

**WEIKENG INDUSTRIAL CO., LTD.****Parent Company Only Financial Statements****With Independent Auditors' Report  
For the Years Ended December 31, 2019 and 2018**

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The independent auditors' report and the accompanying Parent Company-only 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 Parent Company only financial statements, the Chinese version shall prevail.

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## Independent Auditors' Report

To the Board of Directors of Weikeng Industrial Co., Ltd.:

### Opinion

We have audited the parent company only financial statements of Weikeng Industrial Co., Ltd. (“the Company”), which comprise the parent company only balance sheets as of December 31, 2019 and 2018, the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2019 and 2018, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### Basis for Opinion

We conducted our audit of the financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the financial statements as of and for the year ended December 31, 2018 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we judged shall be presented in the auditors' report as follows:

#### 1. Recognition of Operating Revenue

Please refer to note (4)(m) “Revenue recognition” for accounting policies with respect to recognizing revenue, and to note (6)(s) “Revenue from contracts with customers” for explanatory notes about revenue.

Description of key audit matters:

Weikeng Industrial Co., Ltd. is a listed company. The Company is a distributor for the sale of electronic components and computer peripheral equipment. Operating revenue is one of the significant items in the financial statements, and the amounts and changes of operating revenue may affect the users' understanding of the entire financial statements. Therefore, the testing over revenue recognition is considered a key matter in our audit.

How the matter was addressed in our audit:

Our main audit procedures for the aforementioned key audit matters include testing the Company's controls surrounding revenue recognition in the order-to-cash transaction cycle, including reconciliations between the general ledger and sales system; performing the detailed test of relevant vouchers, as well as assessing whether the Company's timing on revenue recognition and the amounts recognized are in accordance with related standards.

## 2. Valuation of Inventories

Please refer to note (4)(g) "Inventories" for accounting policies with respect to valuating inventories, to note (5) "Valuation of inventories" for accounting estimates and uncertainties of affairs for inventory valuation; and to note (6)(f) "Inventories" for explanatory notes about inventories and related expenses.

Description of key audit matters:

The Company is a distributor for the sale of electronic components and computer peripheral equipment. Due to the horizontal competition in the industry and constant advancement of related technologies, the price of end electronic products are volatile, and thus, affects the price of electronic components and computer peripheral equipment. Therefore, the testing over the valuation of inventories is considered a key matter in our audit.

How the matter was addressed in our audit:

Our main audit procedures for the aforementioned key audit matters include testing the related control over the cost operating cycle; evaluating whether the policies for setting aside allowance for inventory valuation and obsolescence losses are in accordance with the Company's policies and related standards; and executing the implementation of sampling procedures to check the correctness of stock age. In addition, we also examined the inventory aging reports, understood the subsequent sales status of slow-moving inventories; and evaluated the adopted basis of net realizable value to verify the rationality of the management's estimates on the allowance for inventory valuation.

## 3. The share of profit (loss) of subsidiaries and investments accounted for using equity method

Please refer to note (4)(h) "Investments of subsidiaries" for the accounting policies; note (6)(g) "Investments accounted for using equity method" for explanatory notes about the investments under equity method.

Description of key audit matters:

The subsidiaries, which are recognized under equity method, are distributors for the sale of electronic components and computer peripheral equipment with holding material assets, such as accounts receivable and inventories. Therefore, the share of profit of subsidiaries and investments accounted for using equity method which is one of the material items in the financial statements is considered a key matter in our audit.

How the matter was addressed in our audit:

Our main audit procedures for the aforementioned key audit matters include understanding the related control over investments accounted for using equity method; testing the changes of the investment under equity method within the year, including the recognition of investments gains (losses) and the share of comprehensive income; as well as assessing whether the Company's recognition of investments are in accordance with the related standards.

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

The management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investments in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 Jui-Lan Lo and Yiu-Kwan Au.

KPMG

Taipei, Taiwan (Republic of China)  
March 27, 2020

#### **Notes to Readers**

The accompanying Parent Company only financial statements are intended only to present the 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 Parent Company only financial statements are those generally accepted and applied in the Republic of China.

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(English Translation of Financial Statements Originally Issued in Chinese)  
WEIKENG INDUSTRIAL CO., LTD.

Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current assets:</b>				
1100 Cash and cash equivalents (note (6)(a))	\$ 1,355,639	9	877,050	5
1110 Financial assets at fair value through profit or loss-current (note (6)(b))	522	-	1,120	-
1170 Notes and accounts receivable, net (note (6)(d) and note (7))	3,754,444	27	4,497,124	27
1200 Other receivables (note (6)(e) and note (7))	1,295,970	9	1,254,178	7
1300 Inventories, net (note (6)(f))	3,587,993	25	6,216,107	37
1470 Prepaid expenses and other current assets	170,177	1	187,472	1
	<u>10,164,745</u>	<u>71</u>	<u>13,033,051</u>	<u>77</u>
<b>Non-current assets:</b>				
1550 Investments accounted for using equity method (note (6)(g))	3,686,602	26	3,541,047	21
1517 Financial assets at fair value through other comprehensive income - noncurrent (note (6)(c))	45,162	-	63,258	-
1600 Property, plant and equipment(note (6)(h))	100,785	1	104,327	1
1780 Intangible assets	574	-	1,062	-
1755 Right-of-use assets(note (6)(i))	130,186	1	-	-
1840 Deferred tax assets(note (6)(p))	214,782	1	151,139	1
1900 Other non-current assets	25,790	-	25,790	-
	<u>4,203,881</u>	<u>29</u>	<u>3,886,623</u>	<u>23</u>
<b>Total assets</b>	<u>\$ 14,368,626</u>	<u>100</u>	<u>16,919,674</u>	<u>100</u>
<b>Liabilities and Equity</b>				
<b>Current liabilities:</b>				
Short-term borrowings (note (6)(j))	\$ 4,745,669	33	5,884,556	35
Financial liabilities at fair value through profit or loss - current (notes (6)(b))	4,040	-	-	-
Notes and accounts payable (note (7))	1,924,968	14	3,160,941	19
Other payables (note (6)(k) and note (7))	1,171,482	8	1,233,568	7
Current tax liabilities	58,018	1	134,658	1
Contract liabilities-current(note (6)(s))	20,173	-	67,943	-
Current lease liabilities(note (6)(m))	50,818	-	-	-
Other current liabilities	187,575	1	120,698	1
Bonds payable, current portion(note (6)(l))	-	-	32,392	-
	<u>8,162,743</u>	<u>57</u>	<u>10,634,756</u>	<u>63</u>
<b>Non-current liabilities:</b>				
Deferred tax liabilities (note (6)(p))	331,807	2	334,526	2
Non-current lease liabilities (note (6)(m))	79,927	1	-	-
Non-current net defined benefit liabilities (note (6)(o))	129,007	1	131,550	1
Other non-current liabilities	217	-	250	-
	<u>540,958</u>	<u>4</u>	<u>466,326</u>	<u>3</u>
<b>Total liabilities</b>	<u>8,703,701</u>	<u>61</u>	<u>11,101,082</u>	<u>66</u>
<b>Equity (Note (6)(q)):</b>				
Ordinary share	3,677,513	26	3,448,980	20
Capital surplus	884,335	6	872,702	5
Legal reserve	864,760	6	802,354	5
Special reserve	138,615	1	143,162	1
Unappropriated retained earnings	329,162	2	690,010	4
Other equity interest:				
Exchange differences on translation of foreign financial statements	(144,308)	(1)	(71,385)	(1)
Unrealized gains (losses) on financial assets at fair value through other comprehensive income	(85,152)	(1)	(67,231)	-
	<u>(229,460)</u>	<u>(2)</u>	<u>(138,616)</u>	<u>(1)</u>
<b>Total equity</b>	<u>5,664,925</u>	<u>39</u>	<u>5,818,592</u>	<u>34</u>
<b>Total liabilities and equity</b>	<u>\$ 14,368,626</u>	<u>100</u>	<u>16,919,674</u>	<u>100</u>

(English Translation of Financial Statements Originally Issued in Chinese)  
WEIKENG INDUSTRIAL CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
4100 Net sales revenue (notes (6)(s) and note (7))	\$ 22,377,731	100	27,667,169	100
5000 Cost of sales (note (6)(f) and note (7))	<u>21,320,941</u>	<u>95</u>	<u>26,304,773</u>	<u>95</u>
Gross profit	<u>1,056,790</u>	<u>5</u>	<u>1,362,396</u>	<u>5</u>
<b>Operating expenses (notes (6)(n), (6)(o), note (7) and (12)):</b>				
6100 Selling expenses	597,662	3	621,496	2
6200 Administrative expenses	246,930	1	295,867	1
6450 Expected credit losses (gains) (note (6)(d))	<u>(13,876)</u>	<u>-</u>	<u>9,826</u>	<u>-</u>
	<u>830,716</u>	<u>4</u>	<u>927,189</u>	<u>3</u>
Net operating income	<u>226,074</u>	<u>1</u>	<u>435,207</u>	<u>2</u>
<b>Non-operating income and expenses:</b>				
7010 Other income (notes (6)(n) and note (7))	263,447	1	251,757	1
7230 Foreign currency exchange gains (losses), net (note (6)(u))	41,627	-	17,124	-
7235 Gains (losses) on financial assets (liabilities) at fair value through profit or loss	(8,187)	-	22,645	-
7375 Share of profit of associates accounted for using equity method (note (6)(g))	4,876	-	281,645	1
7050 Financial costs (note (6)(m) and note (7))	<u>(193,831)</u>	<u>(1)</u>	<u>(183,205)</u>	<u>(1)</u>
	<u>107,932</u>	<u>-</u>	<u>389,966</u>	<u>1</u>
7900 Profit before tax	334,006	1	825,173	3
7950 Less: Income tax expenses (note (6)(p))	<u>73,612</u>	<u>-</u>	<u>201,119</u>	<u>1</u>
Profit (loss)	<u>260,394</u>	<u>1</u>	<u>624,054</u>	<u>2</u>
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified to profit or loss</b>				
8311 Gains (losses) on remeasurements of defined benefit plans (note (6)(o))	(2,168)	-	(1,939)	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(17,921)	-	3,031	-
8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note (6)(p))	<u>(434)</u>	<u>-</u>	<u>(754)</u>	<u>-</u>
	<u>(19,655)</u>	<u>-</u>	<u>1,846</u>	<u>-</u>
<b>Items that may be reclassified to profit or loss</b>				
8361 Exchange differences on translation of foreign financial statements	(91,154)	-	77,263	-
8399 Less: Income tax related to components of other comprehensive income that may be reclassified to profit or loss (note (6)(p))	<u>(18,231)</u>	<u>-</u>	<u>10,458</u>	<u>-</u>
Components of other comprehensive income that will be reclassified to profit or loss	<u>(72,923)</u>	<u>-</u>	<u>66,805</u>	<u>-</u>
8300 Other comprehensive income	<u>(92,578)</u>	<u>-</u>	<u>68,651</u>	<u>-</u>
8500 Comprehensive income	<u>\$ 167,816</u>	<u>1</u>	<u>692,705</u>	<u>2</u>
<b>Earnings per share: (note (6)(r))</b>				
9750 Basic earnings per share	<u>\$ 0.71</u>		<u>1.83</u>	
9850 Diluted earnings per share	<u>\$ 0.70</u>		<u>1.78</u>	

See accompanying notes to financial statements.



(English Translation of Financial Statements Originally Issued in Chinese)  
WEIKENG INDUSTRIAL CO., LTD.

Statements of Changes in Equity

For the years ended December 31, 2019 and 2018  
(Expressed in Thousands of New Taiwan Dollars)

	Ordinary shares	Capital surplus	Retained earnings			Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Other equity interest		Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings			Unrealized gains (losses) on financial assets at fair value through other comprehensive income	comprehensive income	
\$	3,230,094	929,151	739,228	-	706,026	(138,190)	(70,262)		5,396,047	
	-	-	63,126	-	(63,126)	-	-	-	-	
	-	-	-	143,162	(143,162)	-	-	-	-	
	-	-	-	-	(432,597)	-	-	-	(432,597)	
	-	-	63,126	143,162	(638,885)	-	-	-	(432,597)	
	-	-	-	-	624,054	-	-	-	624,054	
	-	-	-	-	(1,185)	-	66,805	3,031	68,651	
	120,000	(120,000)	-	-	622,869	-	66,805	3,031	692,705	
	98,886	63,551	-	-	-	-	-	-	-	
	3,448,980	872,702	802,354	143,162	690,010	(71,385)	(67,231)		5,818,592	
	-	-	62,406	-	(62,406)	-	-	-	-	
	-	-	-	(4,547)	4,547	-	-	-	-	
	-	-	-	-	(354,165)	-	-	-	(354,165)	
	207,484	-	-	-	(207,484)	-	-	-	-	
	207,484	-	62,406	(4,547)	(619,508)	-	-	-	(354,165)	
	-	-	-	-	260,394	-	-	-	260,394	
	-	-	-	-	(1,734)	-	(72,923)	(17,921)	(92,578)	
	-	-	-	-	258,660	-	(72,923)	(17,921)	167,816	
	21,049	11,633	-	-	-	-	-	-	32,682	
\$	3,677,513	884,335	864,760	138,615	329,162	(144,308)	(85,152)		5,664,925	

Balance at January 1, 2018

Appropriation and distribution of retained earnings:

Legal reserve appropriated

Special reserve appropriated

Cash dividends

Net income for the year ended December 31, 2018

Other comprehensive income for the year ended December 31, 2018

Total comprehensive income for the year ended December 31, 2018

Stock dividends from capital surplus

Conversion of convertible bonds

Balance at December 31, 2018

Appropriation and distribution of retained earnings:

Legal reserve appropriated

Special reserve reversed

Cash dividends

Stock dividends

Net income for the year ended December 31, 2019

Other comprehensive income for the year ended December 31, 2019

Total comprehensive income for the year ended December 31, 2019

Conversion of convertible bonds

Balance at December 31, 2019

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)  
WEIKENG INDUSTRIAL CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 334,006	825,173
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	59,528	6,170
Amortization expense	2,988	3,059
Expected credit losses (gains)	(13,876)	9,826
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	8,187	(22,645)
Interest expense	193,831	183,205
Interest income	(3,763)	(2,979)
Share of loss (profit) of subsidiaries, associates and joint ventures accounted for using equity method	(4,876)	(281,645)
Others	-	(95)
	<u>242,019</u>	<u>(105,104)</u>
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	(3,549)	17,155
Decrease (increase) in notes and accounts receivable	756,556	(301,810)
Decrease (increase) in other receivable	(41,792)	(917,671)
Decrease (increase) in inventories	2,628,114	(1,648,761)
Decrease (increase) in prepaid expenses and other current assets	17,295	(21,455)
	<u>3,356,624</u>	<u>(2,872,542)</u>
Increase (decrease) in accounts payable	(1,235,973)	582,196
Increase (decrease) in other payable	(46,556)	793,466
Increase (decrease) in contract liabilities and other current liabilities	19,107	(30,629)
Increase (decrease) in net defined benefit liability—noncurrent	(4,711)	(14,722)
	<u>(1,268,133)</u>	<u>1,330,311</u>
Total changes in operating assets and liabilities	<u>2,088,491</u>	<u>(1,542,231)</u>
Total adjustments	<u>2,330,510</u>	<u>(1,647,335)</u>
Cash flow from (used in) operations	2,664,516	(822,162)
Interest received	3,763	2,979
Interest paid	(208,895)	(170,871)
Income taxes paid	(197,949)	(81,606)
<b>Net cash flows from (used in) operating activities</b>	<u>2,261,435</u>	<u>(1,071,660)</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of investment accounted for using equity method	(231,833)	-
Acquisition of property, plant and equipment	(2,730)	(3,585)
Increase in refundable deposits	-	1,960
Acquisition of intangible assets	(2,500)	(3,536)
Others	175	422
<b>Net cash flows from (used in) investing activities</b>	<u>(236,888)</u>	<u>(4,739)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term loans	(1,138,887)	1,213,989
Increase (decrease) in guarantee deposits received	(33)	-
Payment of lease liabilities	(52,873)	-
Cash dividends paid	(354,165)	(432,597)
<b>Net cash flows from (used in) financing activities</b>	<u>(1,545,958)</u>	<u>781,392</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	478,589	(295,007)
<b>Cash and cash equivalents at beginning of period</b>	877,050	1,172,057
<b>Cash and cash equivalents at end of period</b>	<u>\$ 1,355,639</u>	<u>877,050</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)  
**WEIKENG INDUSTRIAL CO., LTD.**

**Notes to Parent Company Only Financial Statements**

**For the years ended December 31, 2019 and 2018**

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

**(1) Company history**

Weikeng Industrial Co., Ltd. (the Company) was incorporated in Taiwan as a company limited by shares in January 1977 and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 11F, No.308 Sec. 1, Neihu Rd., Neihu Dist., Taipei City. The major activities of the Company are the purchase and sale of electronic components and computer peripherals, technical service, and the import-export trade business. The Company's common shares were listed on the Taiwan Stock Exchange (TSE).

**(2) Approval date and procedures of the financial statements:**

The accompanying parent company only financial statements were authorized for issuance by the board of directors on March 27, 2020.

**(3) New standards, amendments and interpretations adopted**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

Except for the following items, the adoption of the above IFRSs would not have any material impact on the parent company only financial statements. The extent and impact of signification changes are as follows:

- (i) IFRS 16 "Leases"

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

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**WEIKENG INDUSTRIAL CO., LTD.**  
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The Company applied IFRS 16 using the modified retrospective approach, under which no cumulative effect of initial application was recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

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

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

2) As a lessee

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

The Company decided to apply recognition exemptions to short-term leases of part of offices and transportation equipment.

Leases classified as operating leases under IAS 17 at transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Company applied this approach to all other lease except for the aforementioned short-term leases.

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

- a) Applied a single discount rate to a portfolio of leases with similar characteristics.
- b) Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- c) Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

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**WEIKENG INDUSTRIAL CO., LTD.**  
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- d) Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- e) Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

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

Under IFRS 16, the Company is required to assess the classification of a sub-lease by reference to the right-of-use asset, not the underlying asset. On transition, the Company reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The Company concluded that the sub-lease is an operating lease under IFRS 16.

4) Impacts on financial statements

On transition to IFRS 16, the Company recognized additional \$183,442 both of right-of-use assets and lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.70%.

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

	<b>January 1, 2019</b>
Operating lease commitment at December 31, 2018 as disclosed in the Company's parent company only financial statements	\$ 153,694
Recognition exemption for:	
short-term leases	(637)
Redetermination of non-lease service contract	(21,363)
Extension and termination options reasonably certain to be exercised	56,861
	<b>\$ 188,555</b>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 183,442
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	<b>\$ 183,442</b>

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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- (b) The impact of IFRS endorsed by the FSC but not yet effective

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

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

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

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

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

The above new, revised or amended standards and interpretations which issued by IASB but not yet endorsed by the FSC may not be relevant to the Company.

**(4) Summary of significant accounting policies**

The significant accounting policies presented in the parent company only financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the parent company only financial statements.

- (a) Statement of compliance

These annual 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).

- (b) Basis of preparation

- (i) Basis of measurement

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

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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- 1) Financial instruments at fair value through profit or loss are measured at fair value (including derivative financial instruments);
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities are measured at fair value of the plan assets less the present value of the defined benefit obligation limited as explained in to note 4(n).

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operate. The parent company only financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Company entity 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 translated into the functional currencies using the exchange rate at that date.

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

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

- an investment in equity securities designated as at fair value through other comprehensive income;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent that the hedges are effective.

(ii) 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.

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

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

(d) 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.

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

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

An entity shall classify a liability as current when:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) The Company 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.

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

(f) 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 Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, 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.

(i) 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) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) 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.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

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

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Company, therefore, those receivables are measured at FVOCI. However, they are included in the “accounts receivables” line item.

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

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

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

Dividend income is recognized in profit or loss on the date on which the Company’s right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

3) 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 Company 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.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

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

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The Company 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.

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

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

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

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

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

The Company considers a financial asset to be in default when the financial asset is more than 90 days past due or the debtor is unlikely to pay its credit obligations to the Company in full.

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

At each reporting date, the Company assesses whether financial assets carried at amortized cost 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:

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- 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
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets, the Company recognizes the amount of expected credit losses (or reversal) in profit or loss.

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

5) Derecognition of financial assets

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

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

(ii) Financial liabilities and equity instruments

1) 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.

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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2) 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.

3) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible bonds 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.

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.

4) 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.

5) Derecognition of financial liabilities

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

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

(Continued)

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6) Offsetting of financial assets and liabilities

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

(iii) Derivative financial instruments and hedge accounting

The Company 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. 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.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average-cost principle and includes expenditure incurred in acquiring the inventories, production or transition costs, and other costs incurred in bringing them to their present location and condition.

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

(h) Investment in subsidiaries

The subsidiaries in which the Company holds controlling interest are accounted for using equity method in the parent-company-only financial statements. Under equity method, the net income, other comprehensive income and equity in the parent-company-only financial statements are the same as those attributable to the owners of parent in the consolidated financial statements.

Changes in the Company's ownership of subsidiaries which have not resulted in the loss of control are treated as equity transactions with the owner.

(i) Property, plant and equipment

(i) 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.

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(ii) Subsequent expenditure

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

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straightline 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 for the current and comparative periods are as follows:

- 1) Buildings: 59 years
- 2) Transportation equipment: 5~6 years
- 3) Machinery equipment: 1~6 years
- 4) Office and other equipment: 1~7 years

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

(j) Leases

Applicable from January 1, 2019

(i) Identifying a lease

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

- 1) 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
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) 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

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- 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.

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

(ii) As a lessee

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

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

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

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

- 1) fixed payments, including in-substance fixed payment;
- 2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

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

- 1) there is a change in future lease payments arising from the change in an index or rate; or
- 2) there is a change of its assessment on whether it will exercise an extension or termination option; or
- 3) there is any lease modifications in lease subject, scope of the lease or other terms.

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

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

The Company 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.

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

(iii) As a lessor

When the Company acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. 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 Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

Applicable before January 1, 2019

(i) As a lessor

Lease income from operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

(ii) As a lessee

Operating leases are not recognized in the Company's balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(k) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) 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.

(iii) 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. Computer software costs are amortized, on the average, by 1 to 3 years.

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

(l) Impairment of non-financial assets

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

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

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**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

(m) Revenue recognition

(i) Revenue from contracts with customers

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

1) Sale of goods

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

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

For certain contracts that permit a customer to return products, revenue would not be recognized for the products expected to be returned. In addition, the Company recognized a refund liability for these contracts and an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

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

2) Commissions

For every specific product or service which the Company promises to provide to customers, the Company should determine whether it is a principal or an agent. The Company is an agent when the other party joins to provide products or services to the customers, and the performance obligation of the Company is arranged by the other party as well. If the Company is an agent, the revenue will be recognized as the net amount from receivables of the products or services provided and payments to the other party; or be recognized based on the commission agreed upon in the contract.

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

3) Financing components

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

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of the defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of the present value of the economic benefits available in the form of any future refunds from the plan or reductions in the future contributions to the plan. In order to calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on the settlement of the plan liabilities.

When the benefits of a plan are improved, the expense of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and the change in the present value of the defined benefit obligation.

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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(iii) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(o) Share-based payment

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

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

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense, with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognized as personnel expenses in profit or loss.

(p) Income Taxes

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.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatment, do not meet the definition of income taxes, and therefore accounted for them under IAS37.

(Continued)

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

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

- (i) 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;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) 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:

- (i) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) the same taxable entity; or
  - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

The surtax on unappropriated earnings is recorded as current tax expense in the following year after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

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**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

(q) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible bonds and employee compensation.

(r) Operating segments

The Company has disclosed the information on the operating segments in the consolidated financial statements. Therefore, the Company no longer need to disclose the above information in its parent-company-only financial statements.

**(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty**

The preparation of the financial statements in conformity with the Regulations 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 next period.

There are no critical judgments in applying accounting policies that have significant effect on amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for normal consumption, obsolescence on unmarketable items at the end of the reporting period and then 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. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to note (6)(f) for further description of the valuation of inventories.

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**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

**(6) Explanation of significant accounts**

(a) Cash and cash equivalents

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash on hand	\$ 134	241
Checking accounts and demand deposits	<u>1,355,505</u>	<u>876,809</u>
	<b><u>\$ 1,355,639</u></b>	<b><u>877,050</u></b>

Please refer to note (6)(u) for the currency risk, interest rate risk and their sensitivity analysis of the financial assets of the Company.

(b) Financial assets and liabilities at fair value through profit or loss

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Financial assets mandatorily measured at fair value through profit or loss – current:		
Derivative instruments not used for hedging		
Foreign exchange contracts	\$ -	590
Financial assets measured at fair value through profit or loss – current:		
Non-derivative financial assets		
Stock listed on domestic markets	<u>522</u>	<u>530</u>
	<b><u>\$ 522</u></b>	<b><u>1,120</u></b>
	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Financial liabilities mandatorily measured at fair value through profit or loss – current:		
Derivative instruments not used for hedging		
Forward exchange contracts	<b><u>\$ 4,040</u></b>	<u>-</u>

The Company holds derivative instruments to hedge certain foreign currency and interest risk the Company is exposed to arising from its operating, financing and investing activities. The following derivative instruments, without the application of hedge accounting, were classified as mandatorily measured at fair value through profit or loss were as follows:

(in thousands of foreign currency)

	<b>December 31, 2019</b>			<b>December 31, 2018</b>		
	<b>Amount</b>	<b>Currency</b>	<b>Maturity date</b>	<b>Amount</b>	<b>Currency</b>	<b>Maturity date</b>
<b>Financial assets</b>						
Forward exchange purchased	-	-	-	USD8,000	USD/TWD	2019.04~ 2019.06
<b>Financial liabilities</b>						
Forward exchange purchased	USD4,000	USD/TWD	2020.02			

(Continued)



**WEIKENG INDUSTRIAL CO., LTD.**  
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As of December 31, 2019 and 2018, the Company did not provide any financial assets and liabilities at fair value through profit or loss as collateral for its loans.

(c) Financial assets at fair value through other comprehensive income – non-current

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Equity investments at fair value through other comprehensive income:		
Domestic emerging market stock	\$ 2,709	2,375
Domestic unlisted stock	17,866	36,296
Foreign unlisted stock	<u>24,587</u>	<u>24,587</u>
	<u>\$ 45,162</u>	<u>63,258</u>

(i) Equity investments at fair value through other comprehensive income

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

There were no disposals of strategic investments and transfers of any cumulative gain or loss within equity relating to these investments as of December 31, 2019 and 2018.

(ii) The investee companies, Feature Integration Technology Inc., Paradigm Venture Capital Corporation (PVC Corp.) and Clientron Corporation, classified as financial assets at fair value through other comprehensive income – non-current, reduced their common stocks and refunded capital in 2018 and in 2019, and the Company recorded the capital reduction receivable amounting to \$175 and \$327, respectively. The amount has been fully received.

(iii) For credit risk and market risk, please refer to note (6)(u).

(iv) As of December 31, 2019 and 2018, the Company did not provide any financial assets at fair value through other comprehensive income as collateral for its loans.

(d) Notes and accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Notes receivable	\$ 13,503	29,207
Accounts receivable-measured as amortized cost	2,940,324	3,737,271
Accounts receivable-fair value through other comprehensive income	<u>836,491</u>	<u>780,396</u>
	3,790,318	4,546,874
Less: Loss allowance	<u>(35,874)</u>	<u>(49,750)</u>
	<u>\$ 3,754,444</u>	<u>4,497,124</u>

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**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

The Company has assessed a portion of its accounts receivable that was held within a business model whose objective is achieved by selling financial assets; therefore, such accounts receivable were measured at fair value through other comprehensive income.

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics of the customer's ability to pay all due amounts in accordance with contract terms, as well as incorporated forward looking information, including macroeconomic and relevant industry information. The loss allowance provision were determined as follows:

<u>Credit rating</u>	<u>December 31, 2019</u>			
	<u>Carrying amount</u>	<u>Expected credit loss rate</u>	<u>Loss allowance provision</u>	<u>Credit impaired</u>
Listed company				
Level A	\$ 1,897,369	0.54%	10,305	No
Level B	1,177,580	1.26%	14,833	No
Unlisted company	706,642	1.30%	9,216	No
(Related-party) subsidiaries and sub-subsidiaries	<u>8,727</u>	-%	<u>-</u>	No
	<u>\$ 3,790,318</u>		<u>34,354</u>	
<u>Credit rating</u>	<u>December 31, 2018</u>			
	<u>Carrying amount</u>	<u>Expected credit loss rate</u>	<u>Loss allowance provision</u>	<u>Credit impaired</u>
Listed company				
Level A	\$ 2,437,276	0.45%	10,972	No
Level B	1,227,420	1.80%	22,124	No
Unlisted company	788,293	0.93%	7,329	No
(Related-party) subsidiaries and sub-subsidiaries	<u>93,885</u>	-%	<u>-</u>	No
	<u>\$ 4,546,874</u>		<u>40,425</u>	

The aging analysis of notes and accounts receivable were determined as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Not past due	\$ 3,560,122	4,305,566
Overdue less than 90 days	224,660	232,967
Overdue 91 to 180 days	4,985	6,983
Overdue more than 181 days	<u>551</u>	<u>1,358</u>
	<u>\$ 3,790,318</u>	<u>4,546,874</u>

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**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

For the years ended December 31, 2019 and 2018, the movement in the allowance for notes and accounts receivable were as follows:

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 49,750	40,026
Impairment loss reversed	(13,876)	9,826
Reclassifications	-	(102)
Balance at December 31	<u>\$ 35,874</u>	<u>49,750</u>

The Company has entered into accounts receivable factoring agreements with banks. According to the factoring agreement, the Company does not bear the loss if the account debtor does not have the ability to make payments upon the transfer of the accounts receivable factoring. The Company has not provided other guarantee except for the promissory notes which has the same amount with that of that the factoring used as the guarantee for the sales return and discount. The Company received the proceeds from the discounted accounts receivable on the selling date. Interest is calculated and paid based on the duration and interest rate of the agreement, and the remaining amounts are received when the accounts receivable are paid by the customers. In addition, the Company has to pay a service charge based on a certain rate.

The Company derecognized the above trade receivables because it has transferred substantially all of the risks and rewards of their ownership, and it does not have any continuing involvement in them. The amounts receivable from the financial institutions were recognized as “other receivables” upon the derecognition of those trade receivables.

As of December 31, 2019 and 2018, the Company sold its trade receivable without recourse as follows:

<b>December 31, 2019</b>						
<b>Purchaser</b>	<b>Amount Derecognized</b>	<b>Amount Paid</b>	<b>Advanced Unpaid</b>	<b>Amount Recognized in Other Receivables</b>	<b>Range of Interest Rate</b>	<b>Significant Transferring Terms</b>
Financial institutions	\$ 2,942,097	2,670,231	-	271,866	1.07%~3.20%	None

  

<b>December 31, 2018</b>						
<b>Purchaser</b>	<b>Amount Derecognized</b>	<b>Amount Paid</b>	<b>Advanced Unpaid</b>	<b>Amount Recognized in Other Receivables</b>	<b>Range of Interest Rate</b>	<b>Significant Transferring Terms</b>
Financial institutions	\$ 2,965,824	2,684,084	-	281,740	1.10%~3.61%	None

As of December 31, 2019 and 2018, the Company did not provide any receivables as collaterals for its loans.

Please refer to note (6)(u) for further credit risk information.

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**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

## (e) Other receivables

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Other receivables — the receivables of the Company as an agent (note (6)(s))	\$ 938,929	895,511
Other receivables — accounts receivable factored	271,866	281,740
Other receivables — related parties	61,182	53,811
Tax refund	22,769	22,056
Overdue receivable	22,150	27,643
Others	<u>1,224</u>	<u>1,060</u>
	1,318,120	1,281,821
Less: Loss allowance doubtful debts allowance	<u>(22,150)</u>	<u>(27,643)</u>
	<b><u>\$ 1,295,970</u></b>	<b><u>1,254,178</u></b>

For the years ended December 31, 2019 and 2018, the movement in the allowance for other receivables were as follows:

	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 27,643	28,976
Amounts written off	(5,493)	(1,435)
Reclassifications	<u>-</u>	<u>102</u>
Balance at December 31	<b><u>\$ 22,150</u></b>	<b><u>27,643</u></b>

As of December 31, 2019 and 2018, the Company did not provide any other receivables as collaterals for its loans.

For further credit risk information, please refer to note (6)(u).

## (f) Inventories

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Merchandise inventories	\$ 3,390,014	5,640,728
Goods in transit	<u>197,979</u>	<u>575,379</u>
	<b><u>\$ 3,587,993</u></b>	<b><u>6,216,107</u></b>

The details of inventory-related losses and expenses were as follows:

	<b>2019</b>	<b>2018</b>
Inventory valuation loss and obsolescence (Gain from price recovery of inventory)	154,043	265,201
Loss on scrapping of inventory and others	<u>3,657</u>	<u>799</u>
	<b><u>\$ 157,700</u></b>	<b><u>266,000</u></b>

As of December 31, 2019 and 2018, the Company did not provide any inventories as collaterals for its loans.

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**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

(g) Investments accounted for using equity method

	December 31, 2019	December 31, 2018
Subsidiaries	\$ 3,686,602	3,541,047

- (i) For the financial statements of the subsidiaries, please refer to the consolidated financial statements.
- (ii) For the years ended December 31, 2019 and 2018, the profits of the subsidiaries and related parties recognized by the Company were \$4,876 and \$281,645, respectively.
- (iii) In order to enrich its subsidiaries working capital and improve its financial structure, the Company subscribed for the cash increase stocks of its subsidiaries, Weikeng International Company Limited (WKI) and Weikeng Technology Pte. Ltd. (WTP), with the amount of \$154,070 and \$77,763, respectively, with the shareholding ratio of 100%, in 2019.
- (iv) The relevant information on major foreign currency equity investments of the reporting date is as follows:

	December 31, 2019			December 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
USD	\$ 121,919	30.02	3,660,009	114,411	30.715	3,514,129

(v) As of December 31, 2019 and 2018, the Company did not provide any investments accounted for using equity method as collaterals for its loan.

(h) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2019 and 2018 were as follows:

	Land	Buildings and construction	Transportation equipment	Machinery equipment	Office and other facilities equipment	Total
<b>Cost or deemed cost:</b>						
Balance on January 1, 2019	\$ 60,526	48,540	8,516	14,742	69,760	202,084
Additions	-	-	-	-	2,730	2,730
Disposals	-	-	-	(1)	(357)	(358)
Balance on December 31, 2019	\$ 60,526	48,540	8,516	14,741	72,133	204,456
Balance on January 1, 2018	\$ 60,526	48,540	8,667	14,810	68,413	200,956
Additions	-	-	1,363	440	1,782	3,585
Disposals	-	-	(1,514)	(508)	(435)	(2,457)
Balance on December 31, 2018	\$ 60,526	48,540	8,516	14,742	69,760	202,084
<b>Depreciation and impairment loss:</b>						
Balance on January 1, 2019	\$ -	18,693	5,515	10,937	62,612	97,757
Depreciation for the year	-	809	935	896	3,632	6,272
Disposals	-	-	-	(1)	(357)	(358)
Balance on December 31, 2019	\$ -	19,502	6,450	11,832	65,887	103,671

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**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

	<u>Land</u>	<u>Buildings and construction</u>	<u>Transportation equipment</u>	<u>Machinery equipment</u>	<u>Office and other facilities equipment</u>	<u>Total</u>
Balance on January 1, 2018	\$ -	17,884	6,136	10,527	59,497	94,044
Depreciation for the year	-	809	893	918	3,550	6,170
Disposals	-	-	(1,514)	(508)	(435)	(2,457)
Balance on December 31, 2018	<u>\$ -</u>	<u>18,693</u>	<u>5,515</u>	<u>10,937</u>	<u>62,612</u>	<u>97,757</u>
<b>Book value:</b>						
Balance on December 31, 2019	<u>\$ 60,526</u>	<u>29,038</u>	<u>2,066</u>	<u>2,909</u>	<u>6,246</u>	<u>100,785</u>
Balance on December 31, 2018	<u>\$ 60,526</u>	<u>29,847</u>	<u>3,001</u>	<u>3,805</u>	<u>7,148</u>	<u>104,327</u>
Balance on January 1, 2018	<u>\$ 60,526</u>	<u>30,656</u>	<u>2,531</u>	<u>4,283</u>	<u>8,916</u>	<u>106,912</u>

For management reasons, the Company has leased its own office building and rented other office building for operation. The purpose of this leasing was not for earning rental income or capital appreciation, so it is classified as property, plant, and equipment.

As of December 31, 2019 and 2018, the Company did not provide any property, plant, and equipment as collaterals for its loans.

(i) Right-of-use assets

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

	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Total</u>
<b>Cost:</b>			
Balance on January 1, 2019	\$ -	-	-
Effects of retrospective application (according to IFRS 16)	175,894	7,548	183,442
Balance on January 1, 2019 (equal to balance on December 31, 2019)	<u>\$ 175,894</u>	<u>7,548</u>	<u>183,442</u>
<b>Accumulated depreciation:</b>			
Balance on January 1, 2019	\$ -	-	-
Effects of retrospective application	-	-	-
Balance on January 1, 2019 (According to IFRS 16)	-	-	-
Depreciation for the year	50,268	2,988	53,256
Balance on December 31, 2019	<u>\$ 50,268</u>	<u>2,988</u>	<u>53,256</u>
<b>Carrying amount:</b>			
Balance on December 31, 2019	<u>\$ 125,626</u>	<u>4,560</u>	<u>130,186</u>

The Company leases offices under the operating lease for the year ended December 31, 2018, please refer to note 6(n).

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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## (j) Short-term borrowings

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Unsecured loans	\$ 4,076,418	5,215,273
Short-term notes and bills payable, net	<u>669,251</u>	<u>669,283</u>
	<b><u>\$ 4,745,669</u></b>	<b><u>5,884,556</u></b>
Unused short-term credit lines	<b><u>\$ 2,354,022</u></b>	<b><u>1,395,922</u></b>
Range of interest rates	<b><u>1.02%~2.87%</u></b>	<b><u>0.98%~3.91%</u></b>

## (i) Issuance and repayment of borrowings

The Company's additional amounts in loans for the years ended December 31, 2019 and 2018 were \$18,203,421 and \$18,831,304, respectively, with maturities from January, to September, 2020 and from January to September 2019, respectively; and the repayments were \$19,342,308 and \$17,617,315, respectively.

## (ii) For information on the Company's interest risk, foreign currency risk and liquidity risk, please refer to note (6)(u).

## (k) Other payables

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Other payable — the payables of the Group's as an agent (note(6)(s))	\$ 936,542	884,438
Accrued expenses	103,755	123,754
Bonus payable	78,374	104,016
Remuneration to employees and directors	38,667	91,686
Interest payable	<u>14,144</u>	<u>29,674</u>
	<b><u>\$ 1,171,482</u></b>	<b><u>1,233,568</u></b>

The accrued expenses include import and export fees, processing expense, professional services fees, pension, insurance, and payable for unused vacation time etc.

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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- (l) Convertible bonds payable
- (i) Non-guaranteed convertible bonds:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Aggregate principal amount	\$ 200,000	200,000
Bond discount	-	(508)
Cumulative converted amount	<u>(200,000)</u>	<u>(167,100)</u>
	-	32,392
Less: Convertible bonds payable – could be repaid within one year	<u>-</u>	<u>32,392</u>
Bonds payable at end of period	<u>\$ -</u>	<u>-</u>
Embedded derivative – call and put options	<u>\$ -</u>	<u>-</u>
Equity component – conversion options (included in capital surplus – conversion options)	<u>\$ -</u>	<u>1,335</u>

The effective interest rates of the fourth convertible bonds was 2.47%. The annual interest expenses on convertible bonds payable for the years ended December 31, 2019 and 2018 were \$290 and \$2,668, respectively.

- (ii) The Company issued the fourth domestic unsecured convertible bonds, with a face value of \$200,000 on August 22, 2016. The Company separated its equity and debt components as follows:

	<b>The Forth</b>
The compound interest present value of the convertible bonds' face value at issuance	\$ 189,660
The embedded derivative debt at issuance – redemption rights	2,060
The equity components at issuance	<u>8,280</u>
The total amount of the convertible bonds at issuance	<u>\$ 200,000</u>

The equity components were accounted for as capital surplus – conversion options. In accordance with IFRSs, the face value of the fourth domestic unsecured convertible bonds was allocated at \$165 to the capital surplus – conversion options.

The gain or loss resulting from changes in fair value of the embedded derivative liabilities were gains of \$0 and \$180 for the years ended December 31, 2019 and 2018, respectively.

- (iii) The significant terms of the fourth convertible bonds were as follows:
- 1) Duration: three years (August 22, 2016 to August 22, 2019)
  - 2) Interest rate: 0%

(Continued)



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- 3) Redemption at the option of the Company: The Company may redeem the bonds under the following circumstances:
- a) Within the period between one month after the issuance date and 40 days before the last convertible date, the Company may redeem the bonds at their principal amount if the closing price of the Company's common stock on the Taiwan Stock Exchange for a period of 30 consecutive trading days has been 30% more than the conversion price in effect on each such trading day.
  - b) If at least 90% of the principal amount of the bonds has been converted, redeemed, or purchased and cancelled, the Company may redeem the bonds at their principal amount within the period between one month after the issuance date and 40 days before the last convertible date.
- 4) Redemption at the option of the bondholders:
- The bondholders have the right to request the Company to repurchase the bonds at a price equal to the face value, plus, an accrued premium two years after the issuance date. The annual interest rate for the redemption, two years after the issuance date, is 1.1%.
- 5) Terms of conversion:
- a) Bondholders may opt to have the bonds converted into the common stock of the Company from September 23, 2016 to August 22, 2019.
  - b) Conversion price: After the adjustment for issuance of common stock for cash on September 19, 2016, the conversion price of common stock was adjusted from NT\$18.66 to NT\$18.29 (dollars) per share. After the adjustment for distributions of retained earnings of 2016, the conversion price of was NT\$17.18 (dollars) on or after July 19, 2017. After adjusting the distributions on retained earnings in 2017, the price of conversion amounted to NT\$15.63 (dollars) on or after August 27, 2018.

(iv) As the fourth convertible bonds have issued for two years, the creditors may request a buy back. Therefore, based on the conservative principles, the fourth conversion of convertible bonds are recognized as current liabilities since August 22, 2017. The above convertible bonds had expired on August 22, 2019, and all of them had been transferred into the ordinary shares of the Company before the expiration date.

(m) Lease liabilities

	<b>December 31, 2019</b>
Current	<b>\$ 50,818</b>
Non-current	<b>\$ 79,927</b>

For the maturity analysis, please refer to note (6)(u) of financial instruments.

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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The amounts recognized in profit or loss were as follows:

	<b>2019</b>
Interest on lease liabilities	\$ <b>2,572</b>
Expenses relating to short-term leases	\$ <b>1,047</b>

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

	<b>2019</b>
Total cash outflow for leases	\$ <b>56,492</b>

(i) Real estate leases

The Company leases buildings for its office space and warehouses. The leases of office space typically run for a period of 1 to 5 years, and warehouses for 1 to 4 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Some leases of office buildings contain extension or cancellation options exercisable by the Company before the end of the non-cancellable contract period. These leases are negotiated and monitored by local management, and accordingly, contain a wide range of different terms and conditions. The extension options held are exercisable only by the Company and not by the lessors. In which leasee is not reasonably certain to use an optional extended lease term, payments associated with the optional period are not included within lease liabilities.

(ii) Other leases

The Company leases transportation equipment and parking space with lease terms of one year. These leases are short-term. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

(n) Operating lease

(i) The Company as lessee

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

	<b>December 31, 2018</b>
Less than one year	\$ 64,488
Between one and five years	89,206
	\$ <b>153,694</b>

The Company leases a number of offices under operating leases. The leases typically run for a period of 1 to 4 years. Some leases provide for additional rent payments that are based on changes in a local price index.

The Company recognized rental expenses of \$76,005 in 2018.

(Continued)

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The department office leases were entered into many years ago as combined leases of land and buildings. The rent paid to the landlord is increased to market rent at regular intervals, and the Company does not participate in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord. The Company determined that the land and building leases are operating leases.

(ii) The Company as lessor

As of December 31, 2019 and 2018, the Company leased out a few office buildings to third parties under operating lease. The future minimum lease receivables under non-cancellable leases are as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Less than one year	\$ 5,205	4,501
Between one and five years	<u>3,225</u>	<u>4,494</u>
	<u>\$ 8,430</u>	<u>8,995</u>

For the years ended December 31, 2019 and 2018, the rental revenue under operating leases were \$5,509 and \$4,197, respectively.

The department office leases were entered into many years ago as combined leases of land and buildings. The rent paid to the landlord is increased to the market rate at regular intervals, and the Company does not participate in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord. The Company determined that the land and building leases are recognized as operating leases.

(o) Employee benefits

(i) Defined benefit plans

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

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Present value of defined benefit obligations	\$ 227,394	218,239
Fair value of plan assets	<u>(98,387)</u>	<u>(86,689)</u>
Net defined benefit liabilities (assets)	<u>\$ 129,007</u>	<u>131,550</u>

The Company makes defined benefit plan contributions to the pension fund account at the Bank of Taiwan that provides pensions for employees upon retirement. The plans entitle a retired employee to receive an annual payment based on years of service and average salary for the six months prior to retirement.

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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1) Composition of plan assets

The Company 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 local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$98,387 at the end of the reporting period. 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 Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Company's were as follows:

	<u>2019</u>	<u>2018</u>
Defined benefit obligation at January 1	\$ 218,239	236,403
Current service costs and interest	4,007	5,383
Remeasurement in net defined benefit liability (assets)	5,148	4,262
Benefits paid by the plan	-	(27,809)
Defined benefit obligation at December 31	<u>\$ 227,394</u>	<u>218,239</u>

3) Movements of defined benefit plan assets

The movements in defined benefit plan assets for the Company were as follows:

	<u>2019</u>	<u>2018</u>
Fair value of plan assets at 1 January	\$ 86,689	92,070
Contributions made	7,596	7,330
Benefits paid by the plan	-	(16,532)
Expected return on plan assets	1,122	1,498
Remeasurement of the net defined benefit liability (assets)	2,980	2,323
Fair value of plan assets at 31 December	<u>\$ 98,387</u>	<u>86,689</u>

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
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## 4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 1,129	1,597
Net interest on net defined benefit liability (assets)	2,878	3,786
Expected return on plan assets	(1,122)	(1,498)
	<u>\$ 2,885</u>	<u>3,885</u>
Selling expenses	\$ 2,016	2,631
Administrative expenses	869	1,254
	<u>\$ 2,885</u>	<u>3,885</u>

## 5) Actuarial assumptions

The following are the Company's principal actuarial assumptions:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate	1.000 %	1.375 %
Future salary increases	3.000 %	3.000 %

The expected allocation payment made by the Company to the defined benefit plans for the one year period after the reporting date was \$7,538.

The weighted-average duration of the defined benefit obligation is 14.88 years.

## 6) Sensitivity analysis

As of December 31, 2019 and 2018, if the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	<u>Impact on the defined benefit obligation</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2019		
Discount Rate	\$ (5,922)	6,161
Future salary increases	5,919	(5,726)
December 31, 2018		
Discount Rate	(6,041)	6,303
Future salary increases	6,089	(5,867)

(Continued)

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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 2019 and 2018.

(ii) Defined contribution plans

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

The Company recognized the pension costs under the defined contribution method amounting to \$21,888 and \$20,803 for the years ended December 31, 2019 and 2018, respectively. Payment was made to the Bureau of Labor Insurance.

(p) Income taxes

(i) Income tax expenses

- 1) The amount of income tax for the years ended December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Current tax expense		
Current period	\$ 121,239	170,655
Adjustment for prior periods	<u>70</u>	<u>1,600</u>
	<u>121,309</u>	<u>172,255</u>
Deferred tax expense		
Origination and reversal of temporary differences	(47,697)	(2,054)
Adjustment in tax rate	<u>-</u>	<u>30,918</u>
	<u>(47,697)</u>	<u>28,864</u>
Income tax expense	<u>\$ 73,612</u>	<u>201,119</u>

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**WEIKENG INDUSTRIAL CO., LTD.**  
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- 2) The amount of income tax recognized in other comprehensive income for 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement from defined benefit plans	\$ <u>(434)</u>	<u>(754)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign financial statements	\$ <u>(18,231)</u>	<u>10,458</u>

- 3) Reconciliation of income tax and profit before tax for 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Profit before tax	\$ 334,006	825,173
Income tax using each entities of the Company's legal tax rate	66,801	165,035
Adjustment in tax rate	-	30,918
Net investment income and tax-exempt income	28	(1)
Undistributed earnings additional tax	3,525	-
Under (Over) provision in prior periods and other	<u>3,258</u>	<u>5,167</u>
Income tax expense	\$ <u>73,612</u>	<u>201,119</u>

- (ii) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax assets

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

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Tax effect of deductible temporary differences	\$ <u>19,814</u>	<u>19,814</u>

The Company assessed that the income tax deductible items which can be offsetted with the taxable income are not probable to be utilized. Hence, such temporary differences are not recognized under deferred tax assets.

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2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2019 and 2018 were as follows:

	<u>Defined Benefit Plans</u>	<u>Exchange differences on translation</u>	<u>Bad debt expense over the tax limitation</u>	<u>Loss on valuation of inventory</u>	<u>Allowance for sales discount</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:							
Balance at January 1, 2019	\$ 2,831	17,845	11,419	67,568	23,360	28,116	151,139
Recognized in profit or loss	-	-	(559)	30,809	14,316	412	44,978
Recognized in other comprehensive income	434	18,231	-	-	-	-	18,665
Balance at December 31, 2019	<u>\$ 3,265</u>	<u>36,076</u>	<u>10,860</u>	<u>98,377</u>	<u>37,676</u>	<u>28,528</u>	<u>214,782</u>
Balance at January 1, 2018	\$ 2,077	28,303	10,307	12,349	19,514	27,140	99,690
Recognized in profit or loss	-	-	1,112	55,219	3,846	976	61,153
Recognized in other comprehensive income	754	(10,458)	-	-	-	-	(9,704)
Balance at December 31, 2018	<u>\$ 2,831</u>	<u>17,845</u>	<u>11,419</u>	<u>67,568</u>	<u>23,360</u>	<u>28,116</u>	<u>151,139</u>

	<u>Temporary difference from subsidiary investment</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:			
Balance at January 1, 2019	\$ 328,924	5,602	334,526
Recognized in profit or loss	1,040	(3,759)	(2,719)
Balance at December 31, 2019	<u>\$ 329,964</u>	<u>1,843</u>	<u>331,807</u>
Balance at January 1, 2018	231,674	12,835	244,509
Recognized in profit or loss	97,250	(7,233)	90,017
Recognized in other comprehensive income	-	-	-
Balance at December 31, 2018	<u>\$ 328,924</u>	<u>5,602</u>	<u>334,526</u>

(iii) The tax authority has assessed the income tax returns of the Company for the years through 2016.

(q) Capital and other equities

As of December 31, 2019 and 2018, the total value of nominal ordinary shares amounted to \$4,500,000 and \$3,500,000, each having a par value of \$10 per share, totaling 450,000 thousand and 350,000 thousand ordinary shares, respectively; of which, 367,751 thousand shares and 344,898 thousands shares, respectively, were issued, respectively. All issued shares were paid up upon issuance.

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(i) Common stock

For the years ended December 31, 2019 and 2018, 2,105 thousand and 9,889 thousand new common shares, with a par value of \$10, amounting to \$21,049 and \$98,886, respectively, were issued due to the conversion of convertible bonds. As of reporting date, the related registration procedures were completed.

(ii) Capital surplus

Balance on capital surplus of the Company were as follows:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Additional paid in capital	\$ 845,753	832,785
Treasury share transactions	37,617	37,617
Donation from shareholders	712	712
Convertible bonds– conversion options	-	1,335
Other	<u>253</u>	<u>253</u>
	<u><b>\$ 884,335</b></u>	<u><b>872,702</b></u>

For the year ended December 31, 2019 and 2018, the capital surplus deriving from those convertible bonds, which were converted to common stock, amounted to \$11,633 and \$63,551, respectively. (including the capital surplus-conversion options transferred to the capital surplus-additional paid-in capital of \$1,335 and \$6,780, respectively).

In accordance with the Company Act, realized capital reserves can only be utilized for issuing new shares or being distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be utilized for issuing new shares shall not exceed 10 percent of paid-in capital. Capital reserve increased by transferring paid-in capital in excess of par value can only be capitalized until the fiscal year after the competent authority for company registrations approves registration of the capital increase.

The issuance of 12,000 thousand new common shares from capital surplus amounting to \$120,000 thousands were decided via the annual meeting of shareholders held on June 13, 2018. The related registration procedures were completed.

(iii) Retained earnings

The Company's Article of Incorporation stipulates that Company's earnings, net of relative expenses and remuneration to employees and directors, should first be used to pay any taxes and offset the prior years' deficits, 10% of the remaining balance is to be set aside as legal reserve, and then set aside or reverse special reserve according to the regulations and consider directly transferring into retained earnings, any remaining profit, together with any undistributed retained earnings at the beginning, be distributed according to the distribution plan proposed by the Board of Directors to be submitted during the stockholders' meeting for approval. Before the distribution of dividends, the Company shall first take into consideration its operating environment, industry developments, and the long-term interests of stockholders,

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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. 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 adopt this resolution. The total distribution shall not be less than 50% of the current earnings, and the cash dividends shall not be less than 20% of the total dividends.

According to the R.O.C. Company Act, the Company should distribute dividends and bonus, or all or part of the legal reserve and capital surplus, stipulated by the Company Act, as cash dividends based on the resolution of the Board of Directors with two-thirds directors present and approved by one-half of the present directors.

1) Legal reverse

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

2) Special reverse

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. The aforesaid deduction of the shareholders' equity does not include the book value of the treasury stocks repurchased. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

The Company's earnings distribution for 2018 and 2017 were decided via a general meeting of the shareholders held on June 20, 2019 and June 13, 2018, respectively. The relevant information was as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Amount per share</u>	<u>Total amount</u>	<u>Amount per share</u>	<u>Total amount</u>
Dividends distributed to ordinary shareholders:				
Cash dividends	\$ 1.02063987	354,165	1.30654696	<u>432,597</u>
Share dividends	0.59793133	<u>207,484</u>		
		<u>\$ 561,649</u>		

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On March 27, 2020, the Company's Board of Directors resolved to appropriate the 2019 earnings. These earnings were appropriated as follows:

	<b>2019</b>	
	<b>Amount per share</b>	<b>Total amount</b>
Dividends distributed to ordinary shareholders		
Cash	\$ 0.57770679	<u><u>212,452</u></u>

(r) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share at December 31, 2019 and 2018 was based on the profit attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding as follows:

1) Profit attributable to ordinary shareholders of the Company

	<b>2019</b>	<b>2018</b>
Profit attributable to ordinary shareholders of the Company	\$ <u>260,394</u>	<u>624,054</u>

2) Weighted-average number of ordinary shares (thousands)

	<b>2019</b>	<b>2018</b>
Weighted-average number of ordinary share	<u>366,989</u>	<u>340,230</u>

3) Basic earnings per share (TWD)

	<b>2019</b>	<b>2018</b>
	\$ <u>0.71</u>	<u>1.83</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share on 31 December 31, 2019 and 2018 was based on profit attributable to ordinary shareholders of the Company, and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows.

1) Profit attributable to ordinary shareholders of the Company (diluted)

	<b>2019</b>	<b>2018</b>
Profit attributable to ordinary shareholders of the Company (basic)	\$ 260,394	624,054
Convertible bonds payable	<u>290</u>	<u>2,488</u>
Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 260,684</u>	<u>626,542</u>

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2) Weighted-average number of ordinary shares (thousand, diluted)

	<u>2019</u>	<u>2018</u>
Weighted-average number of ordinary shares (basic)	366,989	340,230
Effect of convertible bonds	763	6,538
Effect of employee stock remuneration	<u>2,527</u>	<u>4,605</u>
Weighted-average number of ordinary shares (diluted) on December 31	<u><u>370,279</u></u>	<u><u>351,373</u></u>

	<u>2019</u>	<u>2018</u>
3) Diluted earnings per share (TWD)	<u>\$ 0.70</u>	<u>1.78</u>

(s) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2019</u>	<u>2018</u>
Primary geographical markets:		
Taiwan	\$ 4,089,563	3,939,673
China	16,438,975	21,122,394
Others	<u>1,849,193</u>	<u>2,605,102</u>
	<u>\$ 22,377,731</u>	<u>27,667,169</u>
Major products/services lines		
Chipset/memory components	\$ 10,557,182	15,380,501
Assorted and other components	11,809,107	12,275,647
Others	<u>11,442</u>	<u>11,021</u>
	<u>\$ 22,377,731</u>	<u>27,667,169</u>

For the years ended December 31, 2019 and 2018, the Company was determined in some specific transactions as an agent that the other party sold some merchandises to end-customer by delivering them to the Company. In these cases, the Company did not obtain the control of the merchandises, therefore, the Company recognized the remaining amount which was offset against the payment to the other party from the transactions; or recognized the commission signed with the other party, as revenue.

For the years ended December 31, 2019 and 2018, the Company was determined the as an agent in the aforementioned transactions amounting \$11,383 and \$10,354, respectively. Due to the above transactions, the other receivables amounted to to \$938,929 and \$895,511 as of December 31, 2019 and 2018, respectively; and the other payables amounted to \$936,542 and \$884,438 as of the years then ended respectively. Please refer to note (6)(e) and (6)(k).

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## (ii) Contract balance

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Notes and accounts receivable (included related parties)	\$ 3,790,318	4,546,874	4,133,294
Less: allowance for impairment	<u>(35,874)</u>	<u>(49,750)</u>	<u>(40,026)</u>
	<u>\$ 3,754,444</u>	<u>4,497,124</u>	<u>4,093,268</u>
Contract liabilities	<u>\$ 20,173</u>	<u>67,943</u>	<u>103,786</u>

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

The amounts of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were \$60,833 and \$96,660, respectively.

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

## (t) Remuneration to employees and directors

The Audit committee, established by the independent directors, has replaced the supervisors' authority after the re-election of the new directors at the shareholders' meeting held on June 13, 2018, and amended the relevant provisions in the Company's articles of incorporation.

The Company's Articles of Incorporation require that earning shall first be offset against any deficit, then, 6% to 10% of profit before tax (before deducting remuneration to employees and directors) will be distributed as employee remuneration and a maximum of 2.5% will be allocated as directors' remuneration. Employees who are entitled to receive the above-mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Company who meet certain specific requirements. Actual distribution should be determined in the Board of Directors' meeting, with no less than two-thirds of directors present, and approved by more than half of the directors attending the meeting, then shall be report to the meeting of shareholders.

For the years ended December 31, 2019 and 2018, the Company estimated its employee remuneration amounting to \$29,690 and \$73,349, and directors' remuneration amounting to \$7,422 and \$18,337, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees and directors of each period, multiplied by the percentage of remuneration to employees and directors as specified in the Company's articles. These remunerations were expensed under operating expenses during 2019 and 2018. If the Board of Directors resolved to distribute employees' remuneration in the form of shares, the numbers of shares to be distributed were calculated based on the closing price of the Company's ordinary shares one day before the date of the meeting of the board of directors.

The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2019 and 2018. Related information would be available at the Market Observation Post System website.

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## (u) Financial Instruments

## (i) Credit risk

## 1) Exposure to credit risk

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

## 2) Concentration of credit risk

Because the Company caters to a wide variety of customers and has a diverse market distribution, the Company does not concentrate in any single individual customer. Therefore, there is no significant credit risk of concentration in trade receivable. In order to reduce credit risk, the Company monitors the financial conditions of its customers regularly. However, the Company does not require its customers to provide any collateral.

## 3) Receivables

For credit risk exposure of notes and trade receivables, please refer to note (6)(d).

The amount of other financial assets at amortized cost include other receivables which had been impaired. For the loss allowance provision, please refer to the note (6)(e).

## (ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, excluding estimated interest payments.

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 year</u>
<b>December 31, 2019</b>				
Non-derivative financial liabilities				
Unsecured loans	\$ 4,076,418	(4,076,418)	(4,076,418)	-
Short-term notes and bill payable, net	669,251	(670,000)	(670,000)	-
Lease liabilities	130,745	(133,898)	(52,694)	(81,204)
Notes and accounts payable	1,924,968	(1,924,968)	(1,924,968)	-
Other payables	1,032,137	(1,032,137)	(1,032,137)	-
Derivative financial liabilities				
Forward exchange contracts:	4,040			
Outflow	-	(123,699)	(123,699)	-
Inflow	-	119,659	119,659	-
	<u>\$ 7,837,559</u>	<u>(7,841,461)</u>	<u>(7,760,257)</u>	<u>(81,204)</u>
<b>December 31, 2018</b>				
Non-derivative financial liabilities				
Unsecured loans	\$ 5,215,273	(5,215,273)	(5,215,273)	-
Short-term notes and bill payable, net	669,283	(670,000)	(670,000)	-
Notes and accounts payable	3,160,941	(3,160,941)	(3,160,941)	-
Other payables	1,016,594	(1,016,594)	(1,016,594)	-
Bonds payable	32,392	(32,900)	(32,900)	-
	<u>\$ 10,094,483</u>	<u>(10,095,708)</u>	<u>(10,095,708)</u>	<u>-</u>

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

(iii) Market risk

1) Currency risk

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

	December 31, 2019			December 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	\$ 225,545	30.02	6,770,861	222,865	30.715	6,845,298
Non-monetary items						
USD	745	30.02	22,365	745	30.715	22,883
Financial liabilities						
Monetary items						
USD	179,097	30.02	5,376,492	243,302	30.715	7,473,021

2) Currency risk sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and account receivables, other receivables, financial assets at fair value through other comprehensive income, loans and borrowings, notes and accounts payables and other payables that are denominated in foreign currency. A change of 5% in the exchange rate of TWD or USD against foreign currency for the years ended December 31, 2019 and 2018 would have increase (decreased) the other comprehensive income (before tax) \$1,118 and \$1,144, respectively. For the years ended December 31, 2019 and 2018 would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

	2019	2018
USD (against the TWD)		
Strengthening 5%	\$ 69,718	(31,386)
Weakening 5%	(69,718)	31,386
USD (against the CNY)		

3) Exchange gains and losses of monetary items

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2019 and 2018, the foreign exchange gain, including both realized and unrealized, amounted to a gain of \$41,627 and \$17,124, respectively.

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4) Equity market price risk

If the price of the fair value of equity instruments (including the stocks listed on domestic market at stock exchange (over-the-counter) market share, domestic emerging market stocks and domestic and foreign unlisted stocks) changed at the report date. (with the same analysis performed for both periods, assuming all other variable factors remain constant), it would have resulted in the change in the comprehensive income as illustrated below.

	2019		2018	
	Other comprehensive income before tax	Net income before tax	Other comprehensive income before tax	Net income before tax
Securities prices at reporting date				
Increasing 5%	\$ 2,258	26	3,163	27
Decreasing 5%	\$ (2,258)	(26)	(3,163)	(27)

(iv) Interest rate analysis

The details of financial assets and liabilities exposed to interest rate risk were as follows:

	Carrying amount	
	December 31, 2019	December 31, 2018
Variable rate instruments:		
Financial assets	\$ 1,162,064	717,718
Financial liabilities	(4,076,418)	(5,215,273)

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. Regarding the assets and liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of assets and liabilities outstanding at the reporting date were outstanding throughout the year. The rate of change is expressed as the interest rate increase or decrease by 0.25% when reporting to management internally, which also represents the Company's management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.25%, the Company's net profit before tax would have decreased or increased by \$7,286 and \$11,244 for the years ended December 31, 2019 and 2018, respectively, which would be mainly resulting from demand deposits, and unsecured loans with variable interest rates.

(v) Fair value

1) Categories and the fair value of financial instruments

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 are measured on

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a recurring basis. The carrying amount and fair value of the Company'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 lease liabilities, disclosure of fair value information is not required :

	December 31, 2019				
	Carrying amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets mandatorily measured at fair value through profit or loss</b>					
Stocks listed on domestic markets	\$ 522	522	-	-	522
<b>Financial assets at fair value through other comprehensive income</b>					
Notes and accounts receivable, net	836,491	-	-	-	-
Emerging market stock	2,709	2,709	-	-	2,709
Stocks unlisted on domestic markets and foreign market	<u>42,453</u>	-	-	42,453	42,453
Subtotal	<u>881,653</u>				
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	1,355,639	-	-	-	-
Notes and accounts receivable, net	2,917,953	-	-	-	-
Other receivables	1,273,201	-	-	-	-
Guarantee deposits paid	<u>21,657</u>	-	-	-	-
Subtotal	<u>5,568,450</u>				
	<b><u>\$ 6,450,625</u></b>				
<b>Financial liabilities mandatorily measured at fair value through profit or loss</b>					
Forward exchange contracts	\$ <u>4,040</u>	-	4,040	-	4,040
<b>Financial liabilities measured at amortized cost</b>					
Bank loans	(4,745,669)	-	-	-	-
Lease liabilities	(130,745)	-	-	-	-
Accounts payable	(1,924,968)	-	-	-	-
Other payables	<u>(1,032,137)</u>	-	-	-	-
Subtotal	<u>(7,833,519)</u>				
	<b><u>\$ (7,829,479)</u></b>				

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	December 31, 2018				
	Carrying amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial assets mandatorily measured at fair value through profit or loss</b>					
Derivative instruments not used for hedging					
Forward exchange contracts	\$ 590	-	590	-	590
Stocks listed on domestic markets	<u>530</u>	530	-	-	530
Subtotal	<u>1,120</u>				
<b>Financial assets at fair value through other comprehensive income</b>					
Notes and accounts receivable, net	780,396	-	-	-	-
Emerging market stock	2,375	2,375	-	-	2,375
Stocks unlisted on domestic markets and foreign market	<u>60,883</u>	-	-	60,883	60,883
Subtotal	<u>843,654</u>				
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	877,050	-	-	-	-
Notes and accounts receivable, net	3,716,728	-	-	-	-
Other receivables	1,232,122	-	-	-	-
Guarantee deposits paid	<u>21,657</u>	-	-	-	-
Subtotal	<u>5,847,557</u>				
	<b><u>\$ 6,692,331</u></b>				
<b>Financial liabilities measured at amortized cost</b>					
Bank loans	\$ (5,884,556)	-	-	-	-
Accounts payable	(3,160,941)	-	-	-	-
Other payables	(1,016,594)	-	-	-	-
Bonds payable	<u>(32,392)</u>	-	-	-	-
	<b><u>\$(10,094,483)</u></b>				

There were no transfers of financial instruments between any levels for the years ended December 31, 2019 and 2018.

2) Valuation techniques for financial instruments not measured at fair value

The Company's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

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a) Financial assets measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Valuation technique of financial instruments measured at fair value

a) Non-derivative financial instruments

If the financial instrument has a public quoted price in an active market, the public quoted price will be determined as the fair value. The measurements on fair value of the financial instruments without an active market are determined using the valuation technique or the quoted market price of its competitors. Fair value measured using the valuation technique can be extrapolated from similar financial instruments, discounted cash flow method, or other valuation techniques which include the model used in calculating the observable market data at the consolidated balance sheet date.

The Company holds the unquoted equity investments of financial instruments without an active market. The measurement of fair value of the equity instruments is based on the Guideline Public Company method, which mainly assumes the evaluation by the price to book value ratio of similar public company and by the discount for lack of marketability. The estimation has been adjusted by the effect resulting from the discount for lack of marketability of the securities.

b) Derivative financial instruments

Measurement of fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

4) Reconciliation of Level 3 fair values

	<b>Fair value through other comprehensive income</b>
	<b>Unquoted equity instruments</b>
Opening balance, January 1, 2019	\$ 60,883
Total gains and losses recognized:	
In other comprehensive income	(18,430)
Ending Balance, December 31, 2019	<u>\$ 42,453</u>
Opening balance, January 1, 2018	\$ 58,664
Total gains and losses recognized:	
In other comprehensive income	2,520
Capital refunded	(301)
Ending Balance, December 31, 2018	<u>\$ 60,883</u>

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

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

Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationships between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income	Guideline Public Company method	<ul style="list-style-type: none"> <li>·Price-Sales ratio (0.7 and 1.00 at December 31, 2019 and 2018, respectively)</li> <li>·Price-Book ratio (0.9 and 0.86 at December 31, 2019 and 2018, respectively)</li> <li>·Lack-of-Marketability discount rate (21.45% and 17.02% on December 31, 2019 and 2018, respectively)</li> </ul>	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> <li>·The Price-Sales ratio were higher (lower);</li> <li>·the Price-Book ratio were higher (lower);</li> <li>or</li> <li>·the Lack-of-Marketability discount rate were lower (higher)</li> </ul>
Financial assets at fair value through profit or loss	Net Asset Value Method	·Net asset value	·Not applicable

(v) Financial risk management

(i) Briefings

The Company is exposed to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

In this note expressed the information on risk exposure and objectives, policies and procedures of risk measurement and management. For detailed information, please refer to the related notes of each risk.

(ii) Structure of risk management

The Company's finance department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations.

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The Company minimizes the risk exposure through derivative financial instruments. The board of directors regulated the use of derivative and non-derivative financial instruments in accordance with the Company's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investments of excess liquidity. The internal auditors of the Company continue with the review of the amount of the risk exposure in accordance with the Company's policies and the risk management policies and procedures. The Company has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

(iii) Credit risk

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

1) Accounts receivable and other receivables

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically. The customers evaluated as low credit rating by the Company only have prepayment transactions with the Company.

Trade and other receivables mainly relate to a wide range of customers from different industries and geographic regions. The Company continued to assess the financial condition and credit risk of its customers, by grouping trade and other receivables based on their characteristics and will purchase credit guarantee insurance contracts if necessary.

Because the Company caters to a wide variety of customers and has a diverse market distribution, the Company does not concentrate in any single individual customer. Therefore, there is no significant credit risk of concentration in trade receivable. In order to reduce the credit risk, the Company monitors the financial conditions of its customers regularly. However, the Company does not require its customers to provide any collateral.

2) Investments

The credit risks exposure in the bank deposits, investments with fixed income and other financial instruments are measured and monitored by the Company's finance department. Since the Company's transaction counterparties and the contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore, no significant credit risk. The finance department evaluates the counterparty's credit condition when investing in bond investment without an active market, and do not expect to have any significant credit risk.

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(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

Borrowings from the banks and accounts receivable factoring are important sources of liquidity for the Company. Please refer to note (6)(d) and note (6)(j) for unused short-term bank facilities and factoring amount as of December 31, 2019 and 2018.

(v) Market risk

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

1) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Company, primarily the USD, CNY and HKD.

When short-term assets and liabilities denominated in a foreign currency are unbalanced, the Company uses exchange rate to buy or sell about foreign currency to ensure that the net risk is maintained at an acceptable level.

2) Interest rate risk

The global economic was set to ease off due to the U.S.-China trade war, the Federal Reserve("Fed") cut the interest rate three times to maintain an appropriate level, and it announced that there was no adjustment made for interest rate at present. As the Company's debt-based position are based on USD, the Company's capital cost will result in an decrease when there is an decrease in the US dollar interest rate. The New Taiwan Dollar interest rate trend will remain low in the near future, therefore, the future operating strategy determined by the management will take into consideration the cost of capital in adjusting the proportion of the borrowings in TWD in order to reduce the average cost of capital of its borrowings in the future.

3) Other price risk

The management of the Company monitors the listed or OTC share investments and open-end mutual funds based on the market price.

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(w) Capital management

The policy of the board of directors is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings.

The Company monitors the capital structure by way of periodical review on the liability ratio. As of December 31, 2019 and 2018 the liability ratios were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total liabilities	\$ 8,703,701	11,101,082
Total assets	14,368,626	16,919,674
Liability ratio	61 %	66 %

As of December 31, 2019, there were no changes in the Company's approach to capital management.

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

The Company's investing and financing activities which did not affect the current cash flow for the years ended December 31, 2019 and 2018, were as follows:

- (i) For the acquisition of right-of-use assets from leases, please refer to note (6)(i).
- (ii) For conversion of convertible bonds to ordinary shares, please refer to note (6)(l).

Reconciliation of liabilities arising from financing activities were as follows:

	<u>January 1, 2019</u>	<u>Cash flows</u>	<u>Non-cash changes</u>		<u>December 31, 2019</u>
			<u>Acquisition</u>	<u>Foreign exchange movement</u>	
Short-term loans	\$ 5,884,556	(1,138,887)	-	-	4,745,669
Lease liabilities	183,442	(52,873)	-	176	130,745
Total liabilities from financing activities	<u>\$ 6,067,998</u>	<u>(1,191,760)</u>	<u>-</u>	<u>176</u>	<u>4,876,414</u>
	<u>January 1, 2018</u>	<u>Cash flows</u>			<u>December 31, 2018</u>
Total liabilities from financing activities	<u>\$ 4,670,567</u>	<u>1,213,989</u>			<u>5,884,556</u>

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**(7) Related-party transactions**

(a) Name and relationship with related parties

The following are entities that have had transactions with the Company and its Subsidiaries during the period covered in the financial report were as follows:

<u>Related-party</u>	<u>Relationship</u>
Weikeng International Co., Ltd. (WKI)	Subsidiary
Weitech Technology Co., Ltd.	Subsidiary
Weikeng Technology Pte. Ltd. (WTP)	Subsidiary
Weikeng International ( Shanghai) Co., Ltd. (WKS)	Sub-Subsidiary
Weitech International Co., Ltd. (Weitech)	Sub-Subsidiary
Weikeng Electronic Technology (Shanghai) Co., Ltd. (WKE)	Sub-Subsidiary
Weiji Investment Co., Ltd.	The same chairman
Yang Sheng Education Foundation	The same chairman
Genlog Industrial Co., Ltd.	Substantive related-party

(b) Other related party transactions

(i) Sale of goods to related parties

The amounts of significant sales transactions between the Company and related parties were as follows:

	<u>2019</u>	<u>2018</u>
Subsidiaries	\$ 159,674	671,512
Sub-subsidiaries	2,811	3,987
Other related parties	<u>18</u>	<u>8</u>
	<u>\$ 162,503</u>	<u>675,507</u>

There was no significant difference in the pricing on sales to related parties and general customers, except for the sales to the subsidiaries and sub-subsidiaries, whose prices are based on the price, plus, cost. The collection period for certain subsidiaries is based on their accounts receivable which depend on OA30 days after offsetting the accounts payable generated from their purchase and sales; and the collection period for other related parties ranges from 30 to 60 days after delivery.

(ii) Purchase of goods from related parties

The amounts of significant purchase transactions between the Group and related parties were as follows:

	<u>2019</u>	<u>2018</u>
Subsidiaries	\$ <u>110,214</u>	<u>486,184</u>

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There was no significant difference in pricing on purchase from related parties and general suppliers, except for the purchase from subsidiaries and sub-subsidiaries, whose prices are based on the purchase, plus, cost. The payment period for certain subsidiaries is based on their accounts payable which depend on OA30 days after offsetting the accounts receivable generated from their purchase and sales; and the payment period for other related parties ranges from 30 to 60 days after the arrival date.

(iii) Processing fee and consultancy fees from related Parties

Other related parties were commissioned to provide processing services and consulting services to the Company, as well as the payment for the commission to subsidiaries. The amounts of transactions between the Company and related parties were as follows:

	<u>2019</u>	<u>2018</u>
Subsidiaries	\$ -	553
Other related parties	<u>10,870</u>	<u>11,990</u>
	<u>\$ 10,870</u>	<u>12,543</u>

(iv) Lease

The Company leased a portion of its building to its related parties for office use purpose. The rental is collected monthly, were as follows:

	<u>2019</u>	<u>2018</u>
	\$ 23	23
Other related parties	<u>1,306</u>	<u>1,306</u>
	<u>\$ 1,329</u>	<u>1,329</u>

The Company signed a 2-3year lease contract with its subsidiaries to lease the office and warehouse of its branch company, at a total value of the \$43,805, and the rental cost of \$26,357 in 2018. The lease transactions each recognized the right-of-use asset and lease liability of \$42,052 when IFRS16 was initially applied on January 1, 2019, as well as the interest expenditure of \$1,107 in 2019. As of December 31, 2019, the balance of lease liability amounted to \$24,702.

(v) Management and credit service income

As of December 31, 2019 and 2018, the Company incurred the management and credit service income of \$252,585 and \$240,770, respectively, from its subsidiaries and sub-subsidiaries, accounted in non-operating revenue – other items.

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

## (vi) Receivable from relate parties

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Note and accounts receivable	Subsidiaries	\$ 8,259	91,105
Note and accounts receivable	Sub-subsidiaries	468	2,780
Note and accounts receivable	Other related parties	-	8
Other receivables	Subsidiaries	61,182	53,801
Other receivables	Other related parties	-	10
		<u>\$ 69,909</u>	<u>147,704</u>

## (vii) Payable to related parties

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Account payable	Subsidiaries	\$ 722	-
Other payables	Subsidiaries	121	461
Other payables	Other related parties	963	686
		<u>\$ 1,806</u>	<u>1,147</u>

## (viii) Guarantee

As of December 31, 2019 and 2018, the Company's endorsement guarantees for subsidiaries were \$9,225,622 and \$9,049,425, respectively.

## (c) Key management personnel compensation

Key management personnel compensation comprised:

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 71,789	108,049
Post-employment benefits	798	880
	<u>\$ 72,587</u>	<u>108,929</u>

**(8) Pledged assets: None.****(9) Commitments and contingencies:**

As of December 31, 2019 and 2018 the balance of L/Cs for customs and value added tax and the purchase of merchandise were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	<u>\$ 171,100</u>	<u>323,150</u>

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Parent Company Only Financial Statements**

**(10) Losses Due to Major Disasters: None**

**(11) Subsequent Events:**

The coronavirus outbreak since early 2020 has brought about additional uncertainties in to several subsidiaries' operating environment in China, which has impacted their business operations, including the recovery of accounts receivable, etc. The relevant information is still unclear, therefore, it is not possible to make any reasonable estimate of the economic impact on its business results and financial situations. Hence, the Company will continue to closely monitor the development of the event and keep its contingency measures and adjustments as needed.

**(12) Other:**

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

By item	By function	2019	2018
		Operating expense	Operating expense
Employee benefits			
Salary		504,867	564,437
Labor and health insurance		40,643	38,437
Pension		24,773	24,688
Remuneration of directors		7,422	18,337
Others		25,182	28,448
Depreciation		59,528	6,170
Amortization		2,988	3,059

For the years ended December 31, 2019 and 2018, the information on the number of employees and employee benefit expense of the Company is as follows:

	2019	2018
Number of employees	<u>461</u>	<u>449</u>
Number of directors who were not employees	<u>5</u>	<u>5</u>
The average employee benefit	\$ <u>1,306</u>	\$ <u>1,478</u>
The average salaries and wages	\$ <u>1,107</u>	\$ <u>1,271</u>
The adjustment of the average salaries and wages adjustment	<u>(12.90)%</u>	

**(13) Other disclosures:**

- (a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company for the year ended December 31, 2019:

- (i) Loans to other parties: None

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Consolidated Financial Statements**

(ii) Guarantees and endorsements for other parties:

(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	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	Parent company endorsements/ guarantees to third parties on behalf of subsidiary (note 2)	Subsidiary endorsements/ guarantees to third parties on behalf of parent company (note 2)	Endorsements/ guarantees to third parties on behalf of companies in Mainland China (note 2)
		Name	Relationship with the Company										
0	The Company	WKI	100% owned subsidiary	8,497,388	7,001,256	7,001,256	4,375,564	-	123.6 %	16,994,775	Y	-	-
"	"	WTP	100% owned subsidiary	8,497,388	690,460	690,460	446,553	-	12.2 %	16,994,775	Y	-	-
"	"	WKS	100% owned subsidiary	8,497,388	1,992,680	1,533,906	278,209	-	27.1 %	16,994,775	Y	-	Y

Note 1 : The total amount of the guarantee provided by the Company shall not exceed three hundred percent (300%) of the higher amount between the Company's capital amount and net worth. However, for any individual entity whose voting shares are 50% owned, directly or indirectly, by the Company shall not exceed fifty percent (50%) of the maximum amount for guarantee on recent audited or reviewed financial statements.

Note 2 : For those entities as the guarantor to the subsidiary, subsidiary as the guarantor to the company, or the guarantor that located in China, please fill in "Y".

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

(Shares/units (thousands))

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying amount	Percentage of ownership (%)	Fair value	
The Company	Securities of listed companies EBM Technologies Inc.	-	Financial assets mandatorily measured at fair value through profit or loss-current	34	\$ 522	-	\$ 522	
The Company	Feature Integration Technology Inc.	-	Financial assets at fair value through other comprehensive income-noncurrent	158	\$ 2,361	0.53	\$ 2,361	
"	Clientron Corp.	-	"	15	348	0.02	348	
					\$ 2,709		\$ 2,709	
The Company	Paradigm I Venture Capital Company(Paradigm I)	-	Financial assets at fair value through other comprehensive income-noncurrent	750	\$ 9,437	6.79	\$ 9,437	
"	Paradigm Venture Capital Corporation(PVC Corp.)	-	"	271	3,226	10.49	3,226	
"	InnoBridge Venture Fund ILP.	-	"	-	15,150	9.90	15,150	
"	(InnoBridge) Shin Kong Global Venture Capital Corp.	-	"	3,000	4,800	12.00	4,800	
"	Vision Wide Technology Co., Ltd.(VTEC)	-	"	800	9,840	1.70	9,840	
					\$ 42,453		\$ 42,453	

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

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

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

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Consolidated Financial Statements**

- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchases/(Sales)	Amount	Percentage of total purchases/(sales)	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	WKI	100% owned subsidiary	Purchases	109,207 (USD3,526)	- %	OA30	According to cost-plus pricing	-	(722) (USD24)	- %	Note
"	"	"	(Sales)	(145,849) (USD4,714)	- %	"	"	-	7,074 (USD236)	- %	"
WKI	The Company	Parent company	(Sales)	(109,207) (USD3,526)	- %	"	"	-	722 (USD24)	- %	"
"	"	"	Purchases	145,849 (USD4,714)	- %	"	"	-	(7,074) (USD236)	- %	"
"	WKS	Subsidiary	(Sales)	(2,660,966) (USD86,091)	(12) %	OA60	"	-	1,171,058 (USD39,009)	28 %	"
WKS	WKI	Parent company	Purchases	2,660,966 (USD86,091)	55 %	"	"	-	(1,171,058) (USD39,009)	(66) %	"

Note: The transactions have been eliminated in the consolidated financial statement.

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(in thousands of foreign currency)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period (Note)	Allowance for bad debts
					Amount	Action taken		
WKI	WKS	Subsidiary	1,171,058 (USD39,009)	3.27	-	-	USD 13,231	-

Note: Information as of February 29, 2020.

- (ix) Trading in derivative instruments: Please refer to notes (6)(b)

- (b) Information on investees:

The following is the information on investees for the year ended December 31, 2019 (excluding information on investees in Mainland China):

(in thousands of foreign currency)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Enging balancet			Net income (losses) of investee	Investment income (losses) of investor	Note
				December 31, 2019	December 31, 2018	Shares (In Thousands)	Percentage of Ownership	Carrying amount			
The Company	WKI	Hong Kong	Electronic components computer peripherals products distribution and technical support	\$ 774,275	620,205	326,250	100%	\$ 3,325,146	4,523	\$ 4,523	Subsidiary
"	WTC	Taipei	Electronic components and technical support	12,983	12,983	1,589	100%	26,593	(324)	(324)	"
"	WTP	Singapore	"	293,327	215,564	12,413	100%	334,863	677	677	"
	Total			\$ 1,080,585	848,752			\$ 3,686,602		\$ 4,876	
WKI	Weitech	Hong Kong	Import and export trade of electronic components	0.41 (HKD0.1)	0.41 (HKD0.1)	-	100%	1,839 (USD61)	226 (USD7)	226 (USD7)	Subsidiary's subsidiary

(Continued)

**WEIKENG INDUSTRIAL CO., LTD.**  
**Notes to Consolidated Financial Statements**

(c) Information on investment in mainland China:

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

(in thousands of foreign currency)

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, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) of investor (Note 2)	Book value	Accumulated remittance of earnings in current period
					Outflow (Note 3)	Inflow						
WKS	Electronic components computer peripherals products distribution and technical support	786,647 (USD25,000)	Note 1 - 4	304,594 (USD9,800)	-	-	304,594 (USD9,800)	(87,876) (USD(2,843)) (Note 2)	100%	(87,876) (USD(2,843)) (Note 2)	569,616 (USD18,975)	-
WKE	Electronic technology development and technical advisory	5,067 (RMB1,000)	Note 1 - 5	-	-	-	-	932 (USD30)	100%	932 (USD30)	5,431 (USD181)	-

- (ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA (note 3)	Upper Limit on Investment
304,594 (USD9,800)	750,500 (USD25,000)	3,398,955

Note 1: Investment in Mainland China was through a company in the third area.

Note 2: The investment gains and losses of the current period are recognized according to the financial statements, which have been reviewed and certified by the Company's independent auditors, and were translated into New Taiwan Dollars at the average exchange rates for the year ended December 31, 2019.

Note 3: The currency were translated into New Taiwan Dollars at the exchange rates at the end of reporting period.

Note 4: The difference was due to Weikeng International Co. Ltd.'s investment of US\$15,200 thousand dollars on Weikeng International (Shanghai) Co. Ltd. using its funds.

Note 5: The difference was due to Weikeng International (Shanghai) Co. Ltd.'s investment of RMB1,000 thousand dollars on Weikeng Electronic Technology (Shanghai) Co. Ltd. using its funds.

- (iii) Significant transactions: None

**(14) Segment information:**

Please refer the consolidated financial statements.

## WEIKENG INDUSTRIAL CO., LTD.

## Statement of cash and cash equivalents

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Cash on hand		\$ 134
Checking accounts and demand deposits		263,273
Foreign currency in banks	Foreign currency(USD35,949 · HKD515 and CNY2,576)	1,092,232
		<u>\$ 1,355,639</u>

Note : Exchange rate: USD/TWD 30.02; HKD/TWD3.855; CNY/TWD4.299.

## Statement of trade receivables

<u>Customer names</u>	<u>Description</u>	<u>Amount</u>
Notes receivable	Revenue from non-related parties	\$ 13,503
Accounts receivable		
Related Parties :		
Other ( Note )	Revenue from related parties	8,727
Non-related parties :		
TC098	Revenue from non-related parties	278,310
Other ( Note )		<u>3,489,778</u>
		3,776,815
Less: Loss allowance		<u>35,874</u>
		<u>3,740,941</u>
Notes and accounts receivable, net.		<u>\$ 3,754,444</u>

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

## WEIKENG INDUSTRIAL CO., LTD.

## Statement of inventories

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>	
	<u>Cost</u>	<u>Net realizable value</u>
Merchandise inventories	\$ 3,390,014	4,031,241
Goods in transit	197,979	207,792
	<u>\$ 3,587,993</u>	<u>4,239,033</u>

Note : The market price of inventories was determined by the net realizable value.

## Statement of prepayments

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Net Input VAT	Business tax	\$ 153,137
Other (Note)	Includes prepaid rents, prepayments to suppliers and prepaid insurance premiums, etc.	17,040
		<u>\$ 170,177</u>

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



## WEIKENG INDUSTRIAL CO., LTD.

## Statement of changes in investments accounted for using the equity method

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Company name	Opening balance		Increase		Decrease		Recognized revenue		Ending balance		108.12.31 Market price or net value	Provided guarantee or pledge
	Shares	Amount	Shares	Amount	Shares	Amount	Amount	Amount	Shares	Amount		
WKI	287,000	\$ 3,323,632	39,250	154,070	-	-	4,523	326,250	100 %	3,482,225	3,325,146	None
WTC	1,589	26,917	-	-	-	-	(324)	1,589	100 %	26,593	26,593	"
WTP	8,956	279,727	3,457	77,763	-	-	677	12,413	100 %	358,167	334,863	"
Exchange differences on translation of foreign financial statements		(89,229)		-		91,154	-			(180,383)	-	
		\$ 3,541,047		231,833		91,154	4,876			3,686,602	3,686,602	

## WEIKENG INDUSTRIAL CO., LTD.

Statement of financial assets measured at fair value through other  
comprehensive income - non-current

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Name of investee	Beginning balance		Increase		Decrease (Note)		Value of financial assets after value adjustment		Ending balance		Collateral
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	
Share:											
Feature Integration Technology Inc.	175	\$ 2,189	-	-	17	175	175	347	158	2,361	None
Pavadigam I	750	9,437	-	-	-	-	-	-	750	9,437	"
PVC Corp.	271	3,226	-	-	-	-	-	-	271	3,226	"
InnoBridge	-	15,150	-	-	-	-	-	-	*	15,150	"
Clientron Corp.	15	186	-	-	-	-	-	162	15	348	"
Shin Kong Global Venture Capital Corp.	3,000	18,000	-	-	-	-	-	(13,200)	3,000	4,800	"
VTEC	800	15,070	-	-	-	-	-	(5,230)	800	9,840	"
		<u>\$ 63,258</u>				<u>175</u>		<u>(17,921)</u>		<u>45,162</u>	

Note: Investee reduced capital and refund \$175.

## WEIKENG INDUSTRIAL CO., LTD.

## Statement of short-term borrowings

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

<u>Type</u>	<u>Description</u>	<u>Contract period</u>	<u>Interest rate</u>	<u>Financing amount</u>	<u>Ending balance</u>	<u>Collateral</u>
Financial	unsecured	108.10.28~109.06.24	1.08%~2.78%	400,000	\$ 317,305	None
institution Loans	loans					
"	"	108.10.04~109.05.26	2.55%	450,300	256,039	"
"	"	108.03.11~109.05.08	1.30%~2.71%	350,000	338,966	"
"	"	108.11.22~109.05.20	1.15%~2.71%	400,000	244,915	"
"	"	108.10.18~109.03.20	2.24%~2.25%	300,200	268,407	"
"	"	108.10.17~109.01.31	1.17%	300,000	240,000	"
"	"	108.10.29~109.01.22	1.25%	300,000	300,000	"
"	"	108.10.31~109.01.31	1.14%	300,000	268,000	"
Others (Note)					<u>2,512,037</u>	"
					<u>\$ 4,745,669</u>	

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

## WEIKENG INDUSTRIAL CO., LTD.

## Statement of trade payables

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

<u>Account</u>	<u>Description</u>	<u>Amount</u>
Accounts payable:		
TV002	Operating expense for non related party	\$ 130,350
TV004	"	224,656
TV006	"	114,810
TV007	"	203,542
TV008	"	456,719
TV010	"	173,303
TV015	"	165,413
TV018	"	157,160
TV040	"	151,785
Others (Note)	"	<u>147,230</u>
		<u>\$ 1,924,968</u>

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

## Statement of other non-current liabilities

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Refund liabilities	Allowance for sales refund	\$ 183,953
Other (Note)	Collect labor insurance and advance rent etc.	<u>3,622</u>
		<u>\$ 187,575</u>

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

## WEIKENG INDUSTRIAL CO., LTD.

## Statement of operating revenue

For the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount (thousand)</u>	<u>Amount</u>
Sale revenue:		
Chipset/memory components	170,673	\$ 10,557,182
Assorted and other components	3,413,380	11,809,107
Others		<u>11,442</u>
Net operating revenue		<u>\$ 22,377,731</u>

## Statement of operating costs

<u>Item</u>	<u>Amount</u>
Inventory, January, 1	\$ 6,551,931
Add: Purchase	18,657,990
Outsourcing purchase	34,838
Less: inventory, December, 31	(4,077,861)
Inventory obsolescence	<u>(3,657)</u>
Cost of goods sold	21,163,241
Add: Allowance for inventory valuation and obsolescence losses	154,043
Allowance for inventory obsolescence	<u>3,657</u>
Operating costs	<u>\$ 21,320,941</u>

## WEIKENG INDUSTRIAL CO., LTD.

## Statement of administrative expenses

For the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Item	Sales expense	Administration expense
Salary and expense	\$ 348,313	156,554
Depreciation expense	47,131	12,397
Export expense	32,837	-
Insurance expense	38,886	13,808
Entertainment	12,012	14,387
Other (Note)	118,483	49,784
Total	\$ 597,662	246,930

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

## Statement of lease liabilities

December 31, 2019

Item	Rental period	Discount rate	Current	Non-current
Buildings	1~4years	1.20%~3.36%	\$ 48,287	77,871
Transportation equipment	1~3.5years	1.20%	2,531	2,056
			\$ 50,818	79,927

Note: For right-of-use-asset, please refer note 6(i).