two reportable segments based on the Group's operating units. Every operating unit provides different types of products and services which require different type of technologies and marketing strategies as well as management. The Group's management decision maker will review the internal management report for each operating unit quarterly. The operation descriptions of each operating unit are as below:

- A. Network related products: Involved in design, research, production and sales of LAN/MAN, wireless related products, computer network system and related components.
- B. Others: Involved in research, production and sales of telecommunication system and multimedia related products.

(2) Information about reportable segments and their measurement and reconciliations

| | 2020 | | | Total |
|-----------------------------------|---|------------------|---|-------------------|
| | Network related products | Others | Reconciliation and elimination | |
| Revenue: | | | | |
| Revenue from external customers | \$ <u>30,412,295</u> | <u>1,859,423</u> | <u>(101,069)</u> | <u>32,170,649</u> |
| Interest expenses | \$ <u>33,975</u> | <u>10,040</u> | <u>(5)</u> | <u>44,010</u> |
| Depreciation and amortization | \$ <u>648,425</u> | <u>60,578</u> | <u>(247)</u> | <u>708,756</u> |
| Reportable segment profit or loss | \$ <u>760,727</u> | <u>190,268</u> | <u>(101,389)</u> | <u>849,606</u> |
| Reportable segment assets | \$ <u>23,338,652</u> | <u>3,673,979</u> | <u>(7,048)</u> | <u>27,005,583</u> |
| Reportable segment liabilities | \$ <u>12,457,580</u> | <u>1,810,759</u> | <u>(1,087)</u> | <u>14,267,252</u> |

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

| | 2019 | | | |
|-----------------------------------|--------------------------------|---------------------|--------------------------------------|----------------------|
| | Network related products | Others | Reconciliation and elimination | Total |
| Revenue: | | | | |
| Revenue from external customers | \$ <u>15,825,803</u> | - | - | \$ <u>15,825,803</u> |
| Interest expenses | \$ <u>3,487</u> | - | - | \$ <u>3,487</u> |
| Depreciation and amortization | \$ <u>329,630</u> | - | - | \$ <u>329,630</u> |
| Reportable segment profit or loss | \$ <u>238,903</u> | - | - | \$ <u>238,903</u> |
| Reportable segment assets | \$ <u>21,372,315</u> | \$ <u>3,628,053</u> | - | \$ <u>25,000,368</u> |
| Reportable segment liabilities | \$ <u>9,339,654</u> | \$ <u>1,613,420</u> | - | \$ <u>10,953,074</u> |

(3) Products and services information

Details of customers contract revenue for 2020 and 2019, please refer to note 6 (25).

(4) Geographic information

In presenting information on the basis of geography, revenue is based on the geographical location of customers, and assets are based on the geographical location of the assets.

Non-current assets include property, plant, and equipment, intangible asset, long-term prepaid rents and other assets, not including financial instruments and deferred tax assets.

| | December 31, 2020 | December 31, 2019 |
|---------------------|----------------------|----------------------|
| Non-current assets: | | |
| China | \$ 1,206,084 | 1,482,824 |
| Taiwan | 3,432,992 | 3,642,280 |
| Others | <u>1,231,614</u> | <u>316,280</u> |
| | <u>\$ 5,870,690</u> | <u>5,441,384</u> |

Non-current assets include property, plant, and equipment, right of use asset, intangible asset and other assets, not including financial instruments and deferred tax assets.

(Continued)

ALPHA NETWORKS INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(5) Major customer information

Sales to individual customers representing greater than 10% of consolidated revenue were as follows:

| | <u>2020</u> | <u>2019</u> |
|-----------|----------------------|------------------|
| V Company | \$ 4,573,644 | - |
| L Company | 3,795,202 | 3,214,661 |
| Z Company | 3,452,918 | - |
| U Company | 3,263,804 | 1,168,895 |
| W Company | 1,580,507 | 2,524,699 |
| Y Company | <u>1,304,762</u> | <u>2,032,855</u> |
| | <u>\$ 17,970,837</u> | <u>8,941,110</u> |

Alpha Networks Inc. and Subsidiaries
Loans to other parties
For the year ended December 31, 2020

Table 1

(In Thousands of New Taiwan Dollars)

| No. | Name of lender | Name of borrower | Account | Related party | Highest balance of financing to other parties during the period | Ending balance | Actual usage amount during the period | Range of interest rates during the period | Purposes of fund financing for the borrower | Transaction amount for business between two parties | Reasons for short-term financing | Allowance for bad debt | Collateral | | Individual funding loan limits | Maximum limit of fund financing |
|-----|---------------------|------------------|---------------------------------------|---------------|---|---------------------------------|---------------------------------------|---|---|---|----------------------------------|------------------------|------------|-------|--------------------------------|---------------------------------|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | Alpha HK | Alpha Changshu | Other receivable from related parties | Yes | 1,504,602 (USD51,000 thousand) | 921,375 (USD32,500 thousand) | 921,375 (USD32,500 thousand) | - | 2 | - | Operating capital | - | - | - | 6,563,526 (note 4) | 6,563,526 (note 4) |
| 2 | Mirac | Alpha Changshu | Same as above | Yes | 130,089 (RMB30,000 thousand) | 129,648 (RMB30,000 thousand) | 129,648 (RMB30,000 thousand) | 2.5% | 2 | - | Operating capital | - | - | - | 889,353 (note 4) | 889,353 (note 4) |
| 3 | Alpha Chengdu | Alpha Changshu | Same as above | Yes | 173,452 (RMB40,000 thousand) | 86,432 (RMB20,000 thousand) | 86,432 (RMB20,000 thousand) | 2.5% | 2 | - | Operating capital | - | - | - | 1,676,938 (note 4) | 1,676,938 (note 4) |
| 4 | Hitron Technologies | Hitron Europe | Same as above | Yes | 31,801 | - | - | - | 1 | 576,582 | - | - | - | - | 576,582 (note 5) | 1,978,060 (note 5) |
| 4 | Hitron Technologies | Hitron Americas | Same as above | Yes | 16,936 | - | - | - | 1 | 6,585,643 | - | - | - | - | 1,978,060 (note 5) | 1,978,060 (note 5) |
| 4 | Hitron Technologies | Hitron Suzhou | Same as above | Yes | 454,800 | 425,250 | 170,100 | 1-2% | 2 | - | Operating capital | - | - | - | 494,515 (note 5) | 1,978,060 (note 5) |
| 4 | Hitron Technologies | Hitron Vietnam | Same as above | Yes | 454,800 | 425,250 | 425,250 | 1-2% | 2 | - | Operating capital | - | - | - | 494,515 (note 5) | 1,978,060 (note 5) |
| 5 | Jietech Suzhou | Hitron Suzhou | Same as above | Yes | 21,682 | 21,608 | 21,608 | 2% | 2 | - | Operating capital | - | - | - | 30,646 (note 5) | 30,646 (note 5) |

Note 1: The method of filling out the capital loan and nature is as follows:

- (1) relate business relationship, please fill in 1.
- (2) relate short-term financing, please fill in 2.

Note 2: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of Alpha.

Note 3: The total amount lendable to any such subsidiary of Alpha shall not exceed forty percent (40%) of the net worth of Alpha.

- Note 4: Alpha HK、Mirac、Alpha Chengdu、Global and D-Link Asia, the subsidiaries whose voting shares are 100% owned, directly or indirectly, by Alpha, which are not located in Taiwan, the lending will not be subject to the restriction set forth in the above paragraph of this Article. Notwithstanding the foregoing, the aggregate amount available for lending to such borrowers and the total amount lendable to each of such borrowers still shall not exceed 300% of the net worth of Alpha.
- Note 5: The total amount of lending to a company by Hitron Technologies and its subsidiaries shall not exceed forty percent (40%) of the net worth of the audited or reviewed financial statement for both parties. The lending reason and limit for each type of party is stated as below:
- a. For entities who have business transactions with the Company, the lending amount shall not exceed the total transaction amount in the nearest 12 months. The transaction referring to the higher of sales or purchase amount.
 - b. For entities who have a need in short term financing, the lending amount shall not exceed ten percent (10%) of the net worth of Hitron Technologies' latest audited or reviewed financial statements.
 - c. For foreign subsidiaries which Hitron Technologies has 100% of direct or indirect voting rights, the financing total amount and the limit shall not exceed forty percent (40%) of the net worth of the Company.

Alpha Networks Inc. and Subsidiaries
Guarantees and endorsements for other parties
For the year ended December 31, 2020

Table 2

(In Thousands of New Taiwan Dollars)

| No. | Name of guarantor | Counter-party of guarantee and endorsement | | Limitation on amount of guarantees and endorsements for a specific enterprise (note 1) | Highest balance for guarantees and endorsements during the period | Balance of guarantees and endorsements as of reporting date | Actual usage amount during the period | Property pledged for guarantees and endorsements (Amount) | Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements | Maximum amount for guarantees and endorsements (note 2) | Parent company endorsements/ guarantees to third parties on behalf of subsidiary | Subsidiary endorsements/ guarantees to third parties on behalf of parent company | Endorsements/ guarantees to third parties on behalf of companies in Mainland China |
|-----|---------------------|--|-------------------------------|--|---|---|---------------------------------------|---|---|---|--|--|--|
| | | Name | Relationship with the Company | | | | | | | | | | |
| 0 | Alpha | Alpha Dongguan | note 3 | 2,911,255 | 60,600 | 56,700 | 25,560 | - | 0.58 % | 4,852,091 | Y | N | Y |
| 0 | Alpha | Alpha Changshu | note 3 | 2,911,255 | 212,100 | 198,450 | 3,462 | - | 2.05 % | 4,852,091 | Y | N | Y |
| 1 | Hitron Technologies | Innoauto Technologies | note 3 | 4,945,149 | 75,000 | 50,000 | 6,000 | - | 1.01 % | 7,417,724 | Y | N | N |
| 1 | Hitron Technologies | Hitron Europe | note 3 | 4,945,149 | 454,250 | 451,674 | 129,337 | - | 9.13 % | 7,417,724 | Y | N | N |
| 1 | Hitron Technologies | Hitron Americas | note 3 | 4,945,149 | 1,057,875 | 595,350 | - | - | 12.04 % | 7,417,724 | Y | N | N |
| 1 | Hitron Technologies | Hitron Vietnam | note 3 | 4,945,149 | 1,502,800 | 1,417,500 | 595,350 | - | 28.66 % | 7,417,724 | Y | N | N |
| 1 | Hitron Technologies | Hitron Suzhou | note 3 | 4,945,149 | 1,235,554 | 514,446 | - | - | 10.40 % | 7,417,724 | Y | N | Y |

Note 1: The total amount of guarantee provided by Alpha to any individual entity shall not exceed thirty percent of Alpha's equity.

Note 2: The total amount of guarantee provided by Alpha shall not exceed fifty percent of Alpha's equity.

Note 3: The Company directly and indirectly holds more than 50% of the shares with voting rights.

Note 4: The total amount of Hitron Technologies' endorsement in security shall not exceed 150% of the net value of Hitron Technologies' latest financial statements; the amount of endorsement in security for a single enterprise shall not exceed 10% of the net value of Hitron Technologies' latest financial statements. However, there is no restriction for those directly or indirectly held subsidiaries with more than 50% of the voting shares and for those directly and indirectly hold 100% of the voting shares are indirectly endorsed and guaranteed, but it shall not exceed Hitron 100% of the net value of the latest financial statements.

Alpha Networks Inc. and Subsidiaries
Securities held as of December 31, 2020 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 2020

Table 3

(In Thousands of New Taiwan Dollars)

| Name of holder | Category and name of security | Relationship with company | Account | Ending balance | | | | Highest Percentage of ownership during the year (%) | Note |
|---------------------|---|---------------------------|---|---------------------------|----------------|-----------------------------|------------|---|------|
| | | | | Shares/ Units (thousands) | Carrying value | Percentage of ownership (%) | Fair value | | |
| Alpha | TGC, Inc. | - | Non-current financial assets measured at fair value through profit and loss | 500 | - | 1.83 | - | 1.83 | |
| Hitron Technologies | TRANSCEND | - | Current financial assets at fair value through profit or loss | 441 | 28,665 | - | 28,665 | - | |
| Hitron Technologies | SENAO | - | Current financial assets at fair value through profit or loss | 207 | 7,349 | - | 7,349 | - | |
| Hitron Technologies | FUBON FINANCIAL | - | Current financial assets at fair value through profit or loss | 200 | 9,350 | - | 9,350 | - | |
| Interactive Digital | TRANSCEND | - | Current financial assets at fair value through profit or loss | 362 | 23,530 | 0.08 | 23,530 | - | |
| Hitron Technologies | CHAO LONG MOTOR PARTS CORP | - | Non-current financial assets at fair value through other comprehensive income | 668 | 21,245 | 2.10 | 19,335 | 2.10 | |
| Hitron Technologies | IMAGETECH CO., LTD. | - | Non-current financial assets at fair value through other comprehensive income | 120 | - | 1.20 | - | 1.20 | |
| Hitron Technologies | TSUNAMI VISUAL TECHNOLOGIES, INC. | - | Non-current financial assets at fair value through other comprehensive income | 1,220 | - | 9.34 | - | 9.34 | |
| Hitron Technologies | PIVOT TECHNOLOGY CORP. | - | Non-current financial assets at fair value through other comprehensive income | 198 | - | 10.94 | - | 10.94 | |
| Hitron Technologies | CARDTEK TECHNOLOGY CO.,LTD | - | Non-current financial assets at fair value through other comprehensive income | 1,000 | - | 6.45 | - | 6.45 | |
| Hitron Technologies | YESMOBILE HOLDINGS COMPANY LTD. | - | Non-current financial assets at fair value through other comprehensive income | 294 | - | 0.75 | - | 0.75 | |
| Hitron Technologies | CODENT NETWORKS (CAYMAN) LTD. (SPCIAL SHARES) | - | Non-current financial assets at fair value through other comprehensive income | 1,570 | - | - | - | - | |

Alpha Networks Inc. and Subsidiaries

**Individual securities acquired or disposed of with accumulated amounts exceeding the lower of than \$300 million or 20% of the capital stock
For the year ended December 31, 2020**

Table 4

(In Thousands of New Taiwan Dollars)

| Name of company | Category and name of security | Account | Name of counter-party | Relationship with the company | Beginning Balance | | Purchases | | Sales | | | | Ending Balance | |
|-----------------|-------------------------------|---------------|-----------------------|-------------------------------|--------------------|-----------|--------------------|-----------|--------|-------|------|-------------------------|--------------------|---------------|
| | | | | | Shares (thousands) | Amount | Shares (thousands) | Amount | Shares | Price | Cost | Gain (loss) on disposal | Shares (thousands) | Amount (note) |
| Alpha | Hitron Technologies | Equity method | Hitron Technologies | Parent and subsidiary | 151,028 | 3,243,894 | 48,972 | 1,567,106 | - | - | - | - | 200,000 | 4,102,254 |

Note: The ending balance is the include the amount of investment gains and losses of long-term equity investment recognized in the current period, cumulative translation adjustments, cash dividends and other adjustments.

Alpha Networks Inc. and Subsidiaries
Acquisition of individual real estate with amount exceeding the lower than NTS300 million or 20% of the capital stock
For the year ended December 31, 2020

Table 5

(In Thousands of New Taiwan Dollars)

| Name of company | Name of property | Transaction date | Transaction amount | Status of payment | Counter-party | Relationship with the Company | If the counter-party is a related party, disclose the previous transfer information | | | | References for determining price | Purpose of acquisition and current condition | Others |
|-----------------|------------------|------------------|--------------------|---|--|-------------------------------|---|-------------------------------|------------------|--------|----------------------------------|--|--------|
| | | | | | | | Owner | Relationship with the Company | Date of transfer | Amount | | | |
| Hitron Vietnam | Machinery | 2020.01~12 | 371,796 | Fully paid up Pay in installments Pay in installments Pay in installments Pay in installments | Jietech Suzhou Interactive Dirital DAIICHI KURTZ AJT LITUO TRI | | | | | - | Inquiry and Bargaining | Machinery | N/A |
| Hitron Vietnam | Building | 2020.01~12 | 355,392 | Based on the progress of construction | SAI GON VISICONS ASEMCO VSIP SHENG HUEI ENGINEERING TECHNOLOGY COMPANY LIMITED JIUH JIANG LONG CO.,LTD | | | | | - | Open bid | Building | N/A |

Alpha Networks Inc. and Subsidiaries
Related-party transactions for purchases and sales with amounts exceeding the lower of \$100 million or 20% of the capital stock
For the year ended December 31, 2020

Table 6

(In Thousands of New Taiwan Dollars)

| Name of company | Related party | Nature of relationship | Transaction details | | | | Transactions with terms different from others | | Notes/Accounts receivable (payable) | | Note |
|---------------------|----------------------|--|---------------------|-------------|-------------------------------------|---------------|---|---------------|-------------------------------------|---|--------|
| | | | Purchase/Sale | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance | Percentage of total notes/accounts receivable (payable) | |
| Alpha | D-Link International | D-LINK Corporation and subsidiaries owned subsidiaries | (Sales) | (1,154,429) | (5)% | 90 days | - | - | - | -% | Note 3 |
| Alpha | Alpha USA | Subsidiary of Alpha | (Sales) | (5,725,298) | (27)% | 90 days | - | 1,133,768 | 21% | Note 2 | |
| Alpha | D-Link Asia | Subsidiary of Alpha | Purchase | 8,840,443 | 46% | 90 days | - | (2,736,037) | (63)% | Note 2 | |
| Alpha | Alpha Changshu | Subsidiary of Alpha | Purchase | 6,844,340 | 35% | 90 days | - | (1,040,052) | (24)% | Note 2 | |
| Alpha Changshu | Mirac | Subsidiary company to subsidiary | (Sales) | (509,098) | (7)% | 90 days | - | 157,163 | 13% | Note 2 | |
| Alpha HK | Alpha Changshu | Subsidiary company to subsidiary | (Sales) | (433,894) | (7)% | 90 days | - | 969,204 | 100% | Note 2 | |
| D-Link Asia | Alpha Dongguan | Subsidiary company to subsidiary | Purchase | 8,840,443 | 56% | 90 days | - | (2,752,044) | (54)% | Note 2 | |
| Hitron Technologies | Hitron Suzhou | Subsidiary company to subsidiary | Purchase | 4,664,226 | 36% | 90 days | - | (468,186) | (21)% | Note 2 | |
| Hitron Technologies | Hitron Americas | Subsidiary company to subsidiary | (Sales) | (6,585,634) | (64)% | 90 days | - | 1,884,630 | 85% | Note 2 | |
| Hitron Technologies | Hitron Europe | Subsidiary company to subsidiary | (Sales) | (576,582) | (6)% | 90 days | - | 251,033 | 11% | Note 2 | |
| Hitron Technologies | Hitron Vietnam | Subsidiary company to subsidiary | Purchase | 3,046,968 | 24% | 90 days | - | (1,053,347) | (47)% | Note 2 | |
| Hitron Suzhou | Hitron Vietnam | Subsidiary company to subsidiary | (Sales) | (1,559,411) | (15)% | 90 days | - | 430,133 | 19% | Note 2 | |

Note 1: please refer Note 7 for the detail of Significant related-party transactions.

Note 2: The relevant transactions and ending balance were eliminated in the comprehensive financial reports.

Note 3: Subsidiaries jointly held by D-Link and its subsidiaries.

Alpha Networks Inc. and Subsidiaries
Receivables from related parties with amounts exceeding the lower of \$100 million or 20% of the capital stock
December 31, 2020

Table 7

(In Thousands of New Taiwan Dollars)

| Name of company | Counter-party | Nature of relationship | Ending balance | Turnover rate | Overdue | | Amounts received in subsequent period(note 1) | Loss Allowance | Note |
|---------------------|---------------------|----------------------------------|----------------|---------------|---------|--------------|---|----------------|--------|
| | | | | | Amount | Action taken | | | |
| Alpha | Alpha USA | Subsidiary of Alpha | 1,133,768 | 6.66 | - | - | 130,788 | - | note 2 |
| Alpha | Alpha HK | Subsidiary of Alpha | 173,978 | - | 5,127 | - | 146,218 | - | note 2 |
| D-Link Asia | Alpha | Subsidiary company to parent | 2,736,037 | 5.65 | 167,044 | - | 1,157,358 | - | note 2 |
| Alpha Changshu | Alpha | Subsidiary company to parent | 1,040,052 | 5.66 | 515 | - | 626,530 | - | note 2 |
| Alpha Dongguan | D-Link Asia | Subsidiary company to subsidiary | 2,752,044 | 5.59 | 550,122 | - | 1,157,358 | - | note 2 |
| Alpha Changshu | Mirac | Subsidiary company to subsidiary | 157,163 | 0.37 | - | - | 154,135 | - | note 2 |
| Alpha HK | Alpha Changshu | Subsidiary company to subsidiary | 969,204 | 0.70 | 68,825 | - | 596,110 | - | note 2 |
| D-Link Asia | Alpha Dongguan | Subsidiary company to subsidiary | 2,320,215 | 5.58 | 2,239 | - | 828,673 | - | note 2 |
| Hitron Technologies | Hitron Americas | Subsidiary company to subsidiary | 1,884,630 | 4.32 | - | - | 1,276,172 | - | note 2 |
| Hitron Technologies | Hitron Europe | Subsidiary company to subsidiary | 251,033 | 3.97 | - | - | 162,168 | - | note 2 |
| Hitron Suzhou | Hitron Technologies | Subsidiary company to subsidiary | 468,186 | 7.11 | - | - | 468,186 | - | note 2 |
| Hitron Suzhou | Hitron Vietnam | Subsidiary company to subsidiary | 430,133 | 7.25 | - | - | 430,133 | - | note 2 |
| Hitron Vietnam | Hitron Technologies | Subsidiary company to subsidiary | 1,053,347 | 5.79 | - | - | 1,053,347 | - | note 2 |

Note 1: The collection situation as of February 15, 2021.

Note 2: The relevant transactions and ending balance were eliminated in the comprehensive financial reports.

Alpha Networks Inc. and Subsidiaries
Business relationships and significant intercompany transactions
For the year ended December 31, 2020

Table 8

(In Thousands of New Taiwan Dollars)

| No. | Name of company | Name of counter-party | Nature of relationship | Intercompany transactions | | | |
|-----|---------------------|-----------------------|----------------------------------|--|-----------|---------------|--|
| | | | | Account | Amount | Payment terms | Percentage of the consolidated net revenue or total assets |
| 0 | Alpha | Alpha USA | Parent company to Subsidiary | Sales | 5,725,298 | - | 17.80% |
| 0 | Alpha | Alpha USA | Parent company to Subsidiary | Accounts receivable from related parties | 1,133,768 | 90 days | 4.20% |
| 0 | Alpha | Alpha Changshu | Parent company to Subsidiary | Purchase | 6,844,340 | - | 21.28% |
| 0 | Alpha | Alpha Changshu | Parent company to Subsidiary | Accounts payable to related parties | 1,040,052 | 90 days | 3.85% |
| 0 | Alpha | D-Link Asia | Parent company to Subsidiary | Purchase | 8,840,443 | - | 27.48% |
| 0 | Alpha | D-Link Asia | Parent company to Subsidiary | Accounts payable to related parties | 2,736,037 | 90 days | 10.13% |
| 1 | Alpha HK | Alpha Changshu | Subsidiary company to Subsidiary | Sales | 433,894 | - | 1.35% |
| 1 | Alpha HK | Alpha Changshu | Subsidiary company to Subsidiary | Accounts receivable from related parties | 969,204 | 90 days | 3.59% |
| 2 | D-Link Asia | Alpha Dongguan | Subsidiary company to Subsidiary | Purchase | 8,840,443 | - | 27.48% |
| 2 | D-Link Asia | Alpha Dongguan | Subsidiary company to Subsidiary | Accounts payable to related parties | 2,752,044 | 90 days | 10.19% |
| 3 | Alpha Dongguan | D-Link Asia | Subsidiary company to Subsidiary | Purchase | 7,028,308 | - | 21.85% |
| 3 | Alpha Dongguan | D-Link Asia | Subsidiary company to Subsidiary | Accounts payable to related parties | 2,320,215 | 90 days | 8.59% |
| 4 | Alpha Changshu | Mirac | Subsidiary company to Subsidiary | Sales | 509,068 | - | 1.58% |
| 4 | Alpha Changshu | Mirac | Subsidiary company to Subsidiary | Accounts receivable from related parties | 157,163 | 90 days | 0.58% |
| 4 | Hitron Technologies | Hitron Suzhou | Subsidiary company to Subsidiary | Purchase | 4,664,226 | - | 14.50% |
| 4 | Hitron Technologies | Hitron Suzhou | Subsidiary company to Subsidiary | Operating expense | 2,988 | - | 0.01% |
| 4 | Hitron Technologies | Hitron Suzhou | Subsidiary company to Subsidiary | Other operating cost | 9,327 | - | 0.03% |
| 4 | Hitron Technologies | Hitron Suzhou | Subsidiary company to Subsidiary | Other receivable from related parties | 248,508 | 60 days | 0.92% |
| 4 | Hitron Technologies | Hitron Suzhou | Subsidiary company to Subsidiary | Accounts payable | 468,186 | 90 days | 1.73% |

| No. | Name of company | Name of counter-party | Nature of relationship | Intercompany transactions | | | |
|-----|---------------------|-----------------------|----------------------------------|--|-----------|---------------|--|
| | | | | Account | Amount | Payment terms | Percentage of the consolidated net revenue or total assets |
| 4 | Hitron Technologies | Hitron Europe | Subsidiary company to Subsidiary | Sales | 576,415 | - | 1.79% |
| 4 | Hitron Technologies | Hitron Europe | Subsidiary company to Subsidiary | Accounts receivable from related parties | 251,033 | 60 days | 0.93% |
| 4 | Hitron Technologies | Hitron Americas | Subsidiary company to Subsidiary | Sales | 6,579,563 | - | 20.45% |
| 4 | Hitron Technologies | Hitron Americas | Subsidiary company to Subsidiary | Other operating revenue | 6,072 | - | 0.02% |
| 4 | Hitron Technologies | Hitron Americas | Subsidiary company to Subsidiary | Accounts receivable from related parties | 1,884,630 | 60 days | 6.98% |
| 4 | Hitron Technologies | Hitron Vietnam | Subsidiary company to Subsidiary | Other receivable from related parties | 1,047,134 | 60 days | 3.88% |
| 4 | Hitron Technologies | Hitron Vietnam | Subsidiary company to Subsidiary | Interest income | 4,609 | | 0.01% |
| 4 | Hitron Technologies | Hitron Vietnam | Subsidiary company to Subsidiary | Purchase | 3,046,968 | | 9.47% |
| 4 | Hitron Technologies | Hitron Vietnam | Subsidiary company to Subsidiary | Accounts payable | 1,053,347 | 90 days | 3.90% |

Note: The significant intercompany transactions in this table reach 1% of Group revenue or total assets.

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2020 | | | Highest Percentage of ownership | Net income (losses) of investee | Share of profits/ losses of investee | Note |
|---------------------|-----------------------|-------------|---|----------------------------|---------------------------------|---------------------------------|-------------------------|----------------|---------------------------------|---------------------------------|--------------------------------------|--------|
| | | | | December 31, 2020 | December 31, 2019 | Shares (thousands) | Percentage of ownership | Carrying value | | | | |
| Alpha Holdings | Universal | Samoa | Sale of electrical products | - | 616,200 (USD20,000 thousand) | - | - % | - | 100 % | 6,581 | note 1 | note 5 |
| Enrich Investment | Interactive Digital | Taiwan | Telecommunication and broadband network system services | 189,523 | - | 2,575 | 6.83 % | 114,887 | 6.83 % | 234,242 | note 1 | |
| Enrich Investment | Transnet | Taiwan | Operating network communication products, provide support system services, integrated supply and import and export of network equipment | 50,000 | 50,000 | 5,000 | 100.00 % | 35,522 | 100 % | (10,617) | note 1 | |
| Hitron Technologies | Hitron Samoa | Samoa | International trade | 669,031 | 669,031 | 22,300 | 100.00 % | 752,845 | 100 % | (36,491) | note 1 | |
| Hitron Technologies | Interactive Digital | Taiwan | Telecommunication and broadband network system services | 167,026 | 167,026 | 16,703 | 44.28 % | 510,567 | 45.21 % | 234,242 | note 1 | |
| Hitron Technologies | Hitron Europe | Netherlands | International trade | 59,604 | 59,604 | - | 100.00 % | (8,686) | 100 % | 70,410 | note 1 | |
| Hitron Technologies | Hitron Americas | USA | International trade | 90,082 | 90,082 | 300 | 100.00 % | 123,859 | 100 % | 62,380 | note 1 | |
| Hitron Technologies | Innoauto Technologies | Taiwan | Investments and automotive electronics products | 50,000 | 80,000 | 50,000 | 100.00 % | (7,917) | 100 % | (32,139) | note 1 | |
| Hitron Technologies | Hitron Vietnam | Vietnam | Production and sale of broadband telecommunication products | 550,355 | 220,905 | - | 100.00 % | 434,914 | 100 % | (17,147) | note 1 | |

Note 1: Recognized by subsidiary.

Note 2: This includes the previous that D-link corporation investment in D-Link Asia by \$218,631 thousand.

Note 3: The liquidation procedures of Global had been completed in June 2020 based on the resolution approved during the shareholders' meeting.

Note 4: The liquidation procedures of Alpha Investment had been completed in November 2020 based on the resolution approved during its shareholders' meeting held on July 2020.

Note 5: The liquidation procedures of Universal had been completed in July 2020 based on the resolution approved during its shareholders' meeting held on June 2020.

Note 6: In response to the organization restructure of Alpha Holdings, a resolution was approved during the board meeting held on December 31, 2020 for the capital reduction of Alpha Holdings, whose assets including other assets, other receivables and 100% shares of D Link Asia will be transferred to Alpha Networks Inc. to offset its share capital payable.

Alpha Networks Inc. and Subsidiaries
The names of investees in Mainland China, the main businesses and products, and other information
For the year ended December 31, 2020

Table 10

(In Thousands of New Taiwan Dollars)

(1) The names of investees in Mainland China, the main businesses and products, and other information

| Name of investee | Main businesses and products | Total amount of paid-in capital | Method of investment | Accumulated outflow of investment from Taiwan as of January 1, 2020 | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2020 | Net income (losses) of the investee | Percentage of ownership | Highest percentage of ownership | Investment income (losses) (note 2) | Book value | Accumulated remittance of earnings in current period |
|----------------------|---|---------------------------------|----------------------|---|------------------|--------|---|-------------------------------------|-------------------------|---------------------------------|-------------------------------------|------------|--|
| | | | | | Outflow | Inflow | | | | | | | |
| Alpha Chengdu | Research and development of network products | 420,426 | note 1 | 420,426 | - | - | 420,426 | 22,333 | 100.00% | 100.00% | 22,333 | 558,979 | - |
| Alpha Dongguan | Production and sale of network products | 787,496 | note 1 | 741,084 | - | - | 741,084 (note 6) | 41,052 | 100.00% | 100.00% | 41,052 | 1,043,807 | - |
| Mirac | Production and sale of network products | 307,326 | note 1 | 307,326 | - | - | 307,326 | 11,086 | 100.00% | 100.00% | 11,086 | 296,451 | - |
| Alpha Changshu | Production and sale of network products | 1,925,920 | note 1 | 1,925,920 | - | - | 1,925,920 | 42,575 | 100.00% | 100.00% | 42,575 | 1,229,439 | - |
| Hitron Suzhou | Production and sale of broadhand network products | 641,763 | note 1 | 641,763 | - | - | 641,763 | (35,546) | 100.00% (note 9) | 100.00% | (35,546) | 716,188 | - |
| Jietech Suzhou | Sale of broadband network products and related services | 57,473 | note 1 | 57,473 | - | - | 57,473 | (945) | 100.00% (note 9) | 100.00% | (945) | 30,630 | - |
| Hwa Chi Technologies | Technical consultation on electronic communication, technology research and development, maintenance and after-sale service | 5,814 (USD200 thousands) | note 1 | 12,048 | - | - | 12,048 | 2,255 | 44.28% (notes 8 and 9) | 100.00% | 1,018 | 5,892 | 21,314 |

(2) Limitation on investment in Mainland China

| Accumulated Investment in Mainland China as of December 31, 2020 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|---|---|----------------------------------|
| 3,261,784 note 3,4,7 | 4,123,685 | note 5 |
| 711,284 | 711,284 | 2,967,089 |

Note 1: Investment in companies in Mainland China through the existing companies in the third regions.

Note 2: Amount was recognized based on the audited financial statements.

Note 3: Accumulated investments in Alpha Dongguan did not include the previously invested by D-Link Corporation HKD63,387 thousand (equivalent to approximately \$303,055 thousand).

Note 4: Alpha indirectly investment the subsidiary Tongying Trading (Shenzhen) Co., Ltd., has liquidated all rights and obligations in March 2008 and cancelled the registration. Accumulated investments \$9,828 thousand in Tongying Trading (Shenzhen) Co., Ltd., deducted the remittance amount of \$4,367 thousand equals \$5,461 thousand. It is still necessary to calculate the amount by the principle of Investment Commission, MOEA.

Note 5: As the Company has obtained the certificate of being qualified for operating headquarters issued by Industrial Development Bureau, MOEA on March 2008, the upper limit on investment in mainland China pursuant to "Principle of investment or Technical Cooperation in Mainland China" is not applicable.

Note 6: The investment of \$46,412 thousand by D-Link Asia's own funds, so it does not count the accumulated investment amount from Taiwan at the end of the period.

Note 7: The investment of \$164,622 thousand by Alpha HK's own funds, so it does not count the accumulated investment amount from Taiwan at the end of the period. Maintrend shareholders' meeting approved the dissolution and liquidation on January 12, 2016. The dissolution and liquidation procedures were completed on July 23, 2018.

Note 8: Hwa Chi is a China based investment company which invested Hitron (Samoa) through Alpha, however, it has switched to invest through Interactive Digital due to the Group's restructuring decision resolved in year 2012.

Note 9: This refers to the direct or indirect shares holding by Hitron technologies.