

**TONG HSING ELECTRONIC INDUSTRIES, LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

Address: 6F, No.83, Yanping S.Rd., Zhongzheng Dist., Taipei City.
Telephone: (02)2389-0432

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

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Company history	9
(2) Approval date and procedures of the consolidated financial statements	9
(3) New standards, amendments and interpretations adopted	9~12
(4) Summary of significant accounting policies	12~28
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	28
(6) Explanation of significant accounts	29~59
(7) Related-party transactions	59~60
(8) Pledged assets	60
(9) Commitments and contingencies	60~61
(10) Losses Due to Major Disasters	61
(11) Subsequent Events	61
(12) Other	62
(13) Other disclosures	
(a) Information on significant transactions	62~64
(b) Information on investees	64
(c) Information on investment in mainland China	64
(14) Segment information	65~67

Representation Letter

The entities that are required to be included in the combined financial statements of Tong Hsing Electronic Industries, Ltd. as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Tong Hsing Electronic Industries, Ltd. and subsidiaries do not prepare a separate set of combined financial statements.

Company name: Tong Hsing Electronic Industries, Ltd.
Chairman: Tie-Min Chen
Date: March 18, 2020



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 2 8101 6666

Fax 傳真 + 886 2 8101 6667

Internet 網址 kpmg.com/tw

Independent Auditors' Report

To the Board of Directors of Tong Hsing Electronic Industries, Ltd.:

Opinion

We have audited the consolidated financial statements of Tong Hsing Electronic Industries, Ltd. and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Tong Hsing Electronic Industries, Ltd. and its subsidiaries as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Tong Hsing Electronic Industries, Ltd. and its subsidiaries in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

1. Valuation of inventories

Please refer to Note (4)(h) and Note (5)(a) of the consolidated financial statements for inventories accounting policy, and accounting assumptions and estimation uncertainty of inventory valuation, respectively. Information regarding inventory and related expenses are shown in Note (6)(d) of the consolidated financial statements.

Explanation to key audit matter:

Due to the impact of product life cycle and industrial competition in electronics industry, the price variability for the inventory of Tong Hsing Electronic Industries, Ltd. and its subsidiaries is expected. Therefore, the inventory valuation is one of the key audit matters in our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: testing control of inventory usage and storage management; inspecting the inventory aging statement, and analyzing the change of aging for different periods; performing sampling procedures and inspecting the rationality in order to verify the correctness of inventories aging statement; performing a retrospective review of historical accuracy of inventory valuation, and reviewing the adequacy of the accounting policies.

2. Impairment of goodwill

Please refer to Note (4)(l) intangible assets and Note (5)(b) of the consolidated financial statements for goodwill accounting policy and accounting assumptions and estimation uncertainty of impairment of goodwill, respectively. Information regarding the impairment of goodwill are shown in Note (6)(h) of the consolidated financial statements.

Explanation to key audit matter:

The goodwill of Tong Hsing Electronic Industries, Ltd. was arose on a business combination in the past. Since the estimation of recoverable amount of goodwill is based on the forecast for the future operation of Tong Hsing Electronic Industries, Ltd., there is uncertainty in estimating the recoverable amount with discounted value of future cash flows. Therefore, the test of impairment of goodwill is one of the key audit matters in our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: evaluating internal and external objective evidence of impairment identified by the management of Tong Hsing Electronic Industries, Ltd. and assessing the rationality of evaluation method used to estimate recoverable amount; evaluating the accuracy of forecast result in the past, and inspecting the calculations and the records for the recoverable amount of cash-generating units measured by management; evaluating the rationality of all the assumptions for estimating the future cash flows forecast and for calculating the recoverable amount.

Other Matter

Tong Hsing Electronic Industries, Ltd. has prepared its parent company only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unqualified opinion.

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

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

In preparing the consolidated financial statements, the management is responsible for assessing Tong Hsing Electronic Industries, Ltd. and its subsidiaries' ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. Unless the management either intends to liquidate Tong Hsing Electronic Industries, Ltd. and its subsidiaries or to cease its operations, there is no realistic alternative but to do so.

Those charged with governance (including members of the supervisors) are responsible for overseeing Tong Hsing Electronic Industries, Ltd. and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within Tong Hsing Electronic Industries, Ltd. and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Szu-Chuan Chien and Jui-Lan Lo.

KPMG

Taipei, Taiwan (Republic of China)
March 18, 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018			December 31, 2019		December 31, 2018	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and Equity				
Current assets:					Current liabilities:				
1100 Cash and cash equivalents (note 6(a))	\$ 3,704,146	30	5,168,430	42	2100 Short-term borrowings (note 6(i))	\$ -	-	249,859	2
1110 Current financial assets at fair value through profit or loss (note 6(b))	100,937	1	100,394	1	2130 Contract liabilities—current (note 6(r))	223,831	2	1,165	-
1170 Notes and accounts receivable, net (note 6(c))	1,337,301	11	1,267,822	10	2170 Notes and accounts payable	483,624	4	498,267	4
1200 Other receivables	39,873	-	44,325	-	2200 Other payables (note 6(k))	783,379	6	772,118	6
1476 Other financial assets—current (note 8)	39,218	-	70,628	1	2230 Current tax liabilities	213,907	2	150,142	1
1310 Inventories (note 6(d))	1,207,682	10	1,341,567	11	2280 Lease liabilities—current (note 6(l))	8,973	-	-	-
1410 Prepayments	30,645	-	28,408	-	2300 Other current liabilities (note 6(r))	48,454	-	47,131	1
1470 Other current assets (note 6(r))	32,097	-	31,212	-		1,762,168	14	1,718,682	14
	6,491,899	52	8,052,786	65	Non-Current liabilities:				
Non-current assets:					2527 Contract liabilities—non-current (note 6(r))	77,765	1	-	-
1600 Property, plant and equipment (notes 6(f), 7 and 8)	5,584,092	45	4,197,116	33	2570 Deferred tax liabilities (note 6(o))	111,486	1	118,686	1
1755 Right-of-use assets (note 6(g))	126,520	1	-	-	2580 Lease liabilities—non-current (note 6(l))	118,514	1	-	-
1780 Intangible assets (note 6(h))	68,940	1	65,240	1	2640 Net defined benefit liability—non-current (note 6(n))	176,132	1	177,288	1
1840 Deferred tax assets (note 6(o))	138,110	1	129,624	1		483,897	4	295,974	2
1980 Other financial assets—non-current (note 8)	5,000	-	5,000	-	Total liabilities	2,246,065	18	2,014,656	16
1900 Other non-current assets	8,230	-	13,575	-	Equity:				
	5,930,892	48	4,410,555	35	Equity attributable to owners of parent: (note 6(p))				
					3100 Ordinary shares	1,653,575	13	1,653,575	13
					3200 Capital surplus	4,997,188	40	5,063,801	41
					3310 Legal reserve	1,335,844	11	1,234,484	10
					3320 Special reserve	74,592	1	105,549	1
					3350 Unappropriated retained earnings	2,179,238	18	2,432,168	19
					3410 Exchange differences on translation of foreign financial statements	(63,711)	(1)	(40,892)	-
					Total equity	10,176,726	82	10,448,685	84
Total assets	\$ 12,422,791	100	12,463,341	100	Total liabilities and equity	\$ 12,422,791	100	12,463,341	100

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		2019		2018	
		Amount	%	Amount	%
4000	Sales revenue	\$ 7,567,846	102	7,488,000	101
4170	Less: sales returns and allowances	<u>137,192</u>	<u>2</u>	<u>74,488</u>	<u>1</u>
4100	Net sales revenue (notes 6(r) and 14)	7,430,654	100	7,413,512	100
5110	Cost of sales (notes 6(d), (m), (n) and 12)	<u>5,830,910</u>	<u>78</u>	<u>5,511,828</u>	<u>74</u>
5900	Gross profit	<u>1,599,744</u>	<u>22</u>	<u>1,901,684</u>	<u>26</u>
6000	Operating expenses: (notes 6(m), (n) and 12)				
6100	Selling expenses	152,371	2	191,981	3
6200	Administrative expenses	434,303	6	443,503	6
6300	Research and development expenses	113,872	2	114,120	2
6450	Expected credit losses (gains)	<u>(12,679)</u>	<u>-</u>	<u>13,519</u>	<u>-</u>
		<u>687,867</u>	<u>10</u>	<u>763,123</u>	<u>11</u>
6900	Net operating income	<u>911,877</u>	<u>12</u>	<u>1,138,561</u>	<u>15</u>
	Non-operating income and expenses:				
7100	Interest income	29,383	-	34,303	1
7190	Other income	25,973	-	25,682	-
7230	Foreign exchange (losses) gains, net (note 6(t))	(18,002)	-	59,077	1
7235	Gains on current financial assets (liabilities) at fair value through profit or loss (note 6(b))	543	-	394	-
7510	Finance cost— interest expense	(7,528)	-	(8,440)	-
7590	Miscellaneous disbursements	<u>-</u>	<u>-</u>	<u>(4,294)</u>	<u>-</u>
		<u>30,369</u>	<u>-</u>	<u>106,722</u>	<u>2</u>
7900	Profit before tax	942,246	12	1,245,283	17
7950	Less: tax expenses (note 6(o))	<u>200,290</u>	<u>2</u>	<u>231,680</u>	<u>3</u>
	Profit	<u>741,956</u>	<u>10</u>	<u>1,013,603</u>	<u>14</u>
	Other comprehensive income: (note 6(o))				
	Items that may not be reclassified to profit or loss				
8311	Remeasurements of defined benefit plans	1,311	-	(35,646)	(1)
8349	Income tax on items that may not be reclassified to profit or loss	<u>(262)</u>	<u>-</u>	<u>8,185</u>	<u>-</u>
		<u>1,049</u>	<u>-</u>	<u>(27,461)</u>	<u>(1)</u>
	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(30,313)	-	41,539	1
8399	Income tax on items that may be reclassified to profit or loss	<u>7,494</u>	<u>-</u>	<u>(10,582)</u>	<u>-</u>
		<u>(22,819)</u>	<u>-</u>	<u>30,957</u>	<u>1</u>
	Other comprehensive income	<u>(21,770)</u>	<u>-</u>	<u>3,496</u>	<u>-</u>
8500	Comprehensive income	<u>\$ 720,186</u>	<u>10</u>	<u>1,017,099</u>	<u>14</u>
	Earnings per share (note 6(q))				
9750	Basic earnings per share	<u>\$ 4.49</u>		<u>6.13</u>	
9850	Diluted earnings per share	<u>\$ 4.47</u>		<u>6.09</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Other equity Exchange differences on translation of foreign financial statements	Total equity
Balance on January 1, 2018	\$ 1,653,575	5,233,426	1,137,095	33,700	2,427,991	3,598,786	(71,849)	10,413,938
Effects of retrospective application	-	-	-	-	9,793	9,793	-	9,793
Balance on January 1, 2018 after adjustments	1,653,575	5,233,426	1,137,095	33,700	2,437,784	3,608,579	(71,849)	10,423,731
Consolidated net income for the year ended December 31, 2018	-	-	-	-	1,013,603	1,013,603	-	1,013,603
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(27,461)	(27,461)	30,957	3,496
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	986,142	986,142	30,957	1,017,099
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	97,389	-	(97,389)	-	-	-
Special reserve appropriated	-	-	-	71,849	(71,849)	-	-	-
Cash dividends of ordinary share	-	-	-	-	(822,520)	(822,520)	-	(822,520)
Cash dividends from capital surplus	-	(169,625)	-	-	-	-	-	(169,625)
Balance on December 31, 2018	1,653,575	5,063,801	1,234,484	105,549	2,432,168	3,772,201	(40,892)	10,448,685
Consolidated net income for the year ended December 31, 2019	-	-	-	-	741,956	741,956	-	741,956
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	1,049	1,049	(22,819)	(21,770)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	743,005	743,005	(22,819)	720,186
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	101,360	-	(101,360)	-	-	-
Special reserve appropriated	-	-	-	(30,957)	30,957	-	-	-
Cash dividends of ordinary share	-	-	-	-	(925,532)	(925,532)	-	(925,532)
Cash dividends from capital surplus	-	(66,613)	-	-	-	-	-	(66,613)
Balance on December 31, 2019	1,653,575	4,997,188	1,335,844	74,592	2,179,238	3,589,674	(63,711)	10,176,726

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

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

	2019	2018
Cash flows from (used in) operating activities:		
Profit before tax	\$ 942,246	1,245,283
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	741,436	875,959
Amortization expense	8,422	4,121
Expected credit losses (gains)	(12,679)	13,519
Net gain on financial assets or liabilities at fair value through profit or loss	(543)	(394)
Interest expense	7,528	8,440
Interest income	(29,383)	(34,303)
Gain on disposal of property, plant and equipment	(8,491)	(13,294)
Other	2,310	224
Total adjustments to reconcile profit (loss)	708,600	854,272
Changes in operating assets and liabilities:		
Increase in current financial assets at fair value through profit or loss	-	(100,000)
(Increase) decrease in contract assets	111	(2,057)
(Increase) decrease in notes and accounts receivable	(55,581)	60,758
(Increase) decrease in other receivables	3,601	(6,459)
(Increase) decrease in inventories	133,885	(409,533)
(Increase) decrease in prepayments	(2,237)	2,727
Increase in other current assets	(996)	(652)
Increase in other financial assets – current	-	(2,384)
Increase (decrease) in notes and accounts payable	(14,643)	47,957
Increase (decrease) in other payables	(11,607)	31,437
Increase in other current liabilities	1,323	3,451
Increase (decrease) in contract liabilities - current and non - current	300,431	(139)
Increase (decrease) in net deferred benefit liabilities	155	(9,522)
	354,442	(384,416)
Cash inflow generated from operations	2,005,288	1,715,139
Interest received	29,015	33,240
Interest paid	(7,528)	(9,296)
Income taxes paid	(145,271)	(207,149)
Net cash flows from operating activities	1,881,504	1,531,934
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(2,144,025)	(648,266)
Proceeds from disposal of property, plant and equipment	43,251	31,942
Decrease in refundable deposits	3,564	3,885
Acquisition of intangible assets	(11,036)	(13,212)
Decrease in other financial assets	31,410	-
Other	-	(615)
Net cash flows used in investing activities	(2,076,836)	(626,266)
Cash flows from (used in) financing activities:		
Decrease in short-term borrowings	(251,430)	(29,619)
Repayments of long-term borrowings	-	(627,925)
Payments of lease liabilities	(9,490)	-
Cash dividends paid	(992,145)	(992,145)
Net cash flows used in financing activities	(1,253,065)	(1,649,689)
Effect of exchange rate changes on cash and cash equivalents	(15,887)	28,461
Net decrease in cash and cash equivalents	(1,464,284)	(715,560)
Cash and cash equivalents at beginning of period	5,168,430	5,883,990
Cash and cash equivalents at end of period	\$ 3,704,146	5,168,430

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)
TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

(1) Company history

Tong Hsing Electronic Industries, Ltd. (“the Company”) was incorporated as a company limited by shares in August 11, 1974 and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company’s registered office is 6F, No.83, Yanping S. Rd., Zhongzheng Dist., Taipei City. The consolidated financial statements of the Company as at and for the year ended December 31, 2019 comprised the Company and subsidiaries (together referred to as the “Group”). The Group primarily is involved in the manufacture and sale of RF modules, metalized ceramic substrates, hybrid integrated circuits and image sensors.

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

These consolidated financial statements were authorized for issue by the board of directors on March 18, 2020.

(3) New standards, amendments and interpretations adopted

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

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

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

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 “Leases”

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group applied IFRS 16 using the modified retrospective approach, and there was no effect on retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

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

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

2) As a lessee

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

The Group decided to apply recognition exemptions to short-term leases of vehicles.

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

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$127,756 of right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.80%.

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

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 37,185
Recognition exemption for:	
short-term leases	(3,987)
Extension and termination options reasonably certain to be exercised	<u>131,123</u>
	<u>\$ 164,321</u>
Discounted using the incremental borrowing rate at January 1, 2019 (Lease liabilities recognized at January 1, 2019)	<u>\$ 127,756</u>

(ii) IFRIC 23 "Uncertainty over Income Tax Treatments"

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The Group believes that initial application of the new standard on January 1, 2019 has no impact on the deferred tax liabilities and retained earnings.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) The impact of IFRS endorsed by FSC but not yet effective

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

<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

The Group assesses that the adoption of the abovementioned standards 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, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

(4) Summary of significant accounting policies

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

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission, ROC (hereinafter referred to as "IFRS endorsed by the FSC").

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) The defined benefit liabilities are measured at less, fair value of plan assets less the present value of the defined benefit obligation limited as explained in please note (4)(o).

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Nature of operation	Shareholding		Note
			December 31, 2019	December 31, 2018	
The Company	Tong Hsing Electronics Phils. Inc. (THEPI)	Sales and manufacturing of RF modules, metalized ceramic substrates, hybrid integrated circuits and image sensors	100 %	100 %	-

(d) Foreign currencies

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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

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

(ii) Foreign operations

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

- (i) It is expected to be realized, or intended to be sold or consumed, in its normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

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

(f) Cash and cash equivalents

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

(g) Financial instruments

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through profit or loss (FVTPL)

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

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

3) Impairment of financial assets

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

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

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

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

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

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

4) Derecognition of financial assets

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

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Equity instrument

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

3) Financial liabilities

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

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

4) Derecognition of financial liabilities

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

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

5) Offsetting of financial assets and liabilities

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

(iii) Derivative financial instruments and hedge accounting

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Inventories

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

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

(i) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are highly probable to be recovered primarily through sale rather than through continuing use, are reclassified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to assets not within the scope of IAS 36 – Impairment of Assets. Such assets will continue to be measured in accordance with the Group's accounting policies.

Impairment losses on assets initially classified as held for sale and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of the cumulative impairment loss that has been recognized.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

(j) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Depreciation

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

Land is not depreciated.

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

- 1) Buildings and structures: 2 ~ 50 years
- 2) Machinery and equipment: 2 ~ 10 years
- 3) Office equipment: 2 ~ 10 years
- 4) Leasehold improvements: 5 ~ 25 years
- 5) Building and equipment constitute mainly building, air conditioning equipment, and elevator engineering equipment and its related facilities. Each part depreciates based on its useful life.

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

(k) Lease

Applicable from January 1, 2019

(i) Identifying a lease

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

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
- the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(ii) As a lessee

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

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

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

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

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

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

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

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

Applicable before January 1, 2019

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(l) Intangible assets

(i) Recognition and measurement

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

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

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

(iii) Amortization

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

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

1) Computer software	3 years
2) Patents	5 years
3) Customer relationships	7 years

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

(m) Impairment of non-financial assets

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

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

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

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(n) Revenue

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

(i) Sale of goods

The Group manufactures and sells electronic components to electronic manufacturers. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. For certain image sensors product contracts, the customer controls all of the work in progress as the products are being manufactured. In such case, revenue will be recognized as the products are being manufactured.

The Group often offers trade discounts to its customers. Revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of discount, revenue is expected to be recognized earlier than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset recognized as right to recover products from customers will be recognized for these contracts and presented separately in the statement of financial position.

No element of financing is deemed present as the sales of electronic components are made with a credit term of 30 to 90 days, which is consistent with the market practice.

(ii) Financing components

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

(iii) Short-term employee benefits

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

(p) Income taxes

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. Diluted earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(r) Operating segments

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

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

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

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

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

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

(a) Valuation of inventories

Inventories are stated at the lower of cost or net realizable value. Due to the impact of product life cycle and industrial competition in electronic industry, which tends to devalue the inventories, the Group evaluates the costs of inventories using the net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific period, therefore, the value of inventories may be variable due to the nature of fast-paced industry. Please refer to note (6)(d) of the consolidated financial statement for inventory valuation.

(b) Impairment of goodwill

The assessment of impairment of goodwill requires the Group to make subjective judgment to identify cash-generating units, allocate the goodwill to relevant cash-generating units and estimate the recoverable amount of relevant cash-generating units. Please refer to note (6)(h) for further description of the impairment of goodwill.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Petty cash and foreign currency on hand	\$ 403	383
Checking accounts and demand deposits	2,321,497	1,268,717
Time deposits	<u>1,382,246</u>	<u>3,899,330</u>
	<u>\$ 3,704,146</u>	<u>5,168,430</u>

Refer to note (6)(t) for the exchange rate risk and the fair value sensitivity analysis of the financial assets and liabilities of the Group.

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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss:		
Non-derivative financial assets		
Open-end mutual funds	<u>\$ 100,937</u>	<u>100,394</u>

(c) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Accounts receivable – measured at amortized cost	\$ 1,402,772	1,347,286
Less: allowance for impairment	<u>(65,471)</u>	<u>(79,464)</u>
	<u>\$ 1,337,301</u>	<u>1,267,822</u>

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 overall economic environment and related industrial information. The loss allowance provision was determined as follows:

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Credit rate A

December 31, 2019			
Aging interval	Carrying amount of notes and accounts receivable	Weighted- average expected loss rate	Loss allowance provision
1 to 30 days	\$ 74,852	-	-
31 to 60 days	44,397	0.50%	222
61 to 90 days	11,672	1.50%	175
91 to 120 days	1,310	5.00%	65
121 to 180 days	6,506	10.00%	651
181 to 360 days	134	50.00%	67
	\$ 138,871		1,180

December 31, 2018			
Aging interval	Carrying amount of notes and accounts receivable	Weighted- average expected loss rate	Loss allowance provision
1 to 30 days	\$ 59,189	-	-
31 to 60 days	85,325	0.50%	427
61 to 90 days	15,381	1.50%	231
91 to 120 days	816	5.00%	41
121 to 180 days	3,566	10.00%	356
181 to 360 days	8	50.00%	4
	\$ 164,285		1,059

(ii) Credit rate B

December 31, 2019			
Aging interval	Carrying amount of notes and accounts receivable	Weighted- average expected loss rate	Loss allowance provision
1 to 30 days	\$ 587,911	1.50%	8,912
31 to 60 days	464,517	5.00%	23,226
61 to 90 days	130,908	10.00%	13,091
91 to 120 days	73,258	20.00%	14,652
121 to 180 days	5,794	50.00%	2,897
181 to 360 days	1,496	100.00%	1,496
More than 361 days	17	100.00%	17
	\$ 1,263,901		64,291

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Aging interval	December 31, 2018		
	Carrying amount of notes and accounts receivable	Weighted- average expected loss rate	Loss allowance provision
1 to 30 days	\$ 488,837	1.50%	7,475
31 to 60 days	439,535	5.00%	21,977
61 to 90 days	160,969	10.00%	16,097
91 to 120 days	67,604	20.00%	13,521
121 to 180 days	13,441	50.00%	6,720
181 to 360 days	12,615	100.00%	12,615
	<u>\$ 1,183,001</u>		<u>78,405</u>

The movement in the allowance for notes and accounts receivable were as follows:

	2019	2018
Balance on January 1, 2019 and 2018	\$ 79,464	66,017
Impairment loss recognized (reversed)	(13,898)	13,533
Amounts written off	-	(86)
Effect of changes in exchange rates	(95)	-
Balance on December 31, 2019 and 2018	<u>\$ 65,471</u>	<u>79,464</u>

As of the reporting date, the Group did not provide any notes and accounts receivable as collateral for its loans.

(d) Inventories

	December 31, 2019	December 31, 2018
Finished goods	\$ 164,870	226,728
Semi-finished goods	166,665	213,550
Work in progress	187,561	194,674
Raw materials	500,460	548,766
Indirect materials	188,126	157,849
	<u>\$ 1,207,682</u>	<u>1,341,567</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) The details of costs of sales for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Cost of sales and expense	\$ 5,782,175	5,476,429
Costs for write-downs on inventory valuation and obsolescence	<u>48,735</u>	<u>35,399</u>
	<u>\$ 5,830,910</u>	<u>5,511,828</u>

- (ii) As of December 31, 2019 and 2018, the Group did not provide any inventories as collateral for its loans.

- (e) Non-current assets held for sale (recorded under other current assets)

In November 2017, the Group signed a contract with KNC Co., Ltd. to sell a unit of factory. Therefore, the property was recorded under non-current assets held for sale on December 31, 2017. In January 2018, the legal procedures of the transaction has been completed and all payments has been received.

- (f) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group were as follows:

	Land	Buildings and structures	Machinery and equipment	Office equipment	Leasehold improvements	Unfinished construction and equipment under acceptance	Total
Cost or deemed cost:							
Balance on January 1, 2019	\$ 413,719	2,606,047	4,358,883	373,410	6,704	144,618	7,903,381
Additions	1,439,544	87,860	490,757	53,945	-	94,787	2,166,893
Transferred in (out)	-	24,671	89,351	2,642	-	(118,373)	(1,709)
Disposals	(2,401)	(123,804)	(896,568)	(44,858)	(4,664)	-	(1,072,295)
Effects of movements in exchange rates	-	(11,456)	(40,675)	(5,828)	(46)	192	(57,813)
Balance on December 31, 2019	<u>\$ 1,850,862</u>	<u>2,583,318</u>	<u>4,001,748</u>	<u>379,311</u>	<u>1,994</u>	<u>121,224</u>	<u>8,938,457</u>
Balance on January 1, 2018	\$ 402,071	2,525,192	5,084,626	377,896	6,495	112,280	8,508,560
Additions	11,648	55,574	444,620	16,810	-	128,600	657,252
Transferred in (out)	-	14,355	78,847	3,224	-	(96,639)	(213)
Disposals	-	(5,301)	(1,305,643)	(31,933)	-	-	(1,342,877)
Effects of movements in exchange rates	-	16,227	56,433	7,413	209	377	80,659
Balance on December 31, 2018	<u>\$ 413,719</u>	<u>2,606,047</u>	<u>4,358,883</u>	<u>373,410</u>	<u>6,704</u>	<u>144,618</u>	<u>7,903,381</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		Land	Buildings and structures	Machinery and equipment	Office equipment	Leasehold improvements	Unfinished construction and equipment under acceptance	Total
Depreciation and impairment loss:								
Balance on January 1, 2019	\$	-	522,260	2,894,616	285,658	3,731	-	3,706,265
Depreciation for the year		-	132,922	552,484	45,296	183	-	730,885
Disposals		-	(99,491)	(890,088)	(44,858)	(3,098)	-	(1,037,535)
Effects of movements in exchange rates		-	(4,040)	(36,491)	(4,701)	(18)	-	(45,250)
Balance on December 31, 2019	\$	-	<u>551,651</u>	<u>2,520,521</u>	<u>281,395</u>	<u>798</u>	-	<u>3,354,365</u>
Balance on January 1, 2018	\$	-	393,927	3,444,762	265,500	3,406	-	4,107,595
Depreciation for the year		-	126,971	702,964	45,813	211	-	875,959
Disposals		-	(5,301)	(1,299,138)	(32,366)	-	-	(1,336,805)
Effects of movements in exchange rates		-	6,663	46,028	6,711	114	-	59,516
Balance on December 31, 2018	\$	-	<u>522,260</u>	<u>2,894,616</u>	<u>285,658</u>	<u>3,731</u>	-	<u>3,706,265</u>
Book value:								
Balance on December 31, 2019	\$	<u>1,850,862</u>	<u>2,031,667</u>	<u>1,481,227</u>	<u>97,916</u>	<u>1,196</u>	<u>121,224</u>	<u>5,584,092</u>
Balance on January 1, 2018	\$	<u>402,071</u>	<u>2,131,265</u>	<u>1,639,864</u>	<u>112,396</u>	<u>3,089</u>	<u>112,280</u>	<u>4,400,965</u>
Balance on December 31, 2018	\$	<u>413,719</u>	<u>2,083,787</u>	<u>1,464,267</u>	<u>87,752</u>	<u>2,973</u>	<u>144,618</u>	<u>4,197,116</u>

Considering the Group's future growth and production, the board of directors had approved the purchases of land on June 13, 2019. The Company entered into a sale and purchase agreement with Ya-Syuan Huang and De-Shuei Peng on June 20, 2019, to purchase their land located at Bade Dist., Taoyuan City with a purchase consideration of \$1,413,316. The above payments had been fully paid and the legal procedures of transaction had been completed.

As of December 31, 2019 and 2018, the Group had provided property, plant and equipment as collateral for its loans. Please refer to note (8) for details.

(g) Right-of-use assets

The Group leases many assets including land, staff dormitories and office equipment. Information about leases for which the Group as a lessee is presented below:

	Land	Buildings and structures	Office equipment	Total
Cost:				
Balance on January 1, 2019	\$ -	-	-	-
Effects of retrospective application	97,756	18,004	11,996	127,756
Balance on January 1, 2019 after adjustments	97,756	18,004	11,996	127,756
Additions	-	10,796	14,901	25,697
Reductions	-	(11,977)	(6,948)	(18,925)
Balance on December 31, 2019	<u>\$ 97,756</u>	<u>16,823</u>	<u>19,949</u>	<u>134,528</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land</u>	<u>Buildings and structures</u>	<u>Office equipment</u>	<u>Total</u>
Depreciation and impairment loss:				
Balance on January 1, 2019	\$ -	-	-	-
Effects of retrospective application	-	-	-	-
Balance on January 1, 2019 after adjustments	-	-	-	-
Depreciation for the year	2,715	5,480	2,356	10,551
Reductions	-	(1,795)	(748)	(2,543)
Balance on December 31, 2019	<u>\$ 2,715</u>	<u>3,685</u>	<u>1,608</u>	<u>8,008</u>
Carrying amount:				
Balance on December 31, 2019	<u>\$ 95,041</u>	<u>13,138</u>	<u>18,341</u>	<u>126,520</u>

The Group leases offices space and vehicles under an operating lease for the years ended December 31, 2018, please refer to note (6)(m).

(h) Intangible Assets

(i) Goodwill from a business combination

The Group merged with Impac Technology Co., Ltd. in 2009 in accordance with ROC Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations", and the cost of acquisition was allocated to the fair value of the assets acquired and the liabilities assumed within one year of acquisition date. The cost of investment exceeds the fair value of identifiable net assets is recognized as goodwill.

The aforementioned acquisition price was assessed by the independent experts, and the allocations of the cost of acquisition were as follows:

Acquisition price	\$ 209,880
Less: the fair value of identifiable net assets	
Net working capital	26,809
Fixed assets	56,382
Net other assets	11,510
Intangible assets	<u>63,243</u>
Total	<u>157,944</u>
Goodwill	<u>\$ 51,936</u>

The goodwill both amounted to \$51,936 as of December 31, 2019 and 2018.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) The cost and amortization of intangible assets of the Group were as follows:

	Goodwill	Patents	Cost of computer software	Customer relationship	Total
Cost:					
Balance on January 1, 2019	\$ 51,936	25,462	17,640	41,776	136,814
Additions	-	-	11,036	-	11,036
Transferred in (out)	-	-	1,086	-	1,086
Disposals	-	-	(520)	-	(520)
Balance on December 31, 2019	<u>\$ 51,936</u>	<u>25,462</u>	<u>29,242</u>	<u>41,776</u>	<u>148,416</u>
Balance on January 1, 2018	\$ 51,936	25,462	7,427	41,776	126,601
Additions	-	-	13,212	-	13,212
Disposals	-	-	(2,999)	-	(2,999)
Balance on December 31, 2018	<u>\$ 51,936</u>	<u>25,462</u>	<u>17,640</u>	<u>41,776</u>	<u>136,814</u>
Amortization:					
Balance on January 1, 2019	\$ -	25,462	4,336	41,776	71,574
Amortization for the year	-	-	8,422	-	8,422
Disposals	-	-	(520)	-	(520)
Balance on December 31, 2019	<u>\$ -</u>	<u>25,462</u>	<u>12,238</u>	<u>41,776</u>	<u>79,476</u>
Balance on January 1, 2018	\$ -	25,462	3,214	41,776	70,452
Amortization for the year	-	-	4,121	-	4,121
Disposals	-	-	(2,999)	-	(2,999)
Balance on December 31, 2018	<u>\$ -</u>	<u>25,462</u>	<u>4,336</u>	<u>41,776</u>	<u>71,574</u>
Book value:					
Balance on December 31, 2019	<u>\$ 51,936</u>	<u>-</u>	<u>17,004</u>	<u>-</u>	<u>68,940</u>
Balance on January 1, 2018	<u>\$ 51,936</u>	<u>-</u>	<u>4,213</u>	<u>-</u>	<u>56,149</u>
Balance on December 31, 2018	<u>\$ 51,936</u>	<u>-</u>	<u>13,304</u>	<u>-</u>	<u>65,240</u>

(iii) Amortization recognized

As of December 31, 2019 and 2018, the amortization expenses of intangible assets in the statement of comprehensive income were as follows:

	2019	2018
Operating costs	<u>\$ 2,390</u>	<u>852</u>
Operating expenses	<u>\$ 6,032</u>	<u>3,269</u>

(iv) Test of goodwill impairment

For the purpose of impairment test, goodwill was mainly allocated to the cash-generating units —BU3.

The recoverable amount of cash-generating unit — BU3 is determined based on the value in use, which was calculated based on the cash flow forecast from the financial budgets covering the future one-year period, and the Group used the annual discount rates of 9.57% and of 14.54%, respectively, in its impairment test for the years ended December 31, 2019 and 2018. The estimation of discount rate was based on the weighted-average capital cost.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Based on the result of impairment test, the recoverable amounts determined by the value in use were both higher than the carrying amounts as of December 31, 2019 and 2018. Therefore, the Group did not recognize any impairment loss on goodwill.

(v) Collateral

As of December 31, 2019 and 2018, the Group did not provide intangible assets as collateral for its loans.

(i) Short-term borrowings

Details of short-term borrowings were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Credit loans	\$ -	4,730
Secured loans	<u>-</u>	<u>245,129</u>
	<u>\$ -</u>	<u>249,859</u>
Unused short-term credit lines	<u>\$ 2,036,614</u>	<u>1,433,796</u>
Range of interest rates	<u>-</u>	<u>0.55%~3.804%</u>

(i) As of December 31, 2018, part of the Group's short-term borrowings and credit lines were guaranteed by the key management personnel. Please refer to note (7).

(ii) Please refer to note (8) for the information about the Group providing assets as collateral for part of its borrowings and credit lines.

(j) Long-term borrowings

Details of long-term borrowings were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Secured loans	<u>\$ -</u>	<u>-</u>
Unused long-term credit lines	<u>\$ 1,565,000</u>	<u>65,000</u>

(i) Collateral for loans

1) As of December 31, 2018, part of the Group's long-term borrowings and the credit lines were guaranteed by the key management personnel. Please refer to note (7).

2) Please refer to note (8) for the information about the Group providing assets as collateral for part of its long-term borrowings.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Compliance with loans contract

The Group signed a five-year syndicated loan agreement with E.Sun Bank and seven other financial institutions in April 2013. The total credit line amounted to \$2,000,000. Based on the syndicated loan contract, the current ratio (current assets/current liabilities) of the Group should be maintained at 100% or more, the debt ratio (liabilities/tangible net worth) should be 100% or less, and the tangible net worth (net worth less intangible assets) should be maintained at NT\$6 billion or more. The ratios and the standards mentioned above should be audited at least annually, with the consolidated financial statements audited by a CPA approved by the bank. Once the relevant terms are violated, the borrower shall improve within nine months, and if the financial ratios reviewed by the CPA meet the requirements after adjustment, it is not deemed a breach. During the period of improvement, the unused credit line will be suspended until the required ratios are met. The borrower shall pay the amount of outstanding principal with an extra annual interest rate of 0.125% from the default date to the date the improvement is completed, and then the syndicate banks may take recovery action. The Company complied with the requirements of the loan contract during the contract period.

(iii) Repayment of loan contract

The Group signed a five-year syndicated loan agreement with E.Sun Bank and seven other financial institutions in April 2013. Based on the contract, the first repayment of the used outstanding principal balance shall be made 24 full months after the first date of use. After the first repayment, the repayment shall be made every 6 months, and there are 7 repayments to be made. 10% of the principal shall be repaid in each of the first to the sixth repayments, and the last 40% of the principal shall be repaid in the seventh repayment. In any case, the outstanding principal balance and the interest shall be fully repaid within the credit period. The above borrowing had been repaid in March 2018.

(k) Other payables

Details of other payables were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Salaries, employees' compensation and directors' and supervisors' remuneration	\$ 321,713	332,287
Payable on machinery and equipment	92,253	69,385
Accrued employee benefit liabilities	42,278	41,123
Accrued expenses	<u>327,135</u>	<u>329,323</u>
	<u>\$ 783,379</u>	<u>772,118</u>

The accrued expenses included professional service fees, commission, labor insurance and health insurance, etc.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(l) Lease liabilities

The details of lease liabilities were as follows:

	December 31, 2019
Current	\$ <u>8,973</u>
Non-current	\$ <u>118,514</u>

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

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	\$ <u>2,347</u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u>109,740</u>
Expenses relating to short-term leases	\$ <u>9,939</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value leases	\$ <u>19</u>

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

	2019
Total cash outflow for leases	\$ <u>131,535</u>

(i) Real estate leases

The Group leases land, buildings and structures for its factory and staffs' dormitories. The leases typically run for a period of one to twenty 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.

(ii) Other leases

The Group leases office equipment, with lease terms of three to five 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 provide for rent payments that are based on actual usage in the period.

The Group also leases vehicles and copying machines, with lease terms of one to three years. These leases are short-term and leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Operating lease

(i) Non-cancellable operating lease rentals payable were as follows:

	December 31, 2018
Less than one year	\$ 13,229
Between two and five years	<u>23,956</u>
	<u>\$ 37,185</u>

The Group leased office space and vehicles under operating leases with lease terms of one to five years and had an option to renew the leases. Lease payments are adjusted periodically to reflect market rentals.

(ii) For the year ended December 31, 2018, expense recognized in profit or loss under operating leases amounted to \$89,845.

(n) Employee benefits

(i) Defined benefit plans

1) Reconciliation of the defined benefit obligation at present value and plan assets at fair value of the Company were as follows:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	\$ (364,031)	(452,999)
Fair value of plan assets	<u>270,307</u>	<u>316,083</u>
Net defined benefit liabilities	<u>\$ (93,724)</u>	<u>(136,916)</u>

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

2) Reconciliation of defined benefit obligations at present value and plan assets at fair value of THEPI were as follows:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	\$ (87,552)	(44,821)
Fair value of plan assets	<u>5,144</u>	<u>4,449</u>
Net defined benefit liabilities	<u>\$ (82,408)</u>	<u>(40,372)</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

THEPI makes defined benefit plan contributions to the pension fund account at local bank in Philippines. The plans entitle a retired employee to receive retirement benefits based on years of service and average salary prior to retirement.

3) Composition of plan assets

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$270,307 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of labor.

The defined benefit obligations of THEPI is composed of cash, and is managed by local bank in Philippines. Defined benefit obligations balance amounted to \$5,152 at the end of the reporting period.

4) Movements in present value of the defined benefit obligations

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

	2019	2018
Defined benefit obligation on January 1	\$ (497,820)	(472,373)
Current service costs and interest	(18,258)	(19,399)
Benefits paid by the plan	70,271	32,877
Re-measurement of the net defined benefit liability		
-Return on plan assets (excluding current interest income)	4,068	(11,162)
-Actuarial gains (losses) arose from changes in financial assumptions	(8,856)	(28,624)
Exchange difference on foreign plan	(988)	861
Defined benefit obligation on December 31	<u>\$ (451,583)</u>	<u>(497,820)</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5) Movements of the defined benefit plan assests

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

	2019	2018
Fair value of plan assets on January 1	\$ 320,532	321,209
Interest income	4,484	5,140
Benefits paid by the plan	(70,271)	(32,877)
Re-measurements of the net defined benefit asset		
-Return on plan assets (excluding current interest income)	6,099	4,140
Contributions paid by the employer	14,550	22,963
Exchange difference on foreign plan	57	(43)
Fair value of plan assets on December 31	<u>\$ 275,451</u>	<u>320,532</u>

6) Expenses recognized in profit or loss

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

	2019	2018
Net interest on the net defined benefit liabilities	\$ 4,948	4,449
Current service cost and settlement losses (gains)	8,826	9,810
	<u>\$ 13,774</u>	<u>14,259</u>
Cost of sales	\$ 9,743	9,469
Selling expense	189	109
Administrative expense	3,668	4,555
Research and development expense	174	126
	<u>\$ 13,774</u>	<u>14,259</u>

7) Re-measurement of the net defined benefit liabilities recognized in other comprehensive income

The Group's re-measurement of the net defined benefit liabilities recognized in other comprehensive income for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Accumulated amount on January 1	\$ 117,743	82,097
Recognized during the period	(1,311)	35,646
Accumulated amount on December 31	<u>\$ 116,432</u>	<u>117,743</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

8) Actuarial assumptions

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

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>The Company</u>	<u>THEPI</u>	<u>The Company</u>	<u>THEPI</u>
Discount rate	1.125 %	5.500 %	1.375 %	7.800 %
Future salary increasing rate	2.800 %	8.000 %	3.000 %	7.000 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one year period after the reporting date is \$24,786.

The weighted-average lifetime of the defined benefit plan are 14.00 to 16.85 years.

9) Sensitivity analysis

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

A. The Company	Influences of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
<u>Actuarial assumption</u>		
December 31, 2019		
Discount rate	\$ (12,665)	13,271
Future salary increasing rate	12,839	(12,331)
December 31, 2018		
Discount rate	(14,845)	15,555
Future salary increasing rate	15,059	(14,465)
B. THEPI	Influences of defined benefit obligations	
	Increased 1%	Decreased 1%
<u>Actuarial assumption</u>		
December 31, 2019		
Discount rate	\$ (14,159)	17,704
Future salary increasing rate	16,495	(13,567)
December 31, 2018		
Discount rate	(6,632)	8,175
Future salary increasing rate	7,861	(6,515)

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plan

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

The pension costs under the defined contribution method amounted to \$44,131 and \$41,343 for the years ended December 31, 2019 and 2018, respectively.

(o) Income Taxes

(i) Income tax expenses

1) The components of income tax expense in the years 2019 and 2018 were as follows:

	2019	2018
Current tax expense		
Current period	\$ 211,086	176,281
Adjustment for prior periods	(2,342)	-
	<u>208,744</u>	<u>176,281</u>
Deferred tax expense		
Origination and reversal of temporary differences	(8,454)	78,536
Adjustment in tax rate	-	(23,137)
	<u>(8,454)</u>	<u>55,399</u>
Income tax expense	<u>\$ 200,290</u>	<u>231,680</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 2) The amount of income tax expense (benefit) recognized in other comprehensive income for 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Items that may not be reclassified to profit or loss:		
Re-measurement of the defined benefit plans	\$ 262	(8,185)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign financial statements	(7,494)	10,582
	<u>\$ (7,232)</u>	<u>2,397</u>

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

	<u>2019</u>	<u>2018</u>
Profit before income tax	\$ 942,246	1,245,283
Income tax using the Company's domestic tax rate	188,449	249,057
Effect of tax rates in foreign jurisdiction	12,487	13,891
Tax-exempt income	(109)	(4,088)
Under (over) provision in prior periods	(2,342)	-
Adjustment in tax rate	-	(23,137)
Others	1,805	(4,043)
	<u>\$ 200,290</u>	<u>231,680</u>

(ii) Deferred tax assets and liabilities

The Group has no unrecognized deferred tax assets and liabilities. Changes in the amount of recognized deferred tax assets and liabilities for 2019 and 2018 were as follows:

	<u>Defined benefit plans</u>	<u>Provision for the land value increment tax</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:				
Balance on January 1, 2019	\$ 4,430	80,950	33,306	118,686
Recognized in profit or loss	194	-	(2,770)	(2,576)
Recognized in other comprehensive income	(4,624)	-	-	(4,624)
Balance on December 31, 2019	<u>\$ -</u>	<u>80,950</u>	<u>30,536</u>	<u>111,486</u>
Balance on January 1, 2018 (including adjustments on initial application of new standards)	\$ 1,095	80,950	23,173	105,218
Recognized in profit or loss	-	-	10,133	10,133
Recognized in other comprehensive income	3,335	-	-	3,335
Balance on December 31, 2018	<u>\$ 4,430</u>	<u>80,950</u>	<u>33,306</u>	<u>118,686</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Foreign currency translation adjustment	Defined benefit plans	Loss in investments for using equity method	Others	Total
Deferred tax assets:					
Balance on January 1, 2019	\$ 2,006	38,666	56,319	32,633	129,624
Recognized in profit or loss	-	(1,553)	7,276	155	5,878
Recognized in other comprehensive income	7,494	(4,886)	-	-	2,608
Balance on December 31, 2019	<u>\$ 9,500</u>	<u>32,227</u>	<u>63,595</u>	<u>32,788</u>	<u>138,110</u>
Balance on January 1, 2018	\$ 12,588	25,631	111,302	24,431	173,952
Recognized in profit or loss	-	1,515	(54,983)	8,202	(45,266)
Recognized in other comprehensive income	(10,582)	11,520	-	-	938
Balance on December 31, 2018	<u>\$ 2,006</u>	<u>38,666</u>	<u>56,319</u>	<u>32,633</u>	<u>129,624</u>

- (iii) The Group's income tax returns are calculated and filed based on the local tax law of the Company and THEPI.
- (iv) THEPI's products that met the prescribed criteria for tax exemption under the local tax laws were as follows:

<u>Tax exemption products</u>	<u>Tax exemption</u>	<u>Tax exemption period</u>
LED lighting module assembly project	Tax exemption on THEPI's corporate income taxes for five years	January 2015 to December 2018

- (v) Examination and approval

The ROC tax authorities have examined the Company's income tax returns through 2015.

- (p) Capital and other equity

As of December 31, 2019 and 2018, the number of authorized ordinary shares were 200,000 thousand shares, with par value of \$10 per share. The total value of authorized ordinary shares amounted to \$2,000,000, of which \$100,000 were reserved for the issuance of employee stock options. As of that date, 165,357 thousand of ordinary shares were issued. All issued shares were paid up upon issuance.

- (i) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2019	December 31, 2018
Capital surplus — additional paid-in capital	\$ 4,940,969	5,007,582
Other	56,219	56,219
	<u>\$ 4,997,188</u>	<u>5,063,801</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Cash dividends from capital surplus amounting to \$66,613 representing \$0.40284293 per share and \$169,625, representing \$1.02581032 per share, respectively, were approved during the annual meeting of the shareholders held on June 21, 2019 and June 15, 2018, respectively.

(ii) Retained earnings

In accordance with the Company's articles of incorporation, the Company's net earnings shall first defray tax due, and offset the prior years' deficit. Of the remaining balance, 10% is to be appropriated as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital, and an amount equal to a net debit balance of stockholders' equity is appropriated as a special reserve. The remaining balance and the accumulated unappropriated earnings of prior years, if any, may be appropriated according to the proposal presented in the annual stockholders' meeting by the board of directors, and be distributed as dividends to stockholders after the approval of the annual stockholders' meeting. Based on the policy on stock dividends and in accordance with such factors as the development plan, investment environment, capital requirements, competitive environment, and benefits to stockholders, the cash dividends shall not be less than 30% of the total amount of dividends. After considering the actual profit and capital situation, the amount of dividends is determined by the board of directors and approved by the stockholders at their annual meeting.

1) Legal reserve

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

2) Special reserve

By choosing to apply exemptions granted under IFRS 1 "First-time Adoption of International Financial Reporting Standards", the Company shall reclassified its unrealized revaluation gains amounting to \$161,156 as retained earnings. According to the Ruling No. 1010012865 issued by FSC on April 6, 2012, the company is able to reclassified its net increasing retained earnings as special earnings reserve which resulted from the first-time adoption of the IFRS after the adoption date. When the relevant asset were used, disposed of, reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately. The carrying amount of special earnings reserve both amounted to \$33,700 on December 31, 2019 and 2018.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special earnings reserve resulting from the first-time adoption of IFRSs and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

Earnings distribution for 2018 and 2017 were approved via the annual meeting of shareholders held on June 21, 2019 and June 15, 2018, respectively. The relevant dividend distributions to shareholders were as follows:

	2018		2017	
	<u>Amount per share</u>	<u>Total amount</u>	<u>Amount per share</u>	<u>Total amount</u>
Dividends distributed to ordinary shareholders				
Cash	\$ 5.59715707	<u>925,532</u>	4.97418968	<u>822,520</u>

The related information about earnings distribution can be accessed from the Market Observation Post System website.

(q) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for 2019 and 2018 were based on the profit attributable to ordinary shareholders of the Company and the weighted-average number of ordinary shares outstanding, calculated as follows:

1) Profit attributable to ordinary shareholders of the Company

	<u>2019</u>	<u>2018</u>
Profit attributable to ordinary shareholders of the Company	<u>\$ 741,956</u>	<u>1,013,603</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	2019	2018
Weighted-average number of ordinary shares	<u>165,357</u>	<u>165,357</u>

3) Basic earnings per share (NTD)

	2019	2018
Basic earnings per share	<u>\$ 4.49</u>	<u>6.13</u>

(ii) Diluted earnings per share

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

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

	2019	2018
Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 741,956</u>	<u>1,013,603</u>

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

	2019	2018
Weighted-average number of ordinary shares (basic) (thousands)	165,357	165,357
Effect of employee remuneration (thousands)	<u>592</u>	<u>959</u>
Weighted-average number of ordinary shares (diluted) on December 31	<u>165,949</u>	<u>166,316</u>

3) Diluted earnings per share (NTD)

	2019	2018
Diluted earnings per share	<u>\$ 4.47</u>	<u>6.09</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

		2019				
		BU1	BU2	BU3	Others	Total
Primary geographical markets:						
Singapore	\$	291,125	15,291	1,672,932	36,179	2,015,527
Malaysia		660,593	786,269	90,293	1,973	1,539,128
United States		157,134	104,715	707,686	49,065	1,018,600
Hong Kong		127,453	1,180	823,832	1,719	954,184
China		391,871	142,413	198,527	1,255	734,066
Others		295,990	179,795	590,853	102,511	1,169,149
	\$	<u>1,924,166</u>	<u>1,229,663</u>	<u>4,084,123</u>	<u>192,702</u>	<u>7,430,654</u>
Major products/services lines:						
Metalized ceramic substrates	\$	1,923,764	-	694,243	-	2,618,007
Image sensors		-	109,547	2,085,184	-	2,194,731
Hybrid integrated circuits		246	1,057,964	960,749	-	2,018,959
RF modules		156	62,152	343,947	-	406,255
Others		-	-	-	192,702	192,702
	\$	<u>1,924,166</u>	<u>1,229,663</u>	<u>4,084,123</u>	<u>192,702</u>	<u>7,430,654</u>
		2018				
		BU1	BU2	BU3	Others	Total
Primary geographical markets:						
Singapore	\$	488,218	18,058	1,757,833	15,054	2,279,163
Malaysia		821,553	409,968	62,058	201	1,293,780
United States		300,192	178,528	516,339	60,479	1,055,538
Hong Kong		115,130	1,755	937,181	1,019	1,055,085
China		347,805	5,081	168,852	1,952	523,690
Others		324,367	159,251	629,962	92,676	1,206,256
	\$	<u>2,397,265</u>	<u>772,641</u>	<u>4,072,225</u>	<u>171,381</u>	<u>7,413,512</u>
Major products/services lines:						
Metalized ceramic substrates	\$	2,396,821	-	938,177	-	3,334,998
Image sensors		-	142,280	2,055,523	-	2,197,803
Hybrid integrated circuits		444	514,854	889,462	-	1,404,760
RF modules		-	115,507	189,063	-	304,570
Others		-	-	-	171,381	171,381
	\$	<u>2,397,265</u>	<u>772,641</u>	<u>4,072,225</u>	<u>171,381</u>	<u>7,413,512</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Contract balances

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Notes receivable	\$ -	-	1,784
Accounts receivable	1,402,772	1,347,286	1,406,346
Contract assets -- image sensors product (recorded under other current assets)	29,905	30,016	27,959
Less: allowance for impairment	<u>(65,471)</u>	<u>(79,464)</u>	<u>(66,017)</u>
Total	<u>\$ 1,367,206</u>	<u>1,297,838</u>	<u>1,370,072</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Contract liabilities -- advance sales receipts (including current and non-current portion)	<u>\$ 301,596</u>	<u>1,165</u>	<u>1,304</u>

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

The amounts of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liabilities balance at the beginning of the period were \$0 and \$142, 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) Employee compensation and directors' remuneration

Based on the Company's articles of incorporation, once the Company has an annual profit, it should appropriate 5% or more of the profit to its employees and 2% or less as directors' and supervisors' remuneration. The Company should offset the prior years' accumulated deficit before any appropriation of profit then appropriate employee compensation and remuneration of directors and supervisors at the above rate. Employee compensation shall be paid in cash or stock, and the remuneration of directors and supervisors shall be paid in cash.

Based on the Company's articles of incorporation which were approved during the annual meeting of shareholders held on June 21, 2019, once the Company has an annual profit, it should appropriate 5% or more of the profit to its employees and 2% or less as directors' remuneration. The Company should offset the prior years' accumulated deficit before any appropriation of profit then appropriate employee compensation and remuneration of directors at the above rate. Employee compensation shall be paid in cash or stock, and the remuneration of directors and supervisors shall be paid in cash.

For the years ended December 31, 2019 and 2018, the Company estimated its employee remuneration amounting to \$66,728 and \$88,970, and directors' and supervisors' remuneration amounting to \$18,938 and \$7,600, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as determined by the management. These remunerations were expensed under operating

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

costs or operating expenses during 2019 and 2018. The differences between the amounts approved in the Board of Directors' meeting and those recognized in the financial statement, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the following year. The numbers of shares to be distributed were calculated based on the closing price of the Company's ordinary shares one day before the date of the meeting of the board of directors.

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

(t) **Financial Instruments**

(i) **Credit risk**

1) **Exposure to credit risk**

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

2) **The concentration of credit risk**

The Group caters to a wide variety of customers and has a diverse market distribution, therefore, the Group does not have a significant credit risk concentration. In order to reduce the credit risk, the Group monitors the financial conditions of customers regularly. However, the Group usually does not require customers to provide any collateral.

3) **Receivables credit risk**

For credit risk exposure of notes and trade receivables, please refer to note (6)(c). Other financial assets at amortized cost, including other receivables, are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note (4)(g).

The allowance for impairment of other receivables for the years ended December 31, 2019 and 2018 were as follows:

	Other receivables
Balance on January 1, 2019	\$ 312
Impairment loss recognized	1,219
Effects of changes in exchange rates	(27)
Balance on December 31, 2019	<u>\$ 1,504</u>
Balance on January 1, 2018	\$ 315
Impairment loss reversed	(14)
Effects of changes in exchange rates	11
Balance on December 31, 2018	<u>\$ 312</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

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

	Carrying Amount	Contractual cash flows	Within a year	Over a year
December 31, 2019				
Non-derivative financial liabilities:				
Notes and accounts payable	\$ 483,624	(483,624)	(483,624)	-
Other payables	419,388	(419,388)	(419,388)	-
Lease liabilities (including current and non-current portion)	127,487	(162,651)	(11,194)	(151,457)
	<u>\$ 1,030,499</u>	<u>(1,065,663)</u>	<u>(914,206)</u>	<u>(151,457)</u>
December 31, 2018				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 249,859	(249,859)	(249,859)	-
Notes and accounts payable	498,267	(498,267)	(498,267)	-
Other payables	398,708	(398,708)	(398,708)	-
	<u>\$ 1,146,834</u>	<u>(1,146,834)</u>	<u>(1,146,834)</u>	<u>-</u>

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

(iii) Currency risk

1) Exposure to currency risk

The Group's significant exposures to foreign currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

	December 31, 2019			December 31, 2018		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets						
Monetary items						
USD	\$ 75,796	USD/NTD =29.98	2,272,364	53,453	USD/NTD =30.715	1,641,809
Financial liabilities						
Monetary items						
USD		11,967 USD/NTD =29.98	358,771		13,667 USD/NTD =30.715	419,782
JPY		457,295 JPY/NTD =0.2760	126,213		605,212 JPY/NTD =0.2782	168,370

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Sensitivity analysis

	<u>2019</u>	<u>2018</u>
USD (against the NTD)		
Strengthening 5%	\$ 95,680	61,101
Weakening 5%	(95,680)	(61,101)
JPY (against the NTD)		
Strengthening 5%	(6,311)	(8,419)
Weakening 5%	6,311	8,419

(iv) Foreign exchange gains or losses on monetary items

Gains or losses on foreign exchange of the Group's monetary items from the translation of functional currency, including realized and unrealized portion, and the information about the exchange rate of the translation to NTD, which is the presentation currency of the Company, were as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Foreign exchange gains or losses</u>	<u>Average rate</u>	<u>Foreign exchange gains or losses</u>	<u>Average rate</u>
NTD	(16,036)	-	56,935	-
USD	(1,966)	USD/NTD 30.912	2,142	USD/NTD 30.149

(v) Interest rate analysis

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

	<u>Carrying amount</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Fixed-rate instruments:		
Financial assets	\$ 1,426,464	3,974,958
Financial liabilities	-	(175,978)
	<u>\$ 1,426,464</u>	<u>3,798,980</u>
Variable-rate instruments:		
Financial assets	\$ 2,317,958	1,263,693
Financial liabilities	-	(73,881)
	<u>\$ 2,317,958</u>	<u>1,189,812</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Interest rate risk

The exposure to interest rate risk for financial assets and liabilities refers to the management of liquidity risk in this note.

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

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by \$5,795 and \$2,975 for the years ended December 31, 2019 and 2018, respectively, which would have mainly resulted from the bank savings and borrowings with variable interest rates.

(vi) Fair value

1) The categories and the fair values of financial instruments

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

	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					
Open-end mutual funds	\$ 100,937	100,937	-	-	100,937
Financial assets measured at amortized cost					
Cash and cash equivalents	3,704,146	-	-	-	-
Notes and accounts receivable, net	1,337,301	-	-	-	-
Other receivables	9,984	-	-	-	-
Other financial assets – current	39,218	-	-	-	-
Other financial assets – non-current	5,000	-	-	-	-
Refundable deposits (recorded under other non-current assets)	8,230	-	-	-	-
Subtotal	5,103,879				
Total	\$ 5,204,816				

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		December 31, 2019			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial liabilities					
measured at amortized cost					
Notes and accounts payable	\$ 483,624	-	-	-	-
Other payables	419,388	-	-	-	-
Lease liabilities (including current and non-current portion)	127,487	-	-	-	-
Total	<u>\$ 1,030,499</u>				
		December 31, 2018			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets					
mandatorily measured at fair value through profit or loss					
Open-end mutual funds	\$ 100,394	100,394	-	-	100,394
Financial assets measured at amortized cost					
Cash and cash equivalents	5,168,430	-	-	-	-
Notes and accounts receivable, net	1,267,822	-	-	-	-
Other receivables	44,325	-	-	-	-
Other financial assets – current	70,628	-	-	-	-
Other financial assets – non-current	5,000	-	-	-	-
Refundable deposits (recorded under other non-current assets)	11,794	-	-	-	-
Subtotal	<u>6,567,999</u>				
Total	<u>\$ 6,668,393</u>				
Financial liabilities					
measured at amortized cost					
Bank loans	\$ 249,859	-	-	-	-
Notes and accounts payable	498,267	-	-	-	-
Other payables	398,708	-	-	-	-
Total	<u>\$ 1,146,834</u>				

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Valuation techniques for financial instruments measured at fair value – Non-derivative financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices. The market prices from the main exchanges and government bond exchanges are the basis of the fair value of the listed company's equity instruments and debt instruments.

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

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

The fair values of the Group's financial instruments in an active market for each category and attribute were as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions traded in active liquid markets are determined with reference to the quoted market prices, including open-end mutual funds.

(u) Financial risk management

(i) Overview

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

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

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

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Structure of risk management

The Group minimizes the risk exposure by purchasing derivative financial instruments. The Board of Directors regulated the transaction of derivative and non-derivative financial instruments in accordance with the Group's procedures for acquisition and disposal of assets. The internal auditors of the Group continually review the amount of the risk exposure in accordance with the Group's policy and the risk management policies and procedures. The Group has no transactions in the financial instruments (including derivative financial instruments) for the purpose of speculation.

(iii) Credit risk

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

1) Trade and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group offers standard payment term and shipment term. New customers may transact with the Group only on a prepayment basis.

In order to mitigate account receivable credit risk, the Group constantly assesses the financial status of the customers, and requests the customers to provide guarantee or security if necessary. The Group regularly accesses the collectability of accounts receivable and recognizes allowance for accounts receivable. The impairment losses are always within management's expectation.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including listed company and unlisted company. In order to avoid the excess of credit limitation of the customer, the Group constantly monitors the status of the customers. The Group will stop trading with the customer who has no credit limits, unless, the payment has been paid or approved. Furthermore, credit limits of the customers will be assessed quarterly.

The Group sets the allowance for bad debt account to reflect the estimated losses for trade, other receivables, and investment.

2) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transaction counterparties and contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore no significant credit risk.

3) Guarantees

Pursuant to the Group's policies, it is only permissible to provide financial guarantees to subsidiaries. Please refer to note (13)(a)(ii) for information on guarantees and endorsements to subsidiaries as of December 31, 2019 and 2018.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Liquidity risk

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

The loans and borrowings from the bank form an important source of liquidity for the Group. Please refer to notes (6)(i) and (6)(j) for unused short-term and long-term bank facilities as of December 31, 2019 and 2018.

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily NTD and USD. The currencies used in these transactions are denominated in NTD, EUR, JPY, USD, and PHP.

2) Interest rate risk

Entities in the Group borrow funds with floating interest rates which results to risks of cash flows.

3) Other market price risk

The Group is exposed to equity price risk due to the quoted open-end fund at fair value.

(v) Capital management

The Group maintains the capital based on the current operating characteristics of the industry, future development, and changes in external environment, to assure there is financial resource and operating plan to support working capital, capital expenditures, research & development expense, debt redemption and dividend payment and so on. The management decides the optimized capital by using appropriate debt-to-equity ratio. To maintain a strong capital base, the Group enhances the return on equity by optimizing debt-to-equity ratio. The Group's debt-to-equity ratio at the end of the reporting date was as follows:

	December 31, 2019	December 31, 2018
Total liabilities	\$ 2,246,065	2,014,656
Total equity	10,176,726	10,448,685
Debt-to-equity ratio	22 %	19 %

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 in the year ended December 31, 2019, were derived from the acquisition of its right-of-use assets by lease. For related information, please refer to note (6)(g). There were no non-cash investing and financing activities in the year ended December 31, 2018.

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Cash flows	Non-cash changes		December 31, 2019
			Other	Foreign exchange movement	
Short-term borrowings	\$ 249,859	(251,430)	-	1,571	-
Lease liabilities (including current and non-current portion)	127,756	(9,490)	9,221	-	127,487
Total liabilities from financing activities	<u>\$ 377,615</u>	<u>(260,920)</u>	<u>9,221</u>	<u>1,571</u>	<u>127,487</u>

	January 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Foreign exchange movement		
Long-term borrowings	\$ 627,887	(627,925)	38	-	-
Short-term borrowings	271,436	(29,619)	8,042	249,859	
Total liabilities from financing activities	<u>\$ 899,323</u>	<u>(657,544)</u>	<u>8,080</u>	<u>249,859</u>	

(7) Related-party transactions

(a) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Group.

(b) Name and relationship with related parties

The followings are related parties that have had transactions with the Group during the periods covered in the consolidated financial statements.

Name of related party	Relationship with the Group
Multi-field	Other related party
Hwi-Jie, Yang	The former chairman of the Company, who was discharged on December 17, 2018

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Other transaction with related party

For operational needs, THEPI acquired land for \$57,713 (91,110 thousand Philippine pesos) beginning in 2004, which was recorded as property, plant and equipment. Because the Philippine regulations prohibit foreigners from owning land, therefore, the Group paid for the land, under the title deed of Multi-field to assure the right to the land. THEPI also entered into an agreement with Multi-field to reserves its right to sell, or dispose, the property.

(d) Transactions with key management personnel

(i) Key management personnel compensation comprised:

	2019	2018
Short-term employee benefits	\$ 82,793	79,270
Post-employment benefits	2,886	10,244
	<u>\$ 85,679</u>	<u>89,514</u>

(ii) Provide guarantees

Part of the Group's long-term and short-term borrowings and credit lines were guaranteed by the chairman, Hwi-Jie, Yang, as of December 31, 2018.

There were no guarantees provided by related parties as of December 31, 2019.

(8) Pledged assets

Pledged assets	Subject	December 31, 2019	December 31, 2018
Other financial assets – current – time deposits	Credit lines for letters of credit, short-term borrowings and short-term borrowings	\$ 36,301	68,179
Other financial assets – non current – time deposits	Rental guarantee for the plant in the Hsinchu Science Park, Longtan Dist.	5,000	5,000
Property, plant and equipment – land, buildings, machinery and equipment	Long-term and short-term borrowings and credit lines	380,748	777,623
		<u>\$ 422,049</u>	<u>850,802</u>

(9) Commitments and contingencies

(a) The Group's unrecognized contractual commitments were as follows:

	December 31, 2019	December 31, 2018
Future payments for the purchase of equipment and construction in progress	\$ <u>95,522</u>	<u>79,131</u>

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) The Group's unused and outstanding letters of credit and the deposit for the Group's customs duties were as follows:

	December 31, 2019	December 31, 2018
Unused and outstanding letters of credit and the deposit for customs duties	\$ <u>22,726</u>	<u>28,245</u>

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events:

- (a) On December 27, 2019, in order to expand the business scale and enhance the competitiveness of the Company, a resolution was approved by the board of directors to acquire 100% of KINGPAK Technology Inc.'s (KINGPAK) issued and outstanding shares through stock exchange, wherein KINGPAK will eventually become a wholly owned subsidiary of the Company.

The share exchange will be conducted at an exchange ratio of 1.244 ordinary share of the Company for 1 ordinary share of KINGPAK. The exchange ratio had been decided after comprehensive consideration; taking multiple factors into account, including the latest financial report reviewed by the certified public accountants, the auditing results conducted by independent experts, KINGPAK's company operation, the market value of shares, the earnings per share, and the net value per share. The Company also considered its synergy and development in the future. The Exchange was reached based on the independent professional appraisal reports from the independent experts about the exchange ratio.

The board of directors is authorized to adjust and stipulate if there are circumstances which may arise that require adjustments according to the agreement, from the signing date of the agreement until the reference date of the merger. The agreement was approved during the special meeting of the shareholders on February 14, 2020, with the tentative reference date of the merger set on June 30, 2020. After the confirmation has been submitted by the relevant authority, 72,271,565 new common shares, with a par value of \$10, amounting to \$722,716, will be issued.

- (b) The board of directors of the Company resolved to conduct a capital reduction by cash amounting to \$578,751 on March 18, 2020, which has not been approved during the annual stockholders' meeting, whereby 57,875 thousand common shares were cancelled, resulting in the capital to decrease by 24.3%.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(12) Other

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

By function By item	2019			2018		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salaries	1,158,407	302,868	1,461,275	1,149,927	303,794	1,453,721
Labor and health insurance	98,932	15,745	114,677	90,544	15,371	105,915
Pension	45,137	12,768	57,905	42,228	13,374	55,602
Other employee benefits	70,832	23,183	94,015	68,950	21,109	90,059
Depreciation	700,200	41,236	741,436	835,298	40,661	875,959
Amortization	2,390	6,032	8,422	852	3,269	4,121

(13) Other disclosure items

(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:

(i) Loans to other parties:

Unit: In Thousands of New Taiwan Dollars

Number (Note 1)	Name of lender	Name of borrower	Account name	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Loss allowance	Collateral		Individual funding loan limits (Note 4)	Maximum limit of fund financing (Note 3)
												Item	Value		
0	The Company	THEPI	Other receivables-related parties	-	300,000	-	1%	2	-	Business turnover	-	None	-	996,209	3,984,839

Note1: The companies are coded as follows:

1.0 represents the parent company.

2.1 represents the subsidiaries.

Note2: 1.Represents entities with business dealings. 2.Represents where an inter-company or inter-firm short-term financing facility is necessary.

Note3: The total amount available for financing purposes shall not exceed 40% of the parent company's net worth as stated in its latest financial statement audited or reviewed by the independent auditor.

Note4: When funds are loaned to a company for reasons of business dealings, the total amount of loans shall not exceed 10% of the parent company's net worth as stated in its latest financial statement audited or reviewed by the independent auditor; each individual loan shall not exceed the total amount of trading between the two companies. The trading amount refers to the year preceding the date of occurrence of the amount of purchase or sale between the parties, whichever is higher. When funds are loaned to a company with short-term financial need, the total amount of loans shall not exceed 30% of the parent company's net worth as stated in its latest financial statement audited or reviewed by the independent auditor; each individual loan shall not exceed 10% of the parent company's net worth as stated in its latest financial statement audited or reviewed by the independent auditor.

(ii) Guarantees and endorsements for other parties: None.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Unit: thousand units/ thousand shares

Name of holder	Category and name of security	Relationship with Company	Account title	Ending balance				Highest Percentage of ownership during the year	Note
				Shares /Units	Carrying amount	Percentage of ownership (%)	Fair value		
The Company	Open-end mutual funds: Paradigm Pion Money Market Fund	None	Financial assets at fair value through profit or loss-current	8,702	\$ <u>100,937</u>	-	100,937	-	

- (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:

Units: In Thousands of New Taiwan Dollars

Name of company	Name of property	Transaction date	Transaction amount	Status of payment	Counter-party with the Company	Relationship with the Company	If the counter-party is a related party, disclose the previous transfer information				References for determining price	Purpose of acquisition and current condition	Other
							Owner	Relationship with the Company	Date of transfer	Amount			
The Company	Land	Note 1	1,413,316	1,413,316	Ya-Syuan Huang, De-Shuei Peng	None	N/A	N/A	N/A	N/A	Valuation report	Expected for operation use, and the registration process had been completed.	None

Note 1: The board of directors had approved the purchases of land on June 13, 2019. The Company entered into a sale and purchase agreement with Ya-Syuan Huang and De-Shuei Peng on June 20, 2019, to purchase their land located at Bade Dist., Taoyan City with purchase consideration of \$1,413,316. Please refer to note (6)(f).

- (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:

Units: In Thousands of New Taiwan Dollars

Name of Company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/ (Sale)	Amount	Percentage of total purchases/ (sales)	Payment terms	Unit price	Payment Terms	Ending Balance	Percentage of total notes/ accounts receivable (payable)	
The Company	THEPI	100% owned subsidiary by the Company	Purchase	1,108,661	33 %	monthly closing and paid by cash	-	-	(49,827)	(11)%	Note 2
"	"	"	Manufacturing fee	512,466	15 %	"	-	-	Note 1	- %	"
THEPI	The Company	Parent Company	Sale	(1,108,661)	(66)%	monthly closing and received by cash	-	-	49,827	52 %	"
"	"	"	Manufacturing revenue	(512,466)	(31)%	"	-	-	30,400	32 %	"

Note 1: The other receivables (payables) amounted to \$30,400 as of December 31, 2019.

Note 2: The transactions have been eliminated in the consolidated financial statements.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Accounts name	Amount	Trading terms	
1	THEPI	The Company	2	Sale	1,108,661	The sales prices of inter company sales are not significantly different from those of the third parties. The payment term is monthly closing, and the payment is received by cash.	14.92 %
1	"	"	2	Manufacturing Revenue	512,466	"	6.90 %
1	"	"	2	Accounts Receivable	49,827	"	0.40 %
1	"	"	2	Other receivables	30,400	"	0.24 %

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 between the subsidiaries and the parent company.

3 represents the transactions between subsidiaries.

(b) Information on investees:

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

Unit: thousand dollars/ thousand units

Name of investor	Name of Investee	Location	Main Businesses and Products	Original Investment Amount		Ending Balance			Highest percentage during the year of Ownership	Net income (losses) of the investee	Share of profit (losses) of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of Ownership	Carrying amount				
The Company	THEPI	Lot 15, Road 3, Carmelray Industrial Park. PEZA Canlubang, Calamba, Laguna, Philippines	Sales and manufacturing of RF modules, hybrid integrated circuits, metalized ceramic substrates and image sensors	2,016,853	2,016,853	28,793	100 %	1,257,177	100 %	(47,329)	(43,536) (Note 1)	Note 2

Note 1 : The investment income (losses) recognized is based on the financial statements audited by the independent auditor of the Company.

Note 2 : The transactions have been eliminated in the consolidated financial statements.

(c) Information on investment in mainland China: None.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information

(a) General Information

The Group has three reportable segments: segment BU1, segment BU2, and segment BU3. Segment BU1 is responsible for the process of plating SF with gold. Segment BU2 is responsible for the THEPI's process. Segment BU3 is responsible for the process of CO2, non-plating SF with gold, SMT, AS, RW and CP.

The reportable segments are the Group's strategic divisions. Different technology and marketing strategies are required for three segments to offer different products and services. Therefore, the above segments are managed separately.

The Group's operating segment information and reconciliation are as follows:

2019						
	BU1 Segment	BU2 Segment	BU3 Segment	Other Segment	Reconciliation & elimination	Total
Revenue						
Revenue from external customers	\$ 1,924,167	1,229,663	4,084,122	192,702	-	7,430,654
Inter-segment revenues	-	1,621,127	-	-	(1,621,127)	-
Total revenue	<u>\$ 1,924,167</u>	<u>2,850,790</u>	<u>4,084,122</u>	<u>192,702</u>	<u>(1,621,127)</u>	<u>7,430,654</u>
Reportable segment profit(loss)	<u>\$ 214,995</u>	<u>14,055</u>	<u>585,896</u>	<u>96,931</u>	<u>30,369</u>	<u>942,246</u>
2018						
	BU1 Segment	BU2 Segment	BU3 Segment	Other Segment	Reconciliation & elimination	Total
Revenue						
Revenue from external customers	\$ 2,397,265	772,641	4,072,225	171,381	-	7,413,512
Inter-segment revenues	-	1,430,314	-	-	(1,430,314)	-
Total revenue	<u>\$ 2,397,265</u>	<u>2,202,955</u>	<u>4,072,225</u>	<u>171,381</u>	<u>(1,430,314)</u>	<u>7,413,512</u>
Reportable segment profit (loss)	<u>\$ 524,627</u>	<u>(64,001)</u>	<u>592,978</u>	<u>84,957</u>	<u>106,722</u>	<u>1,245,283</u>

The material reconciling items of the above reportable segments were as below:

Total reportable segments' revenue after deducting the inte-rsegments revenue were \$1,621,127 and \$1,430,314 for 2019 and 2018, respectively.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Product information

Revenue from the external customers of the Group was as follows:

<u>Products</u>	<u>2019</u>	<u>2018</u>
Metalized ceramic substrates	\$ 2,618,007	3,334,998
Image sensors	2,194,731	2,197,803
RF modules	406,255	304,570
Hybrid integrated circuits	2,018,959	1,404,760
Others	<u>192,702</u>	<u>171,381</u>
Total	<u>\$ 7,430,654</u>	<u>7,413,512</u>

(c) Geographic information

Information on the geographical location of customers and segment assets are based on the geographical location of the assets.

(i) Revenue from external customers:

<u>Country</u>	<u>2019</u>	<u>2018</u>
Singapore	\$ 2,015,527	2,279,163
United States	1,018,600	1,055,538
Malaysia	1,539,128	1,293,780
Hong Kong	954,184	1,055,085
China	734,066	523,690
Others	<u>1,169,149</u>	<u>1,206,256</u>
Total	<u>\$ 7,430,654</u>	<u>7,413,512</u>

(ii) Non-current Assets:

<u>Country</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Taiwan	\$ 5,194,260	3,545,947
Philippines	<u>598,522</u>	<u>734,984</u>
Total	<u>\$ 5,792,782</u>	<u>4,280,931</u>

Non-current assets include property, plant and equipment, intangible assets, refundable deposits and other non-current assets (excluding deferred tax assets).

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Major customers

Sales to individual customers constituting over 10% of the total revenue in the consolidated statements of income are summarized as follows:

	<u>2019</u>	<u>2018</u>
C2650	\$ 1,439,177	1,428,784
C1167	1,176,592	613,797
C0803	630,048	876,673
C0897	<u>434,665</u>	<u>690,807</u>
	<u>\$ 3,680,482</u>	<u>3,610,061</u>