

**WEIKENG INDUSTRIAL CO., LTD. AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2020 and 2019**

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

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Weikeng Industrial Co., Ltd. and its subsidiaries as of September 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2020 and 2019, as well as the changes in equity and cash flows for the nine months ended September 30, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standard 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Weikeng Industrial Co., Ltd. and its subsidiaries as of September 30, 2020 and 2019, and of its consolidated financial performance for the three months and nine months ended September 30, 2020 and 2019, as well as its consolidated cash flows for the nine months ended September 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.



The engagement partners on the review resulting in this independent auditors' review report are Jui-Lan Lo and Yiu-Kwan Au.

KPMG

Taipei, Taiwan (Republic of China)

November 11, 2020

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of September 30, 2020 and 2019

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2020, December 31, and September 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

Assets		September 30, 2020		December 31, 2019		September 30, 2019		Liabilities and Equity		September 30, 2020		December 31, 2019		September 30, 2019	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
Current assets:								Current liabilities:							
1100	Cash and cash equivalents (note (6)(a))	\$ 2,235,555	10	2,336,361	10	2,278,024	10	2100	Short-term borrowings (note (6)(i))	\$ 10,828,351	48	9,844,853	42	11,327,173	51
1110	Financial assets at fair value through profit or loss - current (note (6)(b))	636	-	522	-	581	-	2120	Financial liabilities at fair value through profit or loss - current (note (6)(b))	-	-	4,040	-	3,087	-
1170	Notes and accounts receivable, net (note (6)(d))	10,267,903	45	8,223,453	35	8,226,135	37	2170	Notes and accounts payable	3,619,245	16	5,316,218	23	3,765,004	17
1200	Other receivables (notes (6)(d), (6)(e) and (7))	950,517	4	1,243,839	6	358,784	2	2200	Other payables (notes (6)(j) and (7))	1,154,790	5	1,411,607	6	467,063	2
1300	Inventories, net (note (6)(f))	8,186,668	36	10,479,000	45	10,440,384	46	2230	Current tax liabilities	108,268	-	87,361	-	93,911	-
1470	Prepaid expenses and other current assets	<u>324,663</u>	<u>2</u>	<u>276,752</u>	<u>1</u>	<u>340,815</u>	<u>1</u>	2130	Contract liabilities -current (note (6)(r))	180,026	1	91,026	-	85,345	-
		<u>21,965,942</u>	<u>97</u>	<u>22,559,927</u>	<u>97</u>	<u>21,644,723</u>	<u>96</u>	2280	Current lease liabilities (note (6)(l))	116,999	1	127,571	1	135,033	1
Non-current assets:								2300	Other current liabilities	<u>275,218</u>	<u>1</u>	<u>221,797</u>	<u>1</u>	<u>191,783</u>	<u>1</u>
1517	Financial assets at fair value through other comprehensive income— non-current (note (6)(c))	44,326	-	45,162	-	50,127	-		Non-current liabilities:	<u>16,282,897</u>	<u>72</u>	<u>17,104,473</u>	<u>73</u>	<u>16,068,399</u>	<u>72</u>
1600	Property, plant and equipment (note (6)(g))	137,072	1	149,291	1	151,645	1	2570	Deferred tax liabilities	332,589	1	332,613	1	335,359	1
1780	Intangible assets	53,292	-	57,519	-	64,950	-	2580	Non-current lease liabilities (note (6)(l))	86,723	-	152,221	1	181,893	1
1755	Right-of-use assets (note (6)(h))	203,337	1	279,613	1	316,365	2	2640	Non-current net defined benefit liabilities (note (6)(n))	124,577	1	129,007	1	128,006	-
1840	Deferred tax assets	239,233	1	216,156	1	146,990	1	2670	Other non-current liabilities	<u>181</u>	<u>-</u>	<u>211</u>	<u>-</u>	<u>211</u>	<u>-</u>
1900	Other non-current assets	<u>74,773</u>	<u>-</u>	<u>75,782</u>	<u>-</u>	<u>77,535</u>	<u>-</u>		Total liabilities	<u>544,070</u>	<u>2</u>	<u>614,052</u>	<u>3</u>	<u>645,469</u>	<u>2</u>
		<u>752,033</u>	<u>3</u>	<u>823,523</u>	<u>3</u>	<u>807,612</u>	<u>4</u>		Equity (note (6)(p)):	<u>16,826,967</u>	<u>74</u>	<u>17,718,525</u>	<u>76</u>	<u>16,713,868</u>	<u>74</u>
								3100	Ordinary share	3,677,513	16	3,677,513	16	3,677,513	16
								3200	Capital surplus	884,335	4	884,335	4	884,335	4
								3310	Legal reserve	890,626	4	864,760	3	864,760	4
								3320	Special reserve	229,459	1	138,615	1	138,615	1
								3350	Unappropriated retained earnings	<u>529,250</u>	<u>2</u>	<u>329,162</u>	<u>1</u>	<u>302,720</u>	<u>1</u>
									Other equity interest:						
								3410	Exchange differences on translation of foreign financial statements	(236,166)	(1)	(144,308)	(1)	(49,289)	-
								3420	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	<u>(84,009)</u>	<u>-</u>	<u>(85,152)</u>	<u>-</u>	<u>(80,187)</u>	<u>-</u>
										<u>(320,175)</u>	<u>(1)</u>	<u>(229,460)</u>	<u>(1)</u>	<u>(129,476)</u>	<u>-</u>
									Total equity	<u>5,891,008</u>	<u>26</u>	<u>5,664,925</u>	<u>24</u>	<u>5,738,467</u>	<u>26</u>
Total assets		<u>\$ 22,717,975</u>	<u>100</u>	<u>23,383,450</u>	<u>100</u>	<u>22,452,335</u>	<u>100</u>	Total liabilities and equity		<u>\$ 22,717,975</u>	<u>100</u>	<u>23,383,450</u>	<u>100</u>	<u>22,452,335</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and nine months ended September 30, 2020 and 2019

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

	For the three months ended September 30				For the nine months ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
4100	Net sales revenue (note (6)(r) and note (7))							
	\$ 17,265,545	100	13,080,286	100	42,824,338	100	35,163,817	100
5000	Cost of sales (note (6)(f))							
	<u>16,411,670</u>	<u>95</u>	<u>12,343,802</u>	<u>94</u>	<u>40,540,230</u>	<u>95</u>	<u>32,995,269</u>	<u>94</u>
	Gross profit							
	<u>853,875</u>	<u>5</u>	<u>736,484</u>	<u>6</u>	<u>2,284,108</u>	<u>5</u>	<u>2,168,548</u>	<u>6</u>
	Operating expenses (notes (6)(l), (6)(m), (6)(n), note (7) and (12)):							
6100	Selling expenses							
	436,506	2	399,147	3	1,161,595	3	1,182,787	3
6200	Administrative expenses							
	123,604	1	103,900	1	332,506	1	324,540	1
6450	Expected credit losses (gains) (note (6)(d))							
	<u>18,904</u>	<u>-</u>	<u>10,800</u>	<u>-</u>	<u>34,688</u>	<u>-</u>	<u>5,310</u>	<u>-</u>
	<u>579,014</u>	<u>3</u>	<u>513,847</u>	<u>4</u>	<u>1,528,789</u>	<u>4</u>	<u>1,512,637</u>	<u>4</u>
	Net operating income							
	<u>274,861</u>	<u>2</u>	<u>222,637</u>	<u>2</u>	<u>755,319</u>	<u>1</u>	<u>655,911</u>	<u>2</u>
	Non-operating income and expenses:							
7100	Interest income							
	753	-	891	-	3,630	-	4,145	-
7010	Other income (note (7))							
	10,575	-	1,834	-	39,908	-	17,786	-
7235	Gains (losses) on financial assets (liabilities) at fair value through profit or loss (note (6)(t))							
	(99)	-	2,989	-	1,815	-	1,771	-
7230	Foreign currency exchange gains (losses), net							
	73,189	-	(24,798)	-	94,015	-	(33,667)	-
7050	Financial costs (note (6)(l))							
	(51,380)	-	(105,975)	(1)	(205,100)	-	(331,568)	(1)
7590	Miscellaneous disbursements							
	<u>(173)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(442)</u>	<u>-</u>	<u>(23)</u>	<u>-</u>
	<u>32,865</u>	<u>-</u>	<u>(125,059)</u>	<u>(1)</u>	<u>(66,174)</u>	<u>-</u>	<u>(341,556)</u>	<u>(1)</u>
7900	Profit before tax							
	307,726	2	97,578	1	689,145	1	314,355	1
7950	Income tax expenses (note (6)(o))							
	<u>73,162</u>	<u>1</u>	<u>26,144</u>	<u>-</u>	<u>159,895</u>	<u>-</u>	<u>82,137</u>	<u>-</u>
8200	Profit							
	<u>234,564</u>	<u>1</u>	<u>71,434</u>	<u>1</u>	<u>529,250</u>	<u>1</u>	<u>232,218</u>	<u>1</u>
	Other comprehensive income:							
8310	Items that will not be reclassified to profit or loss							
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income							
	(489)	-	(17)	-	1,143	-	(12,956)	-
8349	Less: income tax relating to components of other comprehensive income that will not be reclassified to profit or loss							
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(489)</u>	<u>-</u>	<u>(17)</u>	<u>-</u>	<u>1,143</u>	<u>-</u>	<u>(12,956)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss							
8361	Exchange differences on translation of foreign financial statements							
	(47,808)	-	(20,840)	-	(114,822)	-	27,620	-
8399	Less: income tax relating to components of other comprehensive income that may be reclassified to profit or loss (note (6)(o))							
	<u>(9,561)</u>	<u>-</u>	<u>(4,168)</u>	<u>-</u>	<u>(22,964)</u>	<u>-</u>	<u>5,524</u>	<u>-</u>
	<u>(38,247)</u>	<u>-</u>	<u>(16,672)</u>	<u>-</u>	<u>(91,858)</u>	<u>-</u>	<u>22,096</u>	<u>-</u>
	<u>(38,736)</u>	<u>-</u>	<u>(16,689)</u>	<u>-</u>	<u>(90,715)</u>	<u>-</u>	<u>9,140</u>	<u>-</u>
	Other comprehensive income, net							
8500	Comprehensive income							
	<u>\$ 195,828</u>	<u>1</u>	<u>54,745</u>	<u>1</u>	<u>438,535</u>	<u>1</u>	<u>241,358</u>	<u>1</u>
	Earnings per share: (note (6)(q))							
9750	Basic earnings per share							
	<u>\$ 0.64</u>		<u>0.19</u>		<u>1.44</u>		<u>0.63</u>	
9850	Diluted earnings per share							
	<u>\$ 0.63</u>		<u>0.19</u>		<u>1.42</u>		<u>0.63</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings				Unappropriated retained earnings	Other equity interest		Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special reserve		Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	
Balance at January 1, 2019	\$ 3,448,980	872,702	802,354	143,162	690,010	(71,385)	(67,231)	5,818,592
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	62,406	-	(62,406)	-	-	-
Special reserve reversed	-	-	-	(4,547)	4,547	-	-	-
Cash dividends	-	-	-	-	(354,165)	-	-	(354,165)
Stock dividends	207,484	-	-	-	(207,484)	-	-	-
	<u>207,484</u>	<u>-</u>	<u>62,406</u>	<u>(4,547)</u>	<u>(619,508)</u>	<u>-</u>	<u>-</u>	<u>(354,165)</u>
Consolidated net income for the nine months ended September 30, 2019	-	-	-	-	232,218	-	-	232,218
Other comprehensive income for the nine months ended September 30, 2019	-	-	-	-	-	22,096	(12,956)	9,140
Total comprehensive income for the nine months ended September 30, 2019	-	-	-	-	232,218	22,096	(12,956)	241,358
Conversion of convertible bonds	21,049	11,633	-	-	-	-	-	32,682
Balance at September 30, 2019	<u>\$ 3,677,513</u>	<u>884,335</u>	<u>864,760</u>	<u>138,615</u>	<u>302,720</u>	<u>(49,289)</u>	<u>(80,187)</u>	<u>5,738,467</u>
Balance at January 1, 2020	\$ 3,677,513	884,335	864,760	138,615	329,162	(144,308)	(85,152)	5,664,925
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	25,866	-	(25,866)	-	-	-
Special reserve appropriated	-	-	-	90,844	(90,844)	-	-	-
Cash dividends	-	-	-	-	(212,452)	-	-	(212,452)
	<u>-</u>	<u>-</u>	<u>25,866</u>	<u>90,844</u>	<u>(329,162)</u>	<u>-</u>	<u>-</u>	<u>(212,452)</u>
Consolidated net income for the nine months ended September 30, 2020	-	-	-	-	529,250	-	-	529,250
Other comprehensive income for the nine months ended September 30, 2020	-	-	-	-	-	(91,858)	1,143	(90,715)
Total comprehensive income for the nine months ended September 30, 2020	-	-	-	-	529,250	(91,858)	1,143	438,535
Balance at September 30, 2020	<u>\$ 3,677,513</u>	<u>884,335</u>	<u>890,626</u>	<u>229,459</u>	<u>529,250</u>	<u>(236,166)</u>	<u>(84,009)</u>	<u>5,891,008</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30,	
	2020	2019
Cash flows from (used in) operating activities:		
Profit before tax	\$ 689,145	314,355
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	114,814	115,416
Amortization expense	17,201	4,085
Expected credit (gains) losses	34,688	5,310
Net (gains) losses on financial assets or liabilities at fair value through profit or loss	(1,815)	(1,771)
Interest expense	205,100	331,568
Interest income	(3,630)	(4,145)
Others	14	6
	366,372	450,469
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	(2,339)	5,397
Decrease (increase) in notes and accounts receivable	(2,079,138)	192,420
Decrease in inventories	2,292,332	2,964,438
Decrease in other receivables	293,322	858,018
Increase in prepaid expenses and other current assets	(47,853)	(43,837)
	456,324	3,976,436
Decrease in notes and accounts payable	(1,696,973)	(1,867,820)
Decrease in other payable	(224,147)	(1,051,506)
Increase (decrease) in contract liabilities and other current liabilities	142,421	(12,174)
Others	(4,430)	(3,544)
	(1,783,129)	(2,935,044)
Total changes in operating assets and liabilities	(1,326,805)	1,041,392
Total adjustments	(960,433)	1,491,861
Cash flow from (used in) operations	(271,288)	1,806,216
Interest received	3,630	4,145
Interest paid	(222,975)	(348,938)
Income taxes paid	(138,400)	(135,249)
Net cash flows from (used in) operating activities	(629,033)	1,326,174
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(1,483)	(8,489)
Decrease (increase) in refundable deposits	1,008	(572)
Acquisition of intangible assets	(29,330)	(3,296)
Others	1,979	175
Net cash flows from (used in) investing activities	(27,826)	(12,182)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	983,498	(410,302)
Decrease in guarantee deposits received	(30)	(33)
Payment of lease liabilities	(101,253)	(102,025)
Cash dividends paid	(212,452)	(354,165)
Net cash flows from (used in) financing activities	669,763	(866,525)
Effect of exchange rate changes on cash and cash equivalents	(113,710)	27,656
Net increase (decrease) in cash and cash equivalents	(100,806)	475,123
Cash and cash equivalents at beginning of period	2,336,361	1,802,901
Cash and cash equivalents at end of period	\$ 2,235,555	2,278,024

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of September 30, 2020 and 2019

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2020 and 2019

(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 and its subsidiaries (together referred to as the "Group" and individually as "Group entities") are the purchase and sale of electronic components and computer peripherals, technical service, and the import-export trade business. Please refer to note (4)(b) for related information. The Company's common shares were listed on the Taiwan Stock Exchange (TSE).

(2) Approval date and procedures of the consolidated financial statements

These consolidated financial statements were reported to the board of directors and issued on November 11, 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, 2020.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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
Amendments to IFRS 16 "Covid-19-Related Rent Concessions"	June 1, 2020

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

- (b) The impact of IFRS issued 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, 2021:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"	January 1, 2021

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The Group assesses that the adoption of the abovementioned amendments would not have any material impact on its consolidated 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:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”	January 1, 2021

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

(4) Summary of significant accounting policies

- (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statement are the same as those in the consolidated financial statement for the year ended December 31, 2019. For the related information, please refer to note (4) of the consolidated financial statement for the year ended December 31, 2019.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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(b) Basis of Consolidation

(ii) List of subsidiaries in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Nature of operation	Shareholding		
			September 30, 2020	December 31, 2019	September 30, 2019
The Company	Weikeng International Co., Ltd. (WKI)	Electronic components computer peripherals products distribution and technical support	100 %	100 %	100 %
"	Weikeng Technology Co., Ltd. (WTC)	Electronic components and technical support	100 %	100 %	100 %
"	Weikeng Technology Pte. Ltd. (WTP)	"	100 %	100 %	100 %
WKI	Weikeng International (Shanghai) Co., Ltd. (WKS)	Electronic components computer peripherals products distribution and technical support	100 %	100 %	100 %
"	Weitech International Co., Ltd. (Weitech)	Import and export trade of electronic components	100 %	100 %	100 %
WKS	Weikeng Electronic Technology (Shanghai) Co., Ltd. (WKE)	Electronic technology development and technical advisory	100 %	100 %	100 %

(c) Income Taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of IAS 34 "Interim Financial Reporting".

Income tax expenses for the period are best estimated by multiplying the pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rate that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(d) Employee benefits

The pension cost in the interim period was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to note (5) of the consolidated financial statements for the year ended December 31, 2019.

(6) Explanation of significant accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2019. Please refer to note (6) of the 2019 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Cash on hand	\$ 488	488	499
Checking accounts and demand deposits	<u>2,235,067</u>	<u>2,335,873</u>	<u>2,277,525</u>
	<u>\$ 2,235,555</u>	<u>2,336,361</u>	<u>2,278,024</u>

Please refer to Note (t) for the sensitivity analysis, exchange rate and interest rate risk of the financial assets of the Group.

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Financial assets mandatorily measured at fair value through profit or loss – current:			
Derivative instruments not used for hedging			
Forward exchange contracts	\$ -	-	83
Financial assets measured at fair value through profit or loss – current:			
Non-derivative financial assets			
Stock listed on domestic markets	<u>636</u>	<u>522</u>	<u>498</u>
	<u>\$ 636</u>	<u>522</u>	<u>581</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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	September 30, 2020	December 31, 2019	September 30, 2019
Financial liabilities mandatorily measured at fair value through profit or loss – current:			
Derivative instruments not used for hedging			
Forward exchange contracts	\$ <u>-</u>	<u>4,040</u>	<u>3,087</u>

The Group holds derivative instruments to hedge certain foreign currency and interest risk the Group 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)

	September 30, 2020			December 31, 2019			September 30, 2019		
	Amount	Currency	Maturity date	Amount	Currency	Maturity date	Amount	Currency	Maturity date
Financial assets									
Forward exchange purchased	-	-	-	-	-	-	USD1,000	USD/TWD	2020.02
Financial liabilities									
Forward exchange purchased	-	-	-	USD4,000	USD/TWD	2020.02	USD15,000	USD/TWD	2019.10 ~ 2020.02

As of September 30, 2020, December 31 and September 30, 2019, the Group 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

	September 30, 2020	December 31, 2019	September 30, 2019
Equity investments at fair value through other comprehensive income:			
Domestic emerging market stock	\$ 3,851	2,709	2,444
Domestic unlisted stock	17,866	17,866	23,096
Foreign unlisted stock	<u>22,609</u>	<u>24,587</u>	<u>24,587</u>
	<u>\$ 44,326</u>	<u>45,162</u>	<u>50,127</u>

There were no disposals of strategic investments and transfers of any cumulative gain or loss within equity relating to these investments as of September 30, 2020 and 2019.

- (i) For credit risk and market risk, please refer to note (6)(t).
- (ii) As of September 30, 2020, December 31 and September 30, 2019, the Group did not provide any financial assets at fair value through other comprehensive income as collateral for its loans.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Notes and accounts receivable

	September 30, 2020	December 31, 2019	September 30, 2019
Notes receivable	\$ 188,080	220,659	168,012
Accounts receivable-measured as amortized cost	8,536,143	7,183,364	7,192,680
Accounts receivable-fair value through other comprehensive income	<u>1,713,518</u>	<u>990,167</u>	<u>1,055,390</u>
	10,437,741	8,394,190	8,416,082
Less: Loss allowance	<u>(169,838)</u>	<u>(170,737)</u>	<u>(189,947)</u>
	<u>\$ 10,267,903</u>	<u>8,223,453</u>	<u>8,226,135</u>

The Group 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 was measured at fair value through other comprehensive income.

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics 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 was determined as follows:

(i) The Company

Credit rating	September 30, 2020			
	Carrying amount	Expected credit loss rate	Loss allowance provision	Credit impaired
Listed company (assessed by group)				
Level A	\$ 2,415,403	0.54%	13,042	No
Level B	1,707,407	1.35%	23,060	No
Unlisted company	<u>609,678</u>	2.52%	<u>15,366</u>	No
	<u>\$ 4,732,488</u>		<u>51,468</u>	

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2019				
Credit rating	Carrying amount	Expected credit loss rate	Loss allowance provision	Credit impaired
Listed company (assessed by group)				
Level A	\$ 1,897,369	0.54%	10,305	No
Level B	1,177,580	1.26%	14,833	No
Unlisted company	<u>706,642</u>	1.30%	<u>9,216</u>	No
	<u>\$ 3,781,591</u>		<u>34,354</u>	
September 30, 2019				
Credit rating	Carrying amount	Expected credit loss rate	Loss allowance provision	Credit impaired
Listed company (assessed by group)				
Level A	\$ 1,771,820	0.58%	10,335	No
Level B	833,492	1.69%	14,099	No
Unlisted company	<u>1,118,757</u>	1.18%	<u>13,225</u>	No
	<u>\$ 3,724,069</u>		<u>37,659</u>	

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

	September 30, 2020	December 31, 2019	September 30, 2019
Not past due	\$ 4,617,000	3,551,395	3,434,048
Overdue less than 90 days	113,579	224,660	271,941
Overdue 91 to 180 days	1,095	4,985	3,442
Overdue more than 181 days	<u>814</u>	<u>551</u>	<u>14,638</u>
	<u>\$ 4,732,488</u>	<u>3,781,591</u>	<u>3,724,069</u>

(ii) Subsidiaries

September 30, 2020			
	Carrying amount	Expected credit loss rate	Loss allowance provision
Not past due	\$ 5,322,454	0.49%	25,886
Overdue less than 90 days	343,780	12.36%	42,483
Overdue 91 to 180 days	4,510	99.96%	4,508
Overdue more than 181 days	<u>34,509</u>	100.00%	<u>34,509</u>
	<u>\$ 5,705,253</u>		<u>107,386</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2019		
	Carrying amount	Expected credit loss rate	Loss allowance provision
Not past due	\$ 3,998,016	0.01%	464
Overdue less than 90 days	506,448	7.11%	36,032
Overdue 91 to 180 days	15,680	37.70%	5,912
Overdue more than 181 days	92,455	100.00%	92,455
	\$ 4,612,599		134,863
	September 30, 2019		
	Carrying amount	Expected credit loss rate	Loss allowance provision
Not past due	\$ 4,003,571	0.01%	341
Overdue less than 90 days	543,552	6.48%	35,196
Overdue 91 to 180 days	46,445	34.16%	15,864
Overdue more than 181 days	98,445	100.00%	98,445
	\$ 4,692,013		149,846

For the nine months ended September 30, 2020 and 2019, the movements in the allowance for notes and accounts receivable were as follows:

	For the nine months ended September 30,	
	2020	2019
Balance at January 1	\$ 170,737	185,733
Impairment loss recognized (reversed)	34,688	5,310
Amounts written off	(32,700)	(245)
Reclassifications	(79)	(1,203)
Effect of changes in foreign exchange rates	(2,808)	352
Balance at September 30	\$ 169,838	189,947

The Group has entered into accounts receivable factoring agreements with banks. According to the factoring agreement, the Group 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 Group has not provided other guarantees except for the promissory notes, which have the same amount with the factoring, used as the guarantee for the sales return and discount. The Group 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 Group has to pay a service charge based on a certain rate.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The Group 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 by them. The amounts receivable from the financial institutions were recognized as “other receivables” upon the derecognition of those trade receivables.

As of September 30, 2020, December 31 and September 30, 2019, the Group sold its trade receivable without recourse as follows:

September 30, 2020						
Purchaser	Amount Derecognized	Amount Paid	Advanced Unpaid	Amount Recognized in Other Receivables	Range of Interest Rate	Significant Transferring Terms
Financial institutions	\$ 3,539,846	3,202,635	-	337,211	0.68%~1.38%	None
December 31, 2019						
Purchaser	Amount Derecognized	Amount Paid	Advanced Unpaid	Amount Recognized in Other Receivables	Range of Interest Rate	Significant Transferring Terms
Financial institutions	\$ 3,556,406	3,276,346	-	280,060	1.07%~3.2%	None
September 30, 2019						
Purchaser	Amount Derecognized	Amount Paid	Advanced Unpaid	Amount Recognized in Other Receivables	Range of Interest Rate	Significant Transferring Terms
Financial institutions	\$ 3,972,640	3,636,582	-	336,058	1.07%~3.44%	None

As of September 30, 2020, December 31 and September 30, 2019, the Group did not provide any receivables as collaterals for its loans.

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

(e) Other receivables

	September 30, 2020	December 31, 2019	September 30, 2019
Other receivables – the receivables of the Group as an agent (note (6)(r))	\$ 578,315	938,929	-
Other receivables – accounts receivable factored	337,211	280,060	336,058
Tax refund	33,518	22,769	21,872
Overdue receivable	23,246	23,313	23,352
Others	<u>1,473</u>	<u>2,081</u>	<u>854</u>
	973,763	1,267,152	382,136
Less: Loss allowance	<u>(23,246)</u>	<u>(23,313)</u>	<u>(23,352)</u>
	<u>\$ 950,517</u>	<u>1,243,839</u>	<u>358,784</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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For the nine months ended September 30, 2020 and 2019, the movements in the allowance for other receivables were as follows:

	For the nine months ended September 30,	
	2020	2019
Balance at January 1	\$ 23,313	27,643
Amounts written off	(109)	(5,494)
Reclassifications	79	1,203
Effect of changes in foreign exchange rates	(37)	-
Balance at September 30	<u>\$ 23,246</u>	<u>23,352</u>

As of September 30, 2020, December 31 and September 30, 2019, the Group did not provide any other receivables as collaterals for its loans.

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

(f) Inventories

	September 30, 2020	December 31, 2019	September 30, 2019
Merchandise inventories	\$ 7,491,138	9,522,408	9,533,793
Goods in transit	695,530	956,592	906,591
	<u>\$ 8,186,668</u>	<u>10,479,000</u>	<u>10,440,384</u>

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Inventory valuation loss and obsolescence (Gain from price recovery of inventory)	\$ (99,336)	-	(137,419)	157,581
Loss on scrapping of inventory and others	-	3	-	988
	<u>\$ (99,336)</u>	<u>3</u>	<u>(137,419)</u>	<u>158,569</u>

For the nine months ended September 30, 2019, the write-down of inventories to net realizable value amounted to \$157,581. For the three months and nine months ended September 30, 2020 the reversal of inventory valuation losses amounted to \$99,336 and \$137,419, respectively, resulting from the slow-moving inventories sold by the Group.

As of September 30, 2020, December 31 and September 30, 2019, the Group did not provide any inventories as collaterals for its loans.

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(g) Property, plant and equipment

	<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>
Carrying amounts:						
Balance on January 1, 2020	\$ 77,377	30,927	5,436	4,578	30,973	149,291
Balance on September 30, 2020	\$ 77,377	30,282	4,203	4,198	21,012	137,072
Balance on January 31, 2019	\$ 77,377	31,790	5,912	5,999	35,737	156,815
Balance on September 30, 2019	\$ 77,377	31,143	4,691	4,963	33,471	151,645

The Group's property, plant and equipment have no significant additions, disposals, impairments or reversals during for the nine months ended September 30, 2020 and 2019. Information on depreciation for the period is disclosed in note (12)(a). For other related information, please refer to note (6)(g) of the 2019 annual consolidated financial statements.

(h) Right-of-use assets

The Group 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>
Cost:			
Balance on January 1, 2020	\$ 389,090	7,548	396,638
Additions	28,970	-	28,970
Reductions	(22,556)	-	(22,556)
Effect of changes in exchange rates	(4,816)	-	(4,816)
Balance on September 30, 2020	\$ 390,688	7,548	398,236
Balance on January 1, 2019	\$ 394,091	7,548	401,639
Additions	71,893	-	71,893
Reductions	(71,907)	-	(71,907)
Effect of changes in exchange rates	229	-	229
Balance on September 30, 2019	\$ 394,306	7,548	401,854
Accumulated depreciation:			
Balance on January 1, 2020	\$ 114,037	2,988	117,025
Depreciation	99,716	1,977	101,693
Reductions	(21,806)	-	(21,806)
Effect of changes in exchange rates	(2,013)	-	(2,013)
Balance on September 30, 2020	\$ 189,934	4,965	194,899

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Total</u>
Balance on January 1, 2019	\$ -	-	-
Depreciation	99,353	2,241	101,594
Reductions	(15,227)	-	(15,227)
Effect of changes in exchange rates	(878)	-	(878)
Balance on September 30, 2019	<u>\$ 83,248</u>	<u>2,241</u>	<u>85,489</u>
Carrying amount:			
Balance on January 1, 2020	<u>\$ 275,053</u>	<u>4,560</u>	<u>279,613</u>
Balance on September 30, 2020	<u>\$ 200,754</u>	<u>2,583</u>	<u>203,337</u>
Balance on September 30, 2019	<u>\$ 311,058</u>	<u>5,307</u>	<u>316,365</u>

(i) Short-term borrowings

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Unsecured loans	\$ 10,159,553	9,175,602	10,657,960
Short-term notes and bills payable, net	668,798	669,251	669,213
	<u>\$ 10,828,351</u>	<u>9,844,853</u>	<u>11,327,173</u>
Unused short-term credit lines	<u>\$ 2,675,881</u>	<u>4,909,723</u>	<u>4,282,938</u>
Range of interest rates	<u>0.52%~4.57%</u>	<u>1.02%~4.35%</u>	<u>1.00%~4.35%</u>

(i) Issuance and repayment of borrowings

The Group's additional amounts in loans for the nine months ended September 30, 2020 and 2019 were \$29,348,885 and \$24,498,787, respectively, with maturities from October, 2020 to September, 2021 and from October, 2019, to September, 2020, respectively; and the repayments were \$28,365,387 and \$24,909,089, respectively.

(ii) For information on the Group's interest risk, foreign currency risk and liquidity risk, please refer to note (6)(t).

(j) Other payables

	<u>September 30, 2020</u>	<u>December 31, 2019</u>	<u>September 30, 2019</u>
Other payable — the payables of the Group's as an agent (note(6)(r))	\$ 613,563	936,542	-
Accrued expenses	281,574	235,370	274,701
Bonus payable	159,795	154,821	104,218
Remuneration to employees and directors	81,348	48,720	45,046
Interest payable	18,510	36,154	43,098
	<u>\$ 1,154,790</u>	<u>1,411,607</u>	<u>467,063</u>

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

(k) Convertible bonds payable

(i) Non-guaranteed convertible bonds:

	December 31, 2019	September 30, 2019
Aggregate principal amount	\$ 200,000	200,000
Cumulative converted amount	<u>(200,000)</u>	<u>(200,000)</u>
	-	-
Less: Convertible bonds payable – could be repaid within one year	<u>-</u>	<u>-</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>-</u>

The effective interest rates of the fourth convertible bonds were 2.47%. The annual interest expenses on convertible bonds payable for the nine months ended September 30, 2019 was \$290. The above convertible bonds had expired on August 22, 2019, and all of them had been transferred into the ordinary shares before the expiration date.

There were no significant issues, repurchases and repayments of bonds payable for the nine months ended September 30, 2020 and 2019. Please refer to note (6)(k) of the 2019 annual consolidated financial statements for the related information.

(l) Lease liabilities

	September 30, 2020	December 31, 2019	September 30, 2019
Current	<u>\$ 116,999</u>	<u>127,571</u>	<u>135,033</u>
Non-current	<u>\$ 86,723</u>	<u>152,221</u>	<u>181,893</u>

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

The amounts recognized in profit or loss were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Interest on lease liabilities	<u>\$ 1,479</u>	<u>2,426</u>	<u>4,937</u>	<u>7,465</u>
Expenses relating to short-term leases	<u>\$ 1,314</u>	<u>1,857</u>	<u>4,096</u>	<u>5,570</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The amounts recognized in the statement of cash flows for the Group were as follows:

	For the nine months ended	
	September 30,	
	2020	2019
Total cash outflow for leases	\$ 110,286	115,060

(i) Real estate leases

The Group leases buildings for its office space, warehouses and dormitories. The leases of office space typically run for a period of 1 to 5 years, of warehouses for 1 to 4 years, and of dormitories for 2 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 Group 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 Group and not by the lessors. In which lease 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 Group leases transportation equipment and parking space with lease terms of one year. These leases are short-term. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

(m) Operating lease —as lessor

There were no significant leases contracts for the nine months ended September 30, 2019. Please refer to note (6)(m) of the 2019 annual consolidated financial statements for other related information.

(n) Employee benefits

(i) Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material onetime events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2019 and 2018.

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.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The expenses recognized in profit or loss for the Group were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Operating expense	<u>\$ 429</u>	<u>722</u>	<u>1,287</u>	<u>2,164</u>

(ii) Defined contribution plans

The Company and WTC 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 and WTC allocates a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The Company and WTC recognized the pension costs under the defined contribution method amounting to \$5,497, \$5,432, \$16,535 and \$16,492 for the three months and nine months ended September 30, 2020 and 2019, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expense, basic endowment insurance expense, and social welfare expenses amounting to \$4,857, \$15,028, \$17,390 and \$46,697 for the three months and nine months ended September 30, 2020 and 2019, respectively.

(o) Income taxes

(i) Income tax expenses

The amounts of income tax for the three months and nine months ended September 30, 2020 and 2019 were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Current tax expense	<u>\$ 73,162</u>	<u>26,144</u>	<u>159,895</u>	<u>82,137</u>

The amounts of income tax recognized in other comprehensive income for the three months and nine months ended September 30, 2020 and 2019 were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign financial statements	<u>\$ (9,561)</u>	<u>(4,168)</u>	<u>(22,964)</u>	<u>5,524</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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(ii) The income tax return of the Company was authorized through 2018 except for 2017. The income tax return of WTC was authorized through 2018.

(p) Capital and other equities

As of September 30, 2020, December 31 and September 30, 2019, the total value of nominal ordinary shares amounted to \$4,500,000, each having a par value of \$10 per share, totaling 450,000 thousand ordinary shares, of which 367,751 thousand shares were issued. All issued shares were paid up upon issuance.

(i) Common stock

For the nine months ended September 30, 2019, 2,105 thousand new common shares, with a par value of \$10, amounting to \$21,049, were issued due to the conversion of convertible bonds. As of reporting date, the related registration procedures were completed.

(ii) Capital surplus

Balances on capital surplus of the Group were as follows:

	September 30, 2020	December 31, 2019	September 30, 2019
Additional paid in capital	\$ 845,753	845,753	845,753
Treasury share transactions	37,617	37,617	37,617
Donation from shareholders	712	712	712
Convertible bonds– conversion options	-	-	-
Other	<u>253</u>	<u>253</u>	<u>253</u>
	<u>\$ 884,335</u>	<u>884,335</u>	<u>884,335</u>

For the nine months ended September 30, 2019, the capital surplus deriving from those convertible bonds, which was converted to common stock, amounted to \$11,633. (including the capital surplus-conversion options transferred to the capital surplus-additional paid-in capital of \$1,335).

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 may not be capitalized until the fiscal year after the competent authority for company registrations approves registration of the capital increase.

(iii) Retained earnings

The Company's Article of Incorporation stipulates that Company's earnings should first be used to pay any taxes, offset the prior years' deficits, be set aside as legal reserve, and then set aside or reverse special reserve, any remaining profit, together with any undistributed retained

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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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 Board of Directors shall first take into consideration its profitability, plan of capital expenditure, business expansion and capital, requirements for cash flow, regulations, and degree of dilution of earnings per share in determining the proportion of stock and 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.

The Company authorize dividends, bonus and the legal reserve and capital surplus in whole or in part be paid in cash based on the resolution of the Board of Directors with two-thirds directors present and approved by one-half of the present directors, then shall be reported to shareholders meeting.

1) Earnings distribution

The amount for cash dividends of Company's earnings distribution for 2019 was decided by the Board of directors held on March 27, 2020, and the Company's earnings distribution for 2018 was decided via a general meeting of the shareholders held on June 20, 2019.

	<u>2019</u>		<u>2018</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	\$ 0.57770670	<u>212,452</u>	1.02063987	354,165
Stock dividends			0.59793133	<u>207,484</u>
				<u>\$ 561,649</u>

(q) Earnings per share

The basic earnings per share and diluted earnings per share are calculated as follows:

(i) Basic earnings per share

1) Profit attributable to ordinary shareholders of the Company

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Profit attributable to ordinary shareholders of the Company	<u>\$ 234,564</u>	<u>71,434</u>	<u>529,250</u>	<u>232,218</u>

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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2) Weighted-average number of ordinary shares (thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Weighted-average number of ordinary shares	<u>367,751</u>	<u>367,583</u>	<u>367,751</u>	<u>366,732</u>

(ii) Diluted earnings per share

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Profit attributable shareholders of the Company (basic)	\$ 234,564	71,434	529,250	232,218
Convertible bonds payable	-	16	-	290
Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 234,564</u>	<u>71,450</u>	<u>529,250</u>	<u>232,508</u>

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Weighted-average number of ordinary shares (basic)	367,751	367,583	367,751	366,732
Effect of convertible bonds	-	168	-	1,020
Effect of employee stock remuneration	<u>3,407</u>	<u>1,454</u>	<u>4,113</u>	<u>2,603</u>
Weighted-average number of ordinary shares (diluted) on September 30	<u>371,158</u>	<u>369,205</u>	<u>371,864</u>	<u>370,355</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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(r) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Primary geographical markets:				
Taiwan	\$ 1,686,557	1,186,884	4,279,602	2,998,547
China	14,617,199	11,031,667	36,137,095	29,687,803
Others	<u>961,789</u>	<u>861,735</u>	<u>2,407,641</u>	<u>2,477,467</u>
	<u>\$ 17,265,545</u>	<u>13,080,286</u>	<u>42,824,338</u>	<u>35,163,817</u>
Major products/services lines				
Chipset/memory components	\$ 7,550,342	5,561,458	18,530,665	14,622,661
Assorted and other components	9,655,039	7,515,737	24,233,435	20,525,838
Others	<u>60,164</u>	<u>3,091</u>	<u>60,238</u>	<u>15,318</u>
	<u>\$ 17,265,545</u>	<u>13,080,286</u>	<u>42,824,338</u>	<u>35,163,817</u>

The Group was determined in some specific transactions as an agent that the other party sold some merchandises to end-customer by delivering them to the Group. In these cases, the Group did not obtain the control of the merchandises, therefore, the Group recognized the remaining sales amounts which have been offset against the payment to the other party from the transactions; or recognized the commission signed with the other party, as revenue.

Due to the above transactions, the other receivables amounted to \$578,315 and \$0 as of September 30, 2020 and 2019, respectively; and the other payables amounted to \$613,563 and \$0 as of the nine months ended September 30, 2020 and 2019, respectively. Please refer to note (6)(e) and (6)(j).

(ii) Contract balance

	September 30, 2020	December 31, 2019	September 30, 2019
Notes and accounts receivable (included related parties)	\$ 10,437,741	8,394,190	8,416,082
Less: allowance for impairment	<u>(169,838)</u>	<u>(170,737)</u>	<u>(189,947)</u>
	<u>\$ 10,267,903</u>	<u>8,223,453</u>	<u>8,226,135</u>
Contract liabilities	<u>\$ 180,026</u>	<u>91,026</u>	<u>85,345</u>

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

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The amounts of revenue recognized for the nine months ended September 30, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$62,835 and \$132,905, 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.

(s) 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 three months and nine months ended September 30, 2020 and 2019, the accrued remuneration of the Company's employees were \$26,091, \$8,025, \$58,941 and \$26,471; as well as directors were \$6,522, \$2,006, \$14,735 and \$6,618, respectively. These amounts were calculated by using the Company's profit before tax for the period before deducting the amount of the remuneration to employees and directors, multiplied by the distribution ratio of remuneration to employees and directors under the Company's articles of Incorporation, and expensed under operating expenses. 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 accrued remuneration of the Company's employees was \$29,690 and \$73,349 as well as remuneration of directors was \$7,422 and \$18,337 for the years ended December 31, 2019 and 2018, respectively. There were no differences between the distributed amounts and the accrued amounts in the consolidated financial statements. Related information would be available at the Market Observation Post System website.

(t) Financial Instruments

Except for those mentioned below, there were no significant changes in the fair value of the Group's financial instruments and degree of exposure to credit risk. Please refer to the note (6)(t) of the consolidated financial statement for the year ended December 31, 2019.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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(i) Credit risk

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>
September 30, 2020				
Non-derivative financial liabilities				
Unsecured loans	\$ 10,159,553	(10,159,553)	(10,159,553)	-
Short-term notes and bill payable, net	668,798	(670,000)	(670,000)	-
Lease liabilities	203,722	(209,520)	(120,980)	(88,540)
Notes and accounts payable	3,619,245	(3,619,245)	(3,619,245)	-
Other payables	841,007	(841,007)	(841,007)	-
	<u>\$ 15,492,325</u>	<u>(15,499,325)</u>	<u>(15,410,785)</u>	<u>(88,540)</u>
December 31, 2019				
Non-derivative financial liabilities				
Unsecured loans	\$ 9,175,602	(9,175,602)	(9,175,602)	-
Short-term notes and bills payable, net	669,251	(670,000)	(670,000)	-
Lease liabilities	279,792	(289,857)	(133,384)	(156,473)
Notes and accounts payable	5,316,218	(5,316,218)	(5,316,218)	-
Other payables	1,174,242	(1,174,242)	(1,174,242)	-
Derivative financial liabilities				
Forward exchange contracts:	4,040			
Outflow	-	(123,699)	(123,699)	-
Inflow	-	119,659	119,659	-
	<u>\$ 16,619,145</u>	<u>(16,629,959)</u>	<u>(16,473,486)</u>	<u>(156,473)</u>
September 30, 2019				
Non-derivative financial liabilities				
Unsecured loans	\$ 10,657,960	(10,657,960)	(10,657,960)	-
Short-term notes and bill payable, net	669,213	(670,000)	(670,000)	-
Lease liabilities	316,926	(328,405)	(141,447)	(186,958)
Notes and accounts payable	3,765,004	(3,765,004)	(3,765,004)	-
Other payables	282,435	(282,435)	(282,435)	-
Derivative financial liabilities				
Forward exchange contracts:	3,087			
Outflow	-	(467,311)	(467,311)	-
Inflow	-	464,224	464,224	-
	<u>\$ 15,694,625</u>	<u>(15,706,891)</u>	<u>(15,519,933)</u>	<u>(186,958)</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The Group 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 Group's significant exposure to foreign currency risk was as follows:

	September 30, 2020			December 31, 2019			September 30, 2019		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets									
Monetary items									
USD	\$ 240,728	USD/TWD 29.12	7,009,998	226,081	USD/TWD 30.020	6,786,937	204,049	USD/TWD 31.020	6,329,593
USD	2,630	USD/CNY 6.8261	76,592	1,877	USD/CNY 6.9830	56,349	1,836	USD/CNY 7.1212	56,938
Non-monetary items									
USD	745	USD/TWD 29.12	21,694	745	USD/TWD 30.020	22,365	745	USD/TWD 31.020	23,110
Financial liabilities									
Monetary items									
USD	200,180	USD/TWD 29.12	5,829,228	179,097	USD/TWD 30.020	5,376,480	161,791	USD/TWD 31.020	5,018,755
USD	20,818	USD/CNY 6.8261	606,219	39,178	USD/CNY 6.9830	1,176,111	36,729	USD/CNY 7.1212	1,139,329

2) Currency risk sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, account receivables, other receivables, financial assets at fair value through other comprehensive income, loans and borrowings, accounts payables and other payables that are denominated in foreign currency. A change of 5% in the exchange rate of TWD or CNY against foreign currency for the nine months ended September 30, 2020 and 2019 would have increase (decreased) the other comprehensive income (before tax) \$1,085 and \$1,156, respectively. For the nine months ended September 30, 2020 and 2019 would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

	For the nine months ended September 30,	
	2020	2019
USD (against the TWD)		
Strengthening 5%	\$ 59,039	65,542
Weakening 5%	(59,039)	(65,542)

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	For the nine months ended September 30,	
	2020	2019
USD (against the CNY)		
Strengthening 5%	(26,481)	(54,120)
Weakening 5%	26,481	54,120

3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the three months and nine months ended September 30, 2020 and 2019, the foreign exchange gain (loss), including both realized and unrealized, amounted to a gain of \$73,189, a loss of \$24,798, a gain of \$94,015 and a loss of \$33,667, respectively.

4) Interest rate analysis

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

	Carrying amount	
	September 30, 2020	September 30, 2019
Variable rate instruments:		
Financial assets	\$ 1,702,465	1,830,799
Financial liabilities	(10,159,553)	(10,657,960)

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 Group's management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.25%, the Group's net profit before tax would have decreased or increased by \$15,857 and \$16,551 for the nine months ended September 30, 2020 and 2019, respectively, which would be mainly resulting from demand deposits, and unsecured loans with variable interest rates.

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

	September 30, 2020				
	Carrying amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets mandatorily measured at fair value through profit or loss					
Stocks listed on domestic markets	\$ 636	636	-	-	636
Financial assets at fair value through other comprehensive income					
Notes and accounts receivable, net	1,713,518	-	-	-	-
Emerging market stock	3,851	3,851	-	-	3,851
Stocks unlisted on domestic markets and foreign market	40,475	-	-	40,475	40,475
Subtotal	<u>1,757,844</u>				
Financial assets measured at amortized cost					
Cash and cash equivalents	2,235,555	-	-	-	-
Notes and accounts receivable, net	8,554,385	-	-	-	-
Other receivables	916,999	-	-	-	-
Guarantee deposits paid	70,541	-	-	-	-
Subtotal	<u>11,777,480</u>				
	<u>\$ 13,535,960</u>				
Financial liabilities measured at amortized cost					
Bank loans	\$ 10,828,351	-	-	-	-
Notes and accounts payable	203,722	-	-	-	-
Other payables	3,619,245	-	-	-	-
Bonds payable	841,007	-	-	-	-
	<u>\$ 15,492,325</u>				

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	December 31, 2019				
	Carrying amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets mandatorily measured at fair value through profit or loss					
Stocks listed on domestic markets	\$ 522	522	-	-	522
Financial assets at fair value through other comprehensive income					
Notes and accounts receivable, net	990,167	-	-	-	-
Emerging market stock	2,709	2,709	-	-	2,709
Stocks unlisted on domestic markets and foreign market	42,453	-	-	42,453	42,453
Subtotal	<u>1,035,329</u>				
Financial assets measured at amortized cost					
Cash and cash equivalents	2,336,361	-	-	-	-
Notes and accounts receivable, net	7,233,286	-	-	-	-
Other receivables	1,221,070	-	-	-	-
Guarantee deposits paid	71,549	-	-	-	-
Subtotal	<u>10,862,266</u>				
	<u>\$ 11,898,117</u>				
Financial liabilities mandatorily measured at fair value through profit or loss					
Derivative instruments not used for hedging					
Forward exchange contracts	\$ 4,040	-	4,040	-	4,040
Financial liabilities measured at amortized cost					
Bank loans	9,844,853	-	-	-	-
Lease liabilities	279,792	-	-	-	-
Notes and accounts payable	5,316,218	-	-	-	-
Other payables	1,174,242	-	-	-	-
Subtotal	<u>16,615,105</u>				
	<u>\$ 16,619,145</u>				

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	September 30, 2019				
	Carrying amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets mandatorily measured at fair value through profit or loss					
Derivative instruments not used for hedging					
Forward exchange contracts	\$ 83	-	83	-	83
Stocks listed on domestic markets	498	498	-	-	498
Subtotal	<u>581</u>				
Financial assets at fair value through other comprehensive income					
Notes and accounts receivable, net	1,055,390	-	-	-	-
Emerging market stock	2,444	2,444	-	-	2,444
Stocks unlisted on domestic markets and foreign market	47,683	-	-	47,683	47,683
Subtotal	<u>1,105,517</u>				
Financial assets measured at amortized cost					
Cash and cash equivalents	2,278,024	-	-	-	-
Notes and accounts receivable, net	7,170,745	-	-	-	-
Other receivables	336,912	-	-	-	-
Guarantee deposits paid	73,303	-	-	-	-
Subtotal	<u>9,858,984</u>				
	<u>\$ 10,965,082</u>				
Financial liabilities mandatorily measured at fair value through profit or loss					
Derivative instruments not used for hedging					
Forward exchange contracts	\$ 3,087	-	3,087	-	3,087
Financial liabilities measured at amortized cost					
Bank loans	11,327,173	-	-	-	-
Lease liabilities	316,926	-	-	-	-
Notes and accounts payable	3,765,004	-	-	-	-
Other payables	282,435	-	-	-	-
Subtotal	<u>15,691,538</u>				
	<u>\$ 15,694,625</u>				

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There were no transfers of financial instruments between any levels for the nine months ended September 30, 2020 and 2019.

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

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

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 Group 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.

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4) Reconciliation of Level 3 fair values

	Fair value through other comprehensive income
	Unquoted equity instruments
Opening balance, January 1, 2020	\$ 42,453
Total gains and losses recognized:	
In other comprehensive income	(1,978)
Ending Balance, September 30, 2020	\$ 40,475
Opening balance, January 1, 2019	\$ 60,883
Total gains and losses recognized:	
In other comprehensive income	(13,200)
Ending Balance, September 30, 2019	\$ 47,683

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

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

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationships between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income	Guideline Public Company method	<ul style="list-style-type: none"> ·Price-Sales ratio (0.85, 0.7 and 0.73 at September 30, 2020, December 31 and September 30, 2019, respectively) ·Price-Book ratio (0.77, 0.9 and 0.80 at September 30, 2020, December 31 and September 30, 2019, respectively) ·Lack-of-Marketability discount rate (12.93%, 12.93% and 17.02% on September 30, 2020, December 31 and September 30, 2019, respectively) 	<ul style="list-style-type: none"> The estimated fair value would increase (decrease) if: ·The Price-Sales ratio were higher (lower); ·the Price-Book ratio were higher (lower); or ·the Lack-of-Marketability discount rate were lower (higher)

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<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 profit or loss	Net Asset Value Method	Net asset value	Not applicable

(u) Financial risk management

There was no significant changes in the Group's financial risk management and policies as disclosed in the note (6)(u) of the consolidated financial statements for the year ended December 31, 2019.

(v) Capital management

The Group's objectives, policies and processes of capital management are consistent with those disclosed in the consolidated financial statements for the year ended December 31, 2019. In addition, there were no significant differences between the summary quantitative data of the items of capital management in the consolidated financial statements and those disclosed in the consolidated financial statements for the year ended December 31, 2019. Please refer to note (6)(v) of the consolidated financial statements for the year ended December 31, 2019 for further details.

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

The Group's investing and financing activities which did not affect the current cash flow for the nine months ended September 30, 2020 and 2019, were as follows:

(i) For the acquisition of right-of-use assets from leases, please refer to note (6)(h).

Reconciliation of liabilities arising from financing activities was as follows:

	<u>January 1, 2020</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>September 30, 2020</u>
			<u>Acquisition</u>	<u>Reduction</u>	<u>Foreign exchange movement</u>	
Short-term loans	\$ 9,844,853	983,498	-	-	-	10,828,351
Lease liabilities	279,792	(101,253)	28,970	(767)	(3,020)	203,722
Total liabilities from financing activities	<u>\$ 10,124,645</u>	<u>882,245</u>	<u>28,970</u>	<u>(767)</u>	<u>(3,020)</u>	<u>11,032,073</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	January 1, 2019	Cash flows	Non-cash changes			September 30, 2019
			Acquisition	Reduction	Foreign exchange movement	
Short-term loans	\$ 11,737,475	(410,302)	-	-	-	11,327,173
Lease liabilities	401,639	(102,025)	71,893	(56,680)	2,099	316,926
Total liabilities from financing activities	<u>\$ 12,139,114</u>	<u>(512,327)</u>	<u>71,893</u>	<u>(56,680)</u>	<u>2,099</u>	<u>11,644,099</u>

(7) Related-party transactions

(a) Name and relationship with related parties

The following are entities that have had transactions with the Group during the period covered in the consolidated financial report:

Related-party	Relationship
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 Group and related parties were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Other related parties	\$ -	20	2	18

There were no significant differences in terms of collection and pricing on sales to related parties and other customers. The collection period was approximately 30 days after the sales date.

(ii) Processing fee and consultancy fees from related Parties

Other related parties were commissioned to provide processing services and consulting services to the Group. The amounts of transactions between the Group and related parties were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Other related parties	\$ 2,524	2,698	7,241	7,797

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Lease

The Group leased a portion of its building to its related parties for office use purpose. The rentals collected monthly were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Other related parties	<u>\$ 298</u>	<u>326</u>	<u>894</u>	<u>979</u>

(iv) Receivables from related parties

The receivables from related parties were as follows:

<u>Account</u>	<u>Relationship</u>	September 30, 2020	December 31, 2019	September 30, 2019
Notes and accounts receivables	Other related parties	<u>\$ -</u>	<u>-</u>	<u>10</u>

(v) Payable to related parties

<u>Account</u>	<u>Related party categories</u>	September 30, 2020	December 31, 2019	September 30, 2019
Other payables	Other related parties	<u>\$ 770</u>	<u>963</u>	<u>825</u>

(c) Key management personnel compensation

Key management personnel compensation comprised:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Short-term employee benefits	\$ 38,408	32,675	101,776	99,671
Post-employment benefits	<u>200</u>	<u>220</u>	<u>600</u>	<u>660</u>
	<u>\$ 38,608</u>	<u>32,895</u>	<u>102,376</u>	<u>100,331</u>

(8) Pledged assets: None.

(9) Commitments and contingencies:

As of September 30, 2020, December 31 and September 30, 2019 the balances of L/Cs for customs and value added tax and the purchase of merchandise were as follows:

September 30, 2020	December 31, 2019	September 30, 2019
<u>\$ 166,600</u>	<u>171,100</u>	<u>326,200</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(10) Losses Due to Major Disasters: None

(11) Subsequent Events:

In order to repay bank loans, the Board of Directors approved a resolution on September 10, 2020, to issue the fifth domestic unsecured convertible bonds. The denomination of the bond was \$100, and the total value was \$1,000,000 with a 0% interest rate, issued at par. The units for this offering were 10,000. The bond had been effectively registered via Rule No.1090359482 issued by the Financial Supervisory Commission on October 13, 2020, and would be traded on the over-the-counter market on November 3, 2020.

(12) Other:

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

		For the three months ended September 30,	
By function		2020	2019
By item		Operating expense	Operating expense
Employee benefits			
Salary	\$	321,033	253,465
Labor and health insurance		22,581	25,166
Pension		10,783	21,182
Remuneration of directors		10,219	1,103
Others		11,381	11,075
Depreciation		37,799	39,061
Amortization		6,071	1,229

		For the nine months ended September 30,	
By function		2020	2019
By item		Operating expense	Operating expense
Employee benefits			
Salary	\$	848,546	777,623
Labor and health insurance		63,161	72,836
Pension		35,212	65,353
Remuneration of directors		22,500	8,116
Others		34,440	35,760
Depreciation		114,816	115,416
Amortization		17,201	4,085

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Seasonality of operations:

The Group's operation were not affected by seasonality or cyclically factors.

(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 Group for the nine months ended September 30, 2020:

(i) Loans to other parties: None

(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	8,836,512	6,628,688	5,085,832	4,534,596	-	86.3 %	17,673,024	Y	-	-
"	"	WTP	100% owned subsidiary	8,836,512	570,380	465,920	356,164	-	7.9 %	17,673,024	Y	-	-
"	"	WKS	100% owned subsidiary	8,836,512	1,545,918	797,740	422,720	-	13.5 %	17,673,024	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 September 30, 2020 (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	\$ 636	-	\$ 636	
The Company	Feature Integration Technology Inc.	-	Financial assets at fair value through other comprehensive income-noncurrent	158	\$ 3,571	0.53	\$ 3,571	
"	Clientron Corp.	-	"	15	280	0.02	280	
					\$ 3,851		\$ 3,851	
The Company	Paradigm I Venture Capital Company (Paradigm I)	-	Financial assets at fair value through other comprehensive income-noncurrent	750	\$ 7,459	6.79	\$ 7,459	
"	Paradigm Venture Capital Corporation (PVC Corp.)	-	"	271	3,226	10.49	3,226	
"	InnoBridge Venture Fund ILP. (InnoBridge)	-	"	-	15,150	9.90	15,150	
"	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	
					\$ 40,475		\$ 40,475	

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

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	(Sales)	(332,409) (USD(11,141))	(2) %	OA30	No significant difference with other customer	-	Accounts Receivable 116,006 (USD3,984)	2 %	
"	"	"	Purchases	381,458 (USD12,826)	2 %	"	"	-	-	- %	
WKI	The Company	Parent company	Purchases	332,409 (USD11,141)	2 %	"	"	-	Accounts Payable (116,006) (USD(3,984))	(8) %	
"	"	"	(Sales)	(381,458) (USD(12,826))	(2) %	"	"	-	-	- %	
"	WKS	Subsidiary	(Sales)	(2,603,264) (USD(87,297))	(14) %	OA60	"	-	Accounts Receivable 593,627 (USD20,386)	14 %	
WKS	WKI	Parent company	Purchases	2,603,264 (USD87,297)	68 %	"	"	-	Accounts Payable (593,627) (USD(20,386))	(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	Note
					Amount	Action taken			
The Company	WKI	100% owned Subsidiary	116,006 (USD3,984)	7.20	-	-	USD 1,600	-	The transactions have been eliminated in the consolidated financial statement
WKI	WKS	Subsidiary	593,627 (USD20,386)	3.93	-	-	USD 12,683	-	"

Note: Information as of Sep. 30, 2020.

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

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	WKI	1	Sales Revenue	332,409	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.78%
"	"	"	"	Accounts Receivable	116,006	"	0.51%
"	"	"	"	Management and Credit Service Revenue	190,562	The price is set by percentage of the contract and is received quarterly.	0.44%
"	"	"	"	Other Receivables	95,881	"	0.42%
"	"	WKS	"	Sales Revenue	1,158	The price is marked up based on operating cost, OA60.	-%
"	"	WTP	"	Sales Revenue	16,012	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.04%
"	"	"	"	Accounts Receivable	9,783	"	0.04%
"	"	"	"	Other Receivables	2,401	"	0.01%
1	WKI	The Company	2	Sales Revenue	381,458	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.89%
"	"	WKS	3	Sales Revenue	2,603,264	The price is marked up based on operating cost, and the receivables depend on funding demand and OA60.	6.08%
"	"	"	"	Accounts Receivable	593,627	"	2.61%
2	WKS	WKI	"	Service Revenue	227,747	The price is set by percentage of the contract, OA30.	0.53%
"	"	"	"	Accounts Receivable	70,488	"	0.31%

Note 1: The numbers filled in as follows:

1. 0 represents the Company.
2. Subsidiaries are sorted in a numerical order starting from 1.

Note 2: Relationship with the transactions labeled as follows:

- 1 represents the transactions from the parent company to its subsidiaries.
- 2 represents the transactions from the subsidiaries to the parent company.
- 3 represents the transactions between subsidiaries.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Information on investees:

The following is the information on investees for the nine months ended September 30, 2020 (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		Shares (In Thousands)	Highest Percentage of Ownership		Carrying amount	Net income (losses) of investee	Investment income (losses) of investor	Note
				September 30, 2020	December 31, 2019		Percentage of Ownership	Carrying amount				
The Company	WKI	Hong Kong	Electronic components computer peripherals products distribution and technical support	\$ 1,044,995	774,275	396,250	100%	\$ 3,715,818	224,683	\$ 224,683	Subsidiary	
"	WTC	Taipei	Electronic components and technical support	12,983	12,983	1,589	100%	26,333	(260)	(260)	"	
"	WTP	Singapore	"	293,327	293,327	12,413	100%	327,012	2,241	2,241	"	
	Total			\$ 1,351,305	1,080,585			\$ 4,069,163		\$ 226,664		
WKI	Weitech	Hong Kong	Import and export trade of electronic components	0.41 (HKD0.1)	0.41 (HKD0.1)	-	100%	2,025 (USD70)	228 (USD8)	228 (USD8)	Subsidiary's subsidiary	

(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, 2020	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2020	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)	100,123 (USD3,357) (Note 2)	100%	100,123 (USD3,357) (Note 2)	659,168 (USD22,636)	-
WKE	Electronic technology development and technical advisory	5,067 (RMB1,000)	Note 1 - 5	-	-	-	-	(493) (USD(17))	100%	(493) (USD(17))	4,853 (USD167)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of September 30, 2020	Investment Amounts Authorized by Investment Commission, MOEA (note 3)	Upper Limit on Investment
304,594 (USD9,800)	728,000 (USD25,000)	3,534,605

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 by the Company's independent auditors, and were translated into New Taiwan Dollars at the average exchange rates for the nine months ended September 30, 2020.

Note 3: The currency was 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 US15,200 thousand dollars on Weikeng International (Shanghai) Co. Ltd. using its own 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 own funds.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iii) Significant transactions:

Please refer to Information on significant transactions for the information on significant direct or indirect transactions, which were eliminated in the preparation of consolidated financial statements, between the Group and the investee companies in Mainland China in 2020.

(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
Weiji Investment Co., Ltd.		31,426,876	8.55 %

Note (i): The information of major shareholders is based on the last business day of the end of each quarter set by Taiwan Depository & Clearing Corporation, wherein the shareholders hold more than 5% of the Company's ordinary shares, which have been completely registered non-physically (including treasury shares). There may be differences between the share capital recorded in the Company's financial statements and the actual number of the delivered shares, which have been completely registered non-physically due to the different methods used in their calculation.

Note (ii): In the case of the above information, if the shareholder delivers the shares to the trust, the shares will be disclosed as a personal account under the trust account of the principal opened by the trustee. As for the shareholders' declaration of more than 10% of the insider's shareholdings under the Securities and Exchange Act, the shareholders' stocks should be include in their own shareholdings, plus, the shares delivered to the trust, wherein the shareholders have the right of decision on using the trust property. For information on insider's equity declaration, please refer to market observation post system.

(14) Segment information:

The Group has only one operating segment, which is the electronic components segment, of which, the major activities are the purchase and sales of electronic components and computer peripherals, technical service, as well as the import/export trade business. The Group's details and reconciliations of operating segment are consistent with the consolidated financial statements. Please refer to the consolidated statements of comprehensive income and the consolidated balance sheet for the segment profit and assets, respectively.