

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

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

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

Address: 11F., No.308, Sec.1, Neihu Rd., Neihu Dist., Taipei City
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The 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 auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Weikeng Industrial Co., Ltd. as of and for the year ended December 31, 2017 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 and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Weikeng Industrial Co., Ltd. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Weikeng Industrial Co., Ltd.

Chairman: Chiu-Chiang, Hu

Date: March 20, 2018



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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Weikeng Industrial Co., Ltd. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2017 and 2016, as well as 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 the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), IFRIC Interpretations (IFRIC), SIC Interpretations (SIC) endorsed 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 auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Norm of Professional Ethics for Certified Public Account of the Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 auditors’ report as follows:

1. Recognition of Operating Revenue

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

Description of Key Audit Matters:

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

Audit procedures responsive to the key audit matters:

Our main audit procedures for the aforementioned key audit matters include testing the related control over sale and receipts cycle; verifying and adjusting the general ledger and the information of sales system; performing the detailed test of relevant vouchers, as well as assessing whether the Group's timing on revenue recognition and the amounts recognized are in accordance with the related standards.

2. Valuation of Inventories

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

Description of Key Audit Matters:

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

Audit procedures responsive to the key audit matters:

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

Other Matter

Weikeng Industrial Co., Ltd. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified opinion.

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

The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including supervisors) are responsible for overseeing the Group's financial reporting process.

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Lan Lo and Kuan-Ying Kuo.

KPMG

Taipei, Taiwan (Republic of China)
March 20, 2018

Notes to Readers

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Assets				
Current assets:				
1100 Cash and cash equivalents (note 6)(a))	\$ 1,740,291	8	2,430,722	12
1110 Financial assets at fair value through profit or loss-current (note 6)(b))	500	-	51,680	-
1170 Notes and accounts receivable, net (note 6)(c))	7,997,061	38	8,231,316	41
1200 Other receivables (note 6)(c))	365,019	2	348,054	2
1300 Inventories, net (note 6)(d))	10,223,861	48	8,189,210	41
1470 Prepaid expenses and other current assets	379,786	2	369,033	2
	<u>20,706,518</u>	<u>98</u>	<u>19,620,015</u>	<u>98</u>
Non-current assets:				
1523 Available-for-sale financial assets-noncurrent (note 6)(b))	1,890	-	2,386	-
1543 Financial assets carried at cost-noncurrent (note 6)(b))	56,814	-	67,379	-
1600 Property, plant and equipment (note 6)(e))	152,273	1	159,419	1
1780 Intangible assets	8,602	-	7,706	-
1840 Deferred tax assets (note 6)(f))	100,647	1	67,679	-
1900 Other non-current assets	75,063	-	70,382	1
	<u>395,289</u>	<u>2</u>	<u>374,951</u>	<u>2</u>
Total assets	<u>\$ 21,101,807</u>	<u>100</u>	<u>19,994,966</u>	<u>100</u>
Liabilities and Equity				
Current liabilities:				
2100 Short-term borrowings (note 6)(g))	\$ 9,122,655	43	9,173,581	46
2120 Financial liabilities at fair value through profit or loss-current (notes 6)(b) and 6)(g))	4,904	-	-	-
2170 Notes and accounts payable	5,072,987	24	4,431,478	22
2200 Other payables (note 7))	656,201	3	434,733	2
2230 Current tax liabilities	86,528	-	30,322	-
2300 Other current liabilities	182,274	1	118,650	1
2320 Bonds payable, current portion(note 6)(g))	192,160	1	-	-
	<u>15,317,709</u>	<u>72</u>	<u>14,188,764</u>	<u>71</u>
Non-current liabilities:				
2500 Financial liabilities at fair value through profit or loss-noncurrent (notes 6)(b) and 6)(g))	-	-	3,300	-
2530 Convertible bonds payable (note 6)(g))	-	-	187,522	1
2570 Deferred tax liabilities (note 6)(j))	245,317	1	190,063	1
2640 Non-current net defined benefit liabilities (note 6)(i))	144,333	1	156,260	1
2670 Other noncurrent liabilities	251	-	251	-
	<u>389,901</u>	<u>2</u>	<u>537,396</u>	<u>3</u>
	<u>15,707,610</u>	<u>74</u>	<u>14,726,160</u>	<u>74</u>
Total liabilities				
Equity attributable to owners of parent (note 6)(k) :				
3100 Common stock	3,230,094	15	3,230,094	16
3200 Capital surplus	929,151	5	929,151	5
3310 Legal reserve	739,228	4	701,035	3
3350 Unappropriated retained earnings	638,886	3	381,932	2
Other equity interest:				
3410 Exchange differences on translation of foreign financial statements	(138,190)	(1)	31,070	-
3425 Unrealized gains (losses) on available-for-sale financial assets	(4,972)	-	(4,476)	-
	<u>(143,162)</u>	<u>(1)</u>	<u>26,594</u>	<u>-</u>
	<u>5,394,197</u>	<u>26</u>	<u>5,268,806</u>	<u>26</u>
Total equity	<u>\$ 21,101,807</u>	<u>100</u>	<u>19,994,966</u>	<u>100</u>
Total liabilities and equity				
	<u>\$ 21,101,807</u>	<u>100</u>	<u>19,994,966</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except Net Income Per Share Amounts)

	2017		2016	
	Amount	%	Amount	%
4100 Net sales revenue (notes (6)(m) and note (7))	\$ 51,929,408	100	43,741,657	100
5000 Cost of sales (note (6)(d))	<u>49,123,078</u>	<u>95</u>	<u>41,304,073</u>	<u>95</u>
Gross profit	<u>2,806,330</u>	<u>5</u>	<u>2,437,584</u>	<u>5</u>
Operating expenses (notes (6)(h), (6)(i), note (7) and (12)):				
6100 Selling expenses	1,429,773	3	1,364,182	3
6200 Administrative expenses	<u>464,145</u>	<u>1</u>	<u>448,398</u>	<u>1</u>
	<u>1,893,918</u>	<u>4</u>	<u>1,812,580</u>	<u>4</u>
Net operating income	<u>912,412</u>	<u>1</u>	<u>625,004</u>	<u>1</u>
Non-operating income and expenses:				
7010 Other income (notes 6(h) and (7))	16,773	-	20,441	-
7230 Foreign currency exchange gain (losses), net (note 6(o))	170,218	-	10,501	-
7235 Gains (losses) on financial assets (liabilities) at fair value through profit or loss	(2,230)	-	(9,437)	-
7050 Financial costs	(259,423)	-	(175,079)	-
7670 Impairment loss (note (6)(b))	(9,300)	-	-	-
7590 Miscellaneous disbursements	<u>(950)</u>	<u>-</u>	<u>(295)</u>	<u>-</u>
	<u>(84,912)</u>	<u>-</u>	<u>(153,869)</u>	<u>-</u>
7900 Profit before tax	827,500	1	471,135	1
7950 Tax expense (note (6)(j))	<u>196,240</u>	<u>-</u>	<u>80,422</u>	<u>-</u>
8200 Profit (Loss)	<u>631,260</u>	<u>1</u>	<u>390,713</u>	<u>1</u>
Other comprehensive income:				
8310 Items that will not be reclassified to profit or loss				
8311 Gains (losses) on remeasurements of defined benefit plans	9,189	-	(10,580)	-
8349 Less: income tax relating to components of other comprehensive income that will not be reclassified to profit or loss (notes 6(j))	<u>1,563</u>	<u>-</u>	<u>(1,799)</u>	<u>-</u>
	<u>7,626</u>	<u>-</u>	<u>(8,781)</u>	<u>-</u>
8360 Items that may be reclassified subsequently to profit or loss				
8361 Exchange differences on translation of foreign financial statements	(203,928)	-	(92,952)	-
8362 Unrealized gains (losses) on available-for-sale financial assets	(496)	-	472	-
8399 Less: income tax relating to components of other comprehensive income that may be reclassified subsequently to profit or loss (note (6)(j))	<u>(34,668)</u>	<u>-</u>	<u>(15,802)</u>	<u>-</u>
	<u>(169,756)</u>	<u>-</u>	<u>(76,678)</u>	<u>-</u>
Other comprehensive income, net	<u>(162,130)</u>	<u>-</u>	<u>(85,459)</u>	<u>-</u>
8500 Comprehensive income	<u>\$ 469,130</u>	<u>1</u>	<u>305,254</u>	<u>1</u>
Earnings per share: (note (6)(l))				
9750 Basic net income per share	<u>\$ 1.95</u>		<u>1.33</u>	
9850 Diluted net income per share	<u>\$ 1.87</u>		<u>1.31</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated and Report Originally Issued in Chinese)
WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings			Other equity interest		Total equity
	Common stock	Capital surplus	Legal reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	
Balance at January 1, 2016	\$ 2,830,094	703,993	653,991	470,434	108,220	4,761,784
Appropriation and distribution of retained earnings:						
Legal reserve appropriated	-	-	47,044	(47,044)	-	-
Cash dividends	-	-	-	(423,390)	-	(423,390)
Issue of shares	400,000	200,000	-	-	-	600,000
Issuance of convertible bonds	-	8,115	-	-	-	8,115
Share-based payment transactions	-	17,043	-	-	-	17,043
Consolidated net income for 2016	-	-	-	390,713	-	390,713
Other comprehensive income	-	-	-	(8,781)	(77,150)	(85,459)
Total comprehensive income	-	-	-	381,932	(77,150)	305,254
Balance at December 31, 2016	3,230,094	929,151	701,035	381,932	31,070	5,268,806
Appropriation and distribution of retained earnings:						
Legal reserve appropriated	-	-	38,193	(38,193)	-	-
Cash dividends	-	-	-	(343,739)	-	(343,739)
Consolidated net income for 2017	-	-	-	631,260	-	631,260
Other comprehensive income	-	-	-	7,626	(169,260)	(496)
Total comprehensive income	-	-	-	638,886	(169,260)	469,130
Balance at December 31, 2017	\$ 3,230,094	929,151	739,228	638,886	(138,190)	5,394,197

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from operating activities:		
Profit before tax	\$ 827,500	471,135
Adjustments:		
Depreciation expense	16,254	19,239
Amortization expense	5,577	6,743
Provisions for (reversal of) bad debt expense	(275)	70,703
Interest expense	259,423	175,079
Interest income	(5,408)	(4,486)
Share-based payments	-	17,043
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	2,230	1,311
Impairment loss	9,300	-
Others	54	285
	<u>287,155</u>	<u>285,917</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in financial assets at fair value through profit or loss	50,554	(14,966)
Decrease (increase) in notes and accounts receivable, net	234,530	(1,981,928)
Decrease (increase) in inventories, net	(2,034,651)	(1,860,504)
Decrease (increase) in prepaid expenses and other current assets	(10,753)	43,736
Decrease (increase) in other receivables	(16,968)	(41,510)
Changes in operating liabilities:		
Increase (decrease) in notes and accounts payable	641,509	1,074,776
Increase (decrease) in other payables	206,482	(102,902)
Increase (decrease) in other current liabilities	63,624	50,650
Others	(2,739)	(1,868)
Total changes in operating assets and liabilities	<u>(868,412)</u>	<u>(2,834,516)</u>
Total adjustments	<u>(581,257)</u>	<u>(2,548,599)</u>
Cash flow from (used in) operations	246,243	(2,077,464)
Interest received	5,411	4,483
Interest paid	(239,799)	(166,310)
Income taxes paid	(83,195)	(102,595)
Net cash flows from (used in) operating activities	<u>(71,340)</u>	<u>(2,341,886)</u>
Cash flows used in investing activities:		
Acquisition of property, plant and equipment	(10,914)	(19,292)
Proceeds from disposal of property, plant and equipment	-	168
Decrease (increase) in refundable deposits	(548)	810
Acquisition of intangible assets	(6,859)	(3,669)
Others	(2,868)	7,056
Net cash flows from (used in) investing activities	<u>(21,189)</u>	<u>(14,927)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(50,926)	2,097,841
Proceeds from issuing bonds	-	200,000
Increase (decrease) in guarantee deposits received	-	(973)
Cash dividends paid	(343,739)	(423,390)
Proceeds from issuing shares	-	600,000
Net cash flows from (used in) financing activities	<u>(394,665)</u>	<u>2,473,478</u>
Foreign currency translation adjustments	(203,237)	(89,719)
Net increase in cash and cash equivalents	(690,431)	26,946
Cash and cash equivalents at beginning of period	2,430,722	2,403,776
Cash and cash equivalents at end of period	<u>\$ 1,740,291</u>	<u>2,430,722</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

(1) Company history

Weikeng Industrial Co., Ltd. (the Company) was incorporated in Taiwan as a company limited by shares in January 1977 and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 11F, No.308 Sec. 1, Neihu Rd., Neihu Dist., Taipei City. The major activities of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") are the purchase and sale of electronic components and computer peripherals, technical service, and the import-export trade business. Please refer to note 4(c)(ii) for related information. The Company's common shares were listed on the Taiwan Stock Exchange (TSE).

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

These consolidated financial statements were authorized for issuance by the board of directors on March 20, 2018.

(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, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014

(Continued)

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group assessed that the adoption of the above IFRSs would not have any material impact on its 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, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on the assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables. At December 31, 2017, the Group had equity investments classified as available-for-sale with a fair value of 1,890 thousand and financial assets measured at cost of 56,814 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018, resulting in a decrease of 67,140 thousand in other equity interest, as well as the increase of 67,140 thousand in retained earnings.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that IFRS 9 impairment model will not have any material impact on its financial statements.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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For the sale of products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group assesses whether the timing of significant risks and rewards of the ownership transfer to the customers and the timing that the control of the goods transfer to the customers are similar; therefore, the Group estimates that there is no significant impact on its transactions with its customers.

The Group offers trade discounts and volume rebates to its customers. For certain contract that provides discount to customers, the reduction of revenue and allowance for sales returns and discounts (reduction of accounts receivable) are currently recognized when a reasonable estimate of the discount can be made, provided that all other criteria for revenue recognition are met. Under IFRS 15, revenue is recognized on the basis of the net of contract price, minus, the estimated discount. The amount of the discount is estimated by using the past accumulated experience, and revenue is 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. Refund liability is currently recognized when relevant sales are expected to be paid to the customer due to the discount. The recognition would not have any significant differences for the timing and value of discount upon current standards.

For certain contracts that permit a customer to return products, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. Otherwise, a revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made. Under IFRS 15, 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. In addition, 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.

The Group estimates the adoption of IFRS 15, resulting in the increase of 121,464 thousand and 121,464 thousand in accounts receivable and refund liabilities (recognized under other current liabilities) , respectively, on January 1, 2018.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to the 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 IASB, but not yet 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 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
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 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

Those which may be relevant to The Group are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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Issuance / Release Dates	Standards or Interpretations	Content of amendment
February 7, 2018	Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	<p>The amendments clarify that:</p> <ul style="list-style-type: none"> • on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the remainder of the reporting period after the change to the plan; and • the effect of the asset ceiling is disregarded when calculating past service cost and the gain or loss on settlement. Any change in that effect is recognised in other comprehensive income.

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

(4) Summary of significant accounting policies:

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 consolidated financial statements, the Chinese version shall prevail.

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 annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and IFRSs endorsed by the FSC.

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;
- 2) Available-for-sale financial assets are measured at fair value;

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 3) The defined benefit liability is recognized as the present value of the defined benefit obligation less the fair value of plan assets and the effect of the asset ceiling (please refer to note 4(n)).

(ii) Functional and presentation currency

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. 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 its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

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 differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

(ii) List of subsidiaries in the consolidated financial statements

Investor	Name of Subsidiary	Nature of operation	Shareholding	
			December 31, 2017	December 31, 2016
The Company	Weikeng International Co., Ltd. (WKI)	Electronic components computer peripherals products distribution and technical support	100 %	100 %
The Company	Weikeng Technology Co., Ltd. (WTC)	Electronic components and technical support	100 %	100 %
The Company	Weikeng Technology Pte. Ltd. (WTP)	"	100 %	100 %

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

Investor	Name of Subsidiary	Nature of operation	Shareholding	
			December 31, 2017	December 31, 2016
WKI	Weikeng International (Shanghai) Co., Ltd. (WKS)	Electronic components computer peripherals products distribution and technical support	100 %	100 %
"	Weitech International Co., Ltd. (Weitech)	Import and export trade of electronic components	100 %	100 %
WKS	Weikeng Electronic Technology (Shanghai) Co., Ltd. (WKE)	Electronic technology development and technical advisory	100 %	100 %

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation:

- available-for-sale equity investment;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income.

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

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary items 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 the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

An entity shall classify a liability as current when:

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

liquid investments that are ready convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

(i) Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, and loans and receivables, and available-for-sale financial assets.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition.

Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b) Performance of the financial asset is evaluated on a fair value basis
- c) A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

2) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets carried at cost.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in non-operating income and expenses.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables, other receivables, and investment in debt security with no active market. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expenses.

4) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset carried at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income and accumulated in other equity.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

5) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in non-operating income or expenses.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in non-operating income or expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts.

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(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

Compound financial instruments issued by the Group comprise those that can be converted to share capital at the option of the holder when the number of shares to be issued is fixed. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have any equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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

Interest related to financial liability is recognized in profit or loss, and is included in non-operating income or expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognised.

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as such on initial recognition.

Financial liabilities are classified as held for trading if acquired principally for the purpose of selling in the short term. The Group designates financial liabilities, other than those classified as held for trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;
- b) Performance of the financial liabilities is evaluated on a fair value basis; or
- c) A hybrid instrument contains one or more embedded derivatives.

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

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and included in non-operating income or expenses.

3) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payable, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method other than significant interest on short-term loans and payables. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income or expenses.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iii) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in non-operating income and expenses. When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately when the economic characteristics and risk of the host contract and the embedded derivatives are not closely related, and the host contract is measured as at fair value through profit or loss.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS 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 the weighted-average-cost principle and includes expenditure incurred in acquiring the inventories, production or transition costs, and other costs incurred in bringing them to their existing location and condition.

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

(i) Property, plant and equipment**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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Land has an unlimited useful life, and therefore, is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings: 59 years
- 2) Transportation equipment: 5~11 years
- 3) Machinery equipment: 1~6 years
- 4) Office and other equipment: 1~7 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change(s) is accounted for as a change in an accounting estimate.

(j) Leases

(i) The Group as lessor

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

(ii) The Group as lessee

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

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

(k) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill arising from acquisition of subsidiaries is included in intangible assets.

2) Subsequent measurement

Goodwill is measured at cost, less, any accumulated impairment losses. Goodwill related to an associate or a joint venture is included in the carrying amount of the investment, and not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or joint venture.

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

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost, less, accumulated amortization and any accumulated impairment losses.

(iii) 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.

(iv) Amortization

The amortizable amount is the cost of an asset, or other amount substituted for cost, less, its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with all indefinite useful life, from the date that they are available for use. The computer software estimated useful lives for the current and comparative periods are 1~10 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(1) Impairment – non-derivative financial assets

Non-derivative financial assets except for inventories, deferred tax assets and assets arising from employee benefits are assessed at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

The Group assesses goodwill and intangible assets, which have indefinite useful lives and are not available for use, on an annual basis and recognizes an impairment loss on excess of carrying value over the recoverable amount.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(m) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

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

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

(Continued)

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

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

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

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

(iii) Termination benefits

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

(iv) Short term employee benefits

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the 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.

(o) Share-based payment

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

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

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

(p) **Income Taxes**

Income tax expenses include both 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.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

The 10% surtax on unappropriated earnings is recorded as current tax expense in the following year after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

(q) Earnings per share

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

(r) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur 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 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 next period.

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

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

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

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for normal consumption, obsolescence on unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to note (6)(d) for further description of the valuation of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	\$ 705	639
Checking accounts and demand deposits	1,739,586	2,355,140
Time deposits	-	15,000
Bills purchased under resale agreement	-	59,943
	<u>\$ 1,740,291</u>	<u>2,430,722</u>

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

(b) Financial instruments

(i) Details are as follows:

	December 31, 2017	December 31, 2016
Financial assets measured at fair value through profit or loss:		
Financial assets held-for-trading:		
Non-derivative financial instruments	\$ 500	51,680
Available-for-sale financial assets	1,890	2,386
Financial assets carried at cost	56,814	67,379
	<u>\$ 59,204</u>	<u>121,445</u>
Current	\$ 500	51,680
Non-current	58,704	69,765
	<u>\$ 59,204</u>	<u>121,445</u>

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

	December 31, 2017	December 31, 2016
Financial liabilities measured at fair value through profit or loss:		
Financial liabilities held-for-trading:		
Derivative instruments not used for hedging	\$ 4,724	-
Convertible bonds embedded options	180	3,300
	\$ 4,904	3,300
Current	\$ 4,904	-
Non-current	-	3,300
	\$ 4,904	3,300

(ii) Derivative instruments not used for hedging

The Group uses derivative instruments to hedge certain currency and interest risk the Group is exposed to arising from its operating, financing and investing activities. As of December 31, 2016, the Group did not have any unsettled derivative instruments. The Group held the following derivative instruments not designated as hedging instruments presented as held-for-trading financial asset as of December 31, 2017:

	December 31, 2017		
	Contract Amount	Currency	Maturity date
Financial liabilities			
Forward exchange bought	USD\$ <u>12,000</u>	USD/TWD	February~ April, 2018

- (iii) The investee companies, Paradigm Venture Capital Corporation (PVC Corp.) and InnoBridge Venture Fund ILP. (InnoBridge), classified as financial assets carried at cost, reduced their common stocks and refunded capital in 2017 and in 2016, and the Group recorded the capital reduction receivable amounting to \$1,265 and 3,674, respectively. The amount has been fully received.
- (iv) The financial assets carried at cost held by the Group are measured at cost, less, impairment loss at the reporting date. Given the wide range of fair value estimates and the probability for each estimate that cannot be reasonably determined, the Group thus concludes that the fair value cannot be measured reliably.
- (v) Since the value of certain financial assets carried at cost had diminished, the Group recognized the impairment loss of \$9,300, which was recorded in non-operating income and expenses for the year ended December 31, 2017.
- (vi) For convertible bonds payable – debt components include an embedded derivative; please see note (6)(g).

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(vii) Sensitivity analysis in equity market price risk:

If the price of the fair value of investments in securities of listed companies changed at the reporting date (with the same analysis performed for both periods, assuming all other variable factors remain constant), it would have resulted in the change in the comprehensive income as illustrated below.

Securities price at reporting date	Year ended December 31, 2017		Year ended December 31, 2016	
	Before-tax other comprehensive income	Before-tax profit (loss)	Before-tax other comprehensive income	Before-tax profit (loss)
Increasing 5%	\$ <u>95</u>	<u>25</u>	<u>119</u>	<u>45</u>
Decreasing 5%	\$ <u>(95)</u>	<u>(25)</u>	<u>(119)</u>	<u>(45)</u>

(viii) On the reporting date, the significant foreign currency equity investment risk was as follows:

	December 31, 2017			December 31, 2016		
	Foreign Currency	Exchange Rate	TWD	Foreign Currency	Exchange Rate	TWD
USD	\$ 762	29.76	22,677	775	32.25	24,994

(ix) As of December 31, 2017 and 2016, the financial assets were not pledged.

(c) Notes and accounts receivable and other receivables

	December 31, 2017	December 31, 2016
Notes receivable	\$ 345,079	496,829
Accounts receivable	7,926,486	8,119,394
Other receivables	<u>393,995</u>	<u>377,806</u>
	8,665,560	8,994,029
Less: Allowance for sales returns and discounts	(121,464)	(218,561)
Allowance for doubtful accounts	<u>(182,016)</u>	<u>(196,098)</u>
	<u>\$ 8,362,080</u>	<u>8,579,370</u>
Notes and accounts receivable	<u>\$ 7,997,061</u>	<u>8,231,316</u>
Other receivable-current	<u>\$ 365,019</u>	<u>348,054</u>

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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The aging analysis of notes and accounts receivable and other receivables which were past due but not impaired was as follows:

	December 31, 2017	December 31, 2016
Overdue period less than 90 days	\$ 927,690	759,312
Overdue period for 90 ~ 180 days	12,676	5,493
	\$ 940,366	764,805

The change of allowance for doubtful accounts and other receivable for the years ended December 31, 2017 and 2016 were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2017	\$ 105,813	90,285	196,098
Reclassifications	4,875	(4,875)	-
Amounts written off	(5,650)	-	(5,650)
Recognition (reversal) of impairment loss	(33,171)	32,896	(275)
Foreign exchange gains (loss)	(3,412)	(4,745)	(8,157)
Balance on December 31, 2017	\$ 68,455	113,561	182,016
	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2016	\$ 48,579	110,415	158,994
Reclassifications	4,786	(4,786)	-
Amounts written off	(23,613)	(3,839)	(27,452)
Impairment loss recognized	79,057	-	79,057
Reversal of impairment loss	-	(8,354)	(8,354)
Foreign exchange gains (loss)	(2,996)	(3,151)	(6,147)
Balance on December 31, 2016	\$ 105,813	90,285	196,098

Impairment loss recognized for individually assessed impairment is the difference between the carrying amount and the present value of amount expected to be collected.

As of December 31, 2017 and 2016, the Group did not provide any notes and accounts receivable and other receivables as collateral for its loans.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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The Group has entered into accounts receivable factoring agreements with banks. According to the factoring agreement, the Group does not bear the loss if the accounts receivable does not have the ability to make payments upon the transfer of the accounts receivable factoring. The Group has not provided other guarantee except for the promissory notes which has the same amount with that of that the factoring used as the guarantee for the sales return and discount. The Group received the proceeds from the discounted accounts receivable on the selling date. Interest is calculated and paid based on the duration and interest rate of the agreement, and the remaining amounts are received when the accounts receivable are paid by the customers. In addition, the Group has to pay a service charge based on a certain rate. As of December 31, 2017 and 2016, the unreceived balances of discounted accounts receivable were \$344,818 and \$323,849, respectively, and were recognized as other receivables.

As of December 31, 2017 and 2016, the details of accounts receivable factored were as follows:

December 31, 2017				
Accounts receivable factored (gross)	Factoring amount	Cash received in advance	Significant term in transferring of accounts receivable	Deducted amount
\$ 3,720,226	7,665,677	3,375,408	Non-recourse factoring	3,720,226
December 31, 2016				
Accounts receivable factored (gross)	Factoring amount	Cash received in advance	Significant term in transferring of accounts receivable	Deducted amount
\$ 3,284,581	8,720,005	2,960,732	Non-recourse factoring	3,284,581

Annual interest rates on accounts receivable factoring agreements for the years ended December 31, 2017 and 2016 ranged from 1.13% to 2.52%, and 1.00% to 1.99%, respectively.

(d) Inventories

	December 31, 2017	December 31, 2016
Merchandise inventories	\$ 8,622,784	7,356,315
Goods in transit	1,601,077	832,895
	\$ 10,223,861	8,189,210

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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The details of inventory-related losses and expenses for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Inventory valuation loss and obsolescence (Gain from price recovery of inventory)	\$ 42,532	(10,790)
Loss on scrapping of inventory and others	3,064	9,769
	<u>\$ 45,596</u>	<u>(1,021)</u>

As of December 31, 2017 and 2016, the Group did not provide any inventories as collaterals for its loans.

(e) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group December 31, 2017 and 2016 were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Transportation equipment</u>	<u>Machinery equipment</u>	<u>Office and other facilities equipment</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2017	\$ 77,377	51,836	15,945	12,793	172,922	330,873
Additions	-	-	-	4,441	6,473	10,914
Disposals	-	-	-	(267)	(2,847)	(3,114)
Effects of changes in exchange rates	-	-	(326)	(87)	(6,263)	(6,676)
Balance on December 31, 2017	<u>\$ 77,377</u>	<u>51,836</u>	<u>15,619</u>	<u>16,880</u>	<u>170,285</u>	<u>331,997</u>
Balance on January 1, 2016	\$ 77,377	51,836	13,656	12,977	172,901	328,747
Additions	-	-	3,866	1,036	14,390	19,292
Reclassifications	-	-	30	-	-	30
Disposals	-	-	(931)	(1,027)	(7,932)	(9,890)
Effects of changes in exchange rates	-	-	(676)	(193)	(6,437)	(7,306)
Balance on December 31, 2016	<u>\$ 77,377</u>	<u>51,836</u>	<u>15,945</u>	<u>12,793</u>	<u>172,922</u>	<u>330,873</u>
Depreciation and impairment loss:						
Balance on January 1, 2017	\$ -	18,320	8,203	11,010	133,921	171,454
Depreciation for the year	-	863	1,429	1,066	12,896	16,254
Disposals	-	-	-	(267)	(2,793)	(3,060)
Effects of changes in exchange rates	-	-	(128)	(52)	(4,744)	(4,924)
Balance on December 31, 2017	<u>\$ -</u>	<u>19,183</u>	<u>9,504</u>	<u>11,757</u>	<u>139,280</u>	<u>179,724</u>
Balance on January 1, 2016	\$ -	17,457	7,284	11,568	129,831	166,140
Depreciation for the year	-	863	1,704	613	16,059	19,239
Disposals	-	-	(519)	(1,027)	(7,891)	(9,437)
Effects of changes in exchange rates	-	-	(266)	(144)	(4,078)	(4,488)
Balance on December 31, 2016	<u>\$ -</u>	<u>18,320</u>	<u>8,203</u>	<u>11,010</u>	<u>133,921</u>	<u>171,454</u>
Book value:						
Balance on December 31, 2017	<u>\$ 77,377</u>	<u>32,653</u>	<u>6,115</u>	<u>5,123</u>	<u>31,005</u>	<u>152,273</u>
Balance on December 31, 2016	<u>\$ 77,377</u>	<u>33,516</u>	<u>7,742</u>	<u>1,783</u>	<u>39,001</u>	<u>159,419</u>
Balance on January 1, 2016	<u>\$ 77,377</u>	<u>34,379</u>	<u>6,372</u>	<u>1,409</u>	<u>43,070</u>	<u>162,607</u>

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

As of December 31, 2017 and 2016, the Group did not provide any property, plant, and equipment as collaterals for its loans.

(f) Short-term borrowings

The details of Group's short-term borrowings are as follows:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Unsecured loans	\$ 8,653,235	8,704,113
Short-term notes and bills payable, net	<u>469,420</u>	<u>469,468</u>
	<u>\$ 9,122,655</u>	<u>9,173,581</u>
Unused short-term credit lines	<u>\$ 3,565,020</u>	<u>4,526,901</u>
Annual interest rates	<u>0.93%~4.79%</u>	<u>0.96%~4.37%</u>

(i) Issuance and repayment of borrowings

The Group's additional amounts in loans from January 1 to December 31, 2017 and 2016 were \$32,187,056 and \$30,260,752, respectively, and the maturities were from January to June 2018 and 2017, respectively. The repayments were \$32,237,982 and \$28,162,911, respectively, in 2018 and 2017.

(ii) For information on the Group's interest risk, foreign currency risk and liquidity risk. Please see note (6)(o).

(g) Convertible bonds payable

(i) Non-guaranteed convertible bonds were as follows:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Aggregate principal amount	\$ 200,000	200,000
Bond discount	(7,840)	(12,478)
Cumulative redeemed amount	<u>-</u>	<u>-</u>
	192,160	187,522
Less: Convertible bonds payable – could be repaid within one year	<u>192,160</u>	<u>-</u>
Bonds payable at end of period	<u>\$ -</u>	<u>187,522</u>
Embedded derivative – call and put options	<u>\$ 180</u>	<u>3,300</u>
Equity component – conversion options (included in capital surplus – redemption rights)	<u>\$ 8,115</u>	<u>8,115</u>

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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The effective interest rates of the forth convertible bonds was 2.47%. The annual interest expenses on convertible bonds payable December 31, 2017 and 2016 were \$4,637 and \$1,655, respectively.

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

	The Forth
The compound interest present value of the convertible bonds' face value at issuance	\$ 189,660
The embedded derivative debt at issuance – put option	2,060
The equity components at issuance	8,280
The total amount of the convertible bonds at issuance	\$ 200,000

The equity components were accounted for as capital surplus – redemption rights. In accordance with IFRSs, the face value of the forth domestic unsecured convertible bonds was allocated at \$165 to the capital surplus – redemption rights. At year-end, the Company revaluated the embedded derivative debt to its fair value and accounted it as financial liabilities measured at fair value through profit or loss – current and financial liabilities measured at fair value through profit or loss – noncurrent for the years ended December 31, 2017 and 2016, respectively. The gain or loss resulting from the changes in fair value of embedded derivative liabilities were the gains of \$3,120 and \$1,240 for the years ended December 31, 2017 and 2016, respectively.

- (iii) The significant terms of the forth convertible bonds were as follows:
- 1) Duration: three years (August 22, 2016 to August 22, 2019)
 - 2) Interest rate: 0%
 - 3) Redemption at the option of the Company: The Company may redeem the bonds under the following circumstances:
 - a) Within the period between one month after the issuance date and 40 days before the last convertible date, the Company may redeem the bonds at their principal amount if the closing price of the Company's common stock on the Taiwan Stock Exchange for a period of 30 consecutive trading days has been 30% more than the conversion price in effect on each such trading day.
 - b) If at least 90% of the principal amount of the bonds has been converted, redeemed, or purchased and cancelled, the Company may redeem the bonds at their principal amount within the period between one month after the issuance date and 40 days before the last convertible date.

(Continued)

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

4) Redemption at the option of the bondholders:

The bondholders have the right to request the Company to repurchase the bonds at a price equal to the face value, plus, an accrued premium two years after the issuance date. The annual interest rate for the redemption, two years after the issuance date, is 1.1%.

5) Terms of conversion:

a) Bondholders may opt to have the bonds converted into the common stock of the Company from September 23, 2016 to August 22, 2019.

b) Conversion price: After the adjustment for issuance of common stock for cash on September 19, 2016, the conversion price of common stock was adjusted from NT\$18.66 to NT\$18.29 (dollars) per share. After adjusting the distributions on retained earnings in 2016, the price of conversion amounted to NT\$17.18 (dollars) on or after July 19, 2017.

(iv) As the fourth convertible bonds have issued for two years, the creditors may request a buy back. Therefore, based on the conservative principles, the full fourth conversion of convertible bonds are recognized as current liabilities since August 22, 2017. However, it does not indicate that the Company would repay all the liabilities in the next year.

(h) Operating lease

(i) The Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than one year	\$ 122,884	144,737
Between one and five years	<u>79,956</u>	<u>165,310</u>
	<u>\$ 202,840</u>	<u>310,047</u>

The Group leases a number of offices under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in a local price index.

The rentals recognized in loss amounted to \$156,341 and 138,132 in 2017 and 2016, respectively.

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

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

(ii) The Group as lessor

The Group leased out a few office buildings to third parties under operating lease. The future minimum lease receivables under non-cancellable leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than one year	\$ 5,503	5,175
Between two and five years	<u>7,781</u>	<u>12,352</u>
	<u><u>\$ 13,284</u></u>	<u><u>17,527</u></u>

For the years ended December 31, 2017 and 2016, expenses recognized in profit or loss under operating leases are \$4,274 and \$4,232, respectively.

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

(i) Employee benefits

(i) Defined benefit plans

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	\$ 236,403	251,153
Fair value of plan assets	<u>(92,070)</u>	<u>(94,893)</u>
Net defined liabilities (assets)	<u><u>\$ 144,333</u></u>	<u><u>156,260</u></u>

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

1) Composition of plan assets

The Company allocates pension funds in accordance with the Bureau of Labor Funds, Ministry of Labor, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$92,070 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

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

	<u>2017</u>	<u>2016</u>
Defined benefit obligation at January 1	\$ 251,153	234,927
Current service costs and interest	5,482	6,645
Remeasurement of the net defined benefit liability (assets)	(9,579)	9,581
Benefits paid by the plan	<u>(10,653)</u>	<u>-</u>
Defined benefit obligation at December 31	<u>\$ 236,403</u>	<u>251,153</u>

3) Movements of defined benefit plan assets

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

	<u>2017</u>	<u>2016</u>
Fair value of plan assets at 1 January	\$ 94,893	87,379
Contributions made	6,912	6,872
Benefits paid by the plan	(10,653)	-
Expected return on plan assets	1,308	1,641
Remeasurement of the net defined benefit liability (assets)	<u>(390)</u>	<u>(999)</u>
Fair value of plan assets at 31 December	<u>\$ 92,070</u>	<u>94,893</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 2,073	2,299
Net interest on net defined benefit liability (assets)	3,409	4,346
Expected return on plan assets	<u>(1,308)</u>	<u>(1,641)</u>
	<u>\$ 4,174</u>	<u>5,004</u>

(Continued)

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

	<u>2017</u>	<u>2016</u>
Selling expenses	\$ 2,782	3,400
Administrative expenses	<u>1,392</u>	<u>1,604</u>
	<u>\$ 4,174</u>	<u>5,004</u>

- 5) Remeasurement in net defined benefit liability (asset) recognized in other comprehensive income

The Company's remeasurement in net defined benefit liability (assets) recognized in other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Accumulated amount at 1 January	\$ 21,405	10,825
Recognized during the period	<u>(9,189)</u>	<u>10,580</u>
Accumulated amount on 31 December	<u>\$ 12,216</u>	<u>21,405</u>

- 6) Actuarial assumptions

The following are the Company's principal actuarial assumptions:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	1.625 %	1.375 %
Future salary increases	3.000 %	3.000 %

The expected allocation payment made by the Company to the defined benefit plans for the one year period after the reporting date is \$7,077.

The weighted-average duration of the defined benefit obligation is 16.30 years.

- 7) Sensitivity analysis

As of December 31, 2017 and 2016, if the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	<u>Influences defined benefit obligation</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2017		
Discount Rate	(6,605)	6,885
Future salary increases	6,663	(6,432)

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Influences defined benefit obligation	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2016		
Discount Rate	(7,422)	7,737
Future salary increases	7,480	(7,218)

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 2017 and 2016.

(ii) Defined contribution plans

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

The Company and WTC recognized the pension costs under the defined contribution method amounting to \$18,990 and \$18,462 for the years ended December 31, 2017 and 2016, respectively. Payment was made to the Bureau of Labor Insurance.

Other subsidiaries recognized the pension expense, basic endowment insurance expense, and social welfare expenses amounting to \$50,821 and \$46,413 December 31, 2017 and 2016, respectively.

(j) Income taxes

(i) Income tax expenses

- 1) The amount of income tax for the years ended December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Current tax expense		
Current period	\$ 133,695	79,969
10% surtax on unappropriated earnings	-	3
Adjustment for prior periods	<u>7,154</u>	<u>182</u>
	<u>140,849</u>	<u>80,154</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>55,391</u>	<u>268</u>
Income tax expense	<u><u>\$ 196,240</u></u>	<u><u>80,422</u></u>

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

- 2) The amount of income tax recognized in other comprehensive income for 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Items that will not be reclassified to profit or loss:		
Remeasurement of the defined benefit plans	\$ <u>1,563</u>	<u>(1,799)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign financial statements	\$ <u>(34,668)</u>	<u>(15,802)</u>

- 3) Reconciliation of income tax and profit before tax for 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Profit before tax	\$ <u>827,500</u>	<u>471,135</u>
Income tax using the Company's domestic tax rate	221,657	73,929
Non-deductible expenses	2,203	992
Net investment income and tax-exempt income	(1,082)	(1,415)
Change in unrecognised temporary differences	(13,906)	(4,503)
Current-year losses for which no deferred tax assets was recognized	(1,578)	395
Under (Over) provision in prior periods	7,154	182
Other	<u>(18,208)</u>	<u>10,842</u>
	<u>\$ 196,240</u>	<u>80,422</u>

(ii) Deferred tax assets and liabilities

- 1) Unrecognized deferred tax assets

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Tax effect of deductible temporary differences	\$ 30,037	45,924
Tax effect of loss carryforward	-	1,578
	<u>\$ 30,037</u>	<u>47,502</u>

The Group assessed that the deductible temporary differences which can be offsetted with the taxable income are not probable to be utilized, therefore, no deferred tax assets were recognized.

The Singapore Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against the taxable income. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which WTP can utilize the benefits therefrom.

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

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2017 and 2016 were as follows:

	Defined Benefit Plans	Exchange differences on translation	Bad debt expense over the tax limitation	Loss on valuation of inventory	Allowance for sales discount	Others	Total
Deferred tax assets:							
Balance at January 1, 2017	\$ 3,640	-	5,085	11,019	20,165	27,770	67,679
Recognized in profit or loss	-	-	5,222	1,330	(651)	327	6,228
Recognized in other comprehensive income	(1,563)	28,303	-	-	-	-	26,740
Balance at December 31, 2017	<u>\$ 2,077</u>	<u>28,303</u>	<u>10,307</u>	<u>12,349</u>	<u>19,514</u>	<u>28,097</u>	<u>100,647</u>
Balance at January 1, 2016	1,841	-	11,280	11,077	17,864	16,452	58,514
Recognized in profit or loss	-	-	(6,195)	(58)	2,301	11,318	7,366
Recognized in other comprehensive income	1,799	-	-	-	-	-	1,799
Balance at December 31, 2016	<u>\$ 3,640</u>	<u>-</u>	<u>5,085</u>	<u>11,019</u>	<u>20,165</u>	<u>27,770</u>	<u>67,679</u>
		Temporary difference from subsidiary investment	Exchange differences on translation	Others	Total		
Deferred tax liabilities:							
Balance at January 1, 2017	\$	172,210	6,365	11,488	190,063		
Recognized in profit or loss		59,464	-	2,155	61,619		
Recognized in other comprehensive income		-	(6,365)	-	(6,365)		
Effect of exchange rate		-	-	-	-		
Balance at December 31, 2017	<u>\$</u>	<u>231,674</u>	<u>-</u>	<u>13,643</u>	<u>245,317</u>		
Balance at January 1, 2016	\$	168,107	22,167	7,973	198,247		
Recognized in profit or loss		4,103	-	3,531	7,634		
Recognized in other comprehensive income		-	(15,802)	-	(15,802)		
Effect of exchange rate		-	-	(16)	(16)		
Balance at December 31, 2016	<u>\$</u>	<u>172,210</u>	<u>6,365</u>	<u>11,488</u>	<u>190,063</u>		

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (iii) The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against the taxable income in the following ten years. WTC's estimated tax losses which could be used to offset the future taxable income are summarized as follows:

<u>Year of loss</u>	<u>Amount of loss</u>	<u>Deductible amount</u>	<u>Expiry year</u>	<u>Note</u>
2010	\$ 885	863	2020	Assessed
2011	1,902	1,902	2021	Assessed
2012	931	931	2022	Assessed
2013	559	559	2023	Assessed
2014	513	513	2024	Assessed
2015	481	481	2025	Assessed
2016	488	488	2026	Assessed
	<u>\$ 5,759</u>	<u>5,737</u>		

- (iv) The tax authority has examined the income tax returns of the Company and WTC through 2015 and 2016, respectively.
- (v) Information related to the Company's unappropriated earnings and tax deduction ratio was summarized below:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unappropriated earnings retained of 1998 and after	(note)	\$ <u>381,932</u>
Balance of imputation credit account	(note)	\$ <u>50,085</u>
	<u>2017(expected)</u>	<u>2016(actual)</u>
Creditable ratio for earnings distribution to R.O.C residents	(note)	<u>18.46 %</u>

The above stated information was prepared in accordance with the information letter No. 10204562810 announced by the Ministry of Finance of R.O.C. on October 17, 2013.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

- (k) Capital and other equities

As of December 31, 2017 and 2016, the total value of nominal ordinary shares amounted to \$3,500,000; with a par value of \$10 per share, totalling 350,000 thousand ordinary shares; of which, 323,009 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(i) Common stock

On June 27, 2016, the Company's board of directors resolved to issue the common stock for cash of 40,000 thousand ordinary shares at \$15 dollars per share, including 15% of total newly issuance for the exercise of employee share options, with \$10 dollars par value per share, amounting to \$600,000 in total. The related registration procedures were completed.

The fair value of the employee share options stated above as issued common stock for cash, was determined on a given date, and the payroll cost of \$17,043 was recognized in 2016.

(ii) Capital surplus

Balance on capital surplus of the Group were as follows:

	December 31, 2017	December 31, 2016
Additional paid in capital	\$ 882,454	882,454
Treasury share transactions	37,617	37,617
Donation from shareholders	712	712
Convertible bonds– redemption rights	8,115	8,115
Other	253	253
	<u>\$ 929,151</u>	<u>929,151</u>

In accordance with the Company Act, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount. Capital increase by transferring paid-in capital in excess of par value can only commence in the following year.

(iii) Retained earnings

The Company's article of incorporation stipulate that Company's earnings, net of remuneration to employees, directors and supervisors, should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit, together with any undistributed retained earnings, shall be distributed according to the distribution plan proposed by the Board of Directors to be submitted during the stockholders' meeting for approval. Before the distribution of dividends, the Company shall first take into consideration its operating environment, industry developments, and the long-term interests of stockholders, as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in determining the stock or cash dividends to be paid. After the above appropriations, current and prior-period earnings that remain undistributed will be proposed for distribution by the board of directors, and a meeting of shareholders will be held to decide on this matter. The total distribution shall not be less than 50% of the current earnings, and the cash dividends shall not be more than 20% of the total dividends.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Legal reverse

According to the Company's articles, 10% of net income should be set aside as statutory earnings reserve until it is equal to share capital. When a company incurs no loss, it may, in pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares and distributing stock dividends or distributing cash to shareholders. Only the portion of the legal reserve which exceeds 25% of the paid-in capital may be distributed.

2) Earnings distribution

The Company's earnings distribution for 2016 and 2015 were decided via a general meeting of the shareholders held on June 15, 2017 and June 17, 2016, respectively. The relevant information was as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Total</u>	<u>Amount</u>	<u>Total</u>
	<u>per share</u>	<u>amount</u>	<u>per share</u>	<u>amount</u>
Cash dividends distributed to ordinary shareholders	\$ 1.06	<u>343,739</u>	1.50	<u>423,390</u>
(l) Earnings per share				
(i) Basic earnings per share				

The calculation of basic earnings per share at December 31, 2017 and 2016 was based on the profit attributable to ordinary shareholders of the Company of \$631,260 and \$390,713, respectively, and the weighted average number of ordinary shares outstanding of 323,009 and 294,376 shares, respectively, calculated as follows:

1) Profit attributable to ordinary shareholders of the Company

	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary shareholders of the Company	\$ <u>631,260</u>	<u>390,713</u>

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

	<u>2017</u>	<u>2016</u>
Weighted-average number of ordinary share	<u>323,009</u>	<u>294,376</u>

	<u>2017</u>	<u>2016</u>
3) Basic earnings per share (TWD)	\$ <u>1.95</u>	<u>1.33</u>

(ii) Diluted earnings per share

The calculation of diluted earnings per share on 31 December 31, 2017 and 2016 was based on profit attributable to ordinary shareholders of the Company, and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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1) Profit attributable to ordinary shareholders of the Company (diluted)

	2017	2016
Profit attributable to ordinary shareholders of the Company (basic)	\$ 631,260	390,713
Convertible bonds payable	1,517	2,896
Profit attributable to ordinary shareholders of the Company (diluted)	\$ 632,777	393,609

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

	2017	2016
Weighted-average number of ordinary shares (basic)	323,009	294,376
Effect of convertible bonds	11,641	2,988
Effect of employee remuneration	4,094	2,980
Weighted-average number of ordinary shares (diluted) on December 31	338,744	300,344

3) Diluted earnings per share (TWD)

	2017	2016
	\$ 1.87	1.31

(m) Revenue

Revenue of the Group in 2017 and 2016 were as follows:

	2017	2016
Chipset/ memory components	\$ 26,574,978	22,600,009
Assorted and other components	25,353,377	21,138,635
Service revenue	1,053	3,013
	\$ 51,929,408	43,741,657

(n) Employees compensation and directors' and supervisors' remuneration

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

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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The accrued remuneration of the Company's employees were \$68,933 and \$40,680; as well as directors and supervisors were \$17,233 and \$10,170, for the years ended December 31, 2017 and 2016, respectively. These amounts are calculated by using the Company's pre-tax net profit for the period before deducting the amount of the remuneration to employees and directors, multiplied by the distribution ratio of remuneration to employees and directors under the Company's articles of association, and expensed under operating expenses. There were no differences between the actual amounts and the accrued amounts in the consolidated financial statements in 2017 and 2016. The related information can be accessed from Market Observation Post System website.

(o) 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) Disclosures of the concentration of credit risk

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

(ii) Liquidity risk

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

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>6-12 months</u>	<u>1 ~ 2 years</u>	<u>2 ~ 5 years</u>
December 31, 2017						
Non-derivative financial liabilities						
Unsecured loans	\$ 8,653,235	(8,653,235)	(8,653,235)	-	-	-
Short-term notes and bill payable, net	469,420	(470,000)	(470,000)	-	-	-
Accounts payable	5,072,987	(5,072,987)	(5,072,987)	-	-	-
Other payables	313,072	(313,072)	(313,072)	-	-	-
Bonds payable	192,160	(200,000)	-	(200,000)	-	-
Derivative financial liabilities						
Financial liabilities measured at fair value for profit or loss:						
Embedded derivative convertible bonds	180	-	-	-	-	-
Forward exchange contracts:						
Outflow	-	(360,408)	(360,408)	-	-	-
Inflow	-	355,684	355,684	-	-	-
	<u>\$ 14,705,778</u>	<u>(14,714,018)</u>	<u>(14,514,018)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>6-12 months</u>	<u>1 ~ 2 years</u>	<u>2 ~ 5 years</u>
December 31, 2016						
Non-derivative financial liabilities						
Unsecured loans	\$ 8,704,113	(8,704,113)	(8,704,113)	-	-	-
Short-term notes and bill payable, net	469,468	(470,000)	(470,000)	-	-	-
Accounts payable	4,431,478	(4,431,478)	(4,431,478)	-	-	-
Other payables	204,614	(204,614)	(204,614)	-	-	-
Bonds payable	187,522	(200,000)	-	-	-	(200,000)
Derivative financial liabilities						
Financial liabilities at fair value through profit or loss:						
Convertible bonds payable embedded derivatives	3,300	-	-	-	-	-
	<u>\$ 14,000,495</u>	<u>(14,010,205)</u>	<u>(13,810,205)</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

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

	<u>December 31, 2017</u>			<u>December 31, 2016</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
Financial assets						
Monetary items						
USD	\$ 198,823	USD/TWD 29.76	5,916,962	189,064	USD/TWD 32.25	6,097,315
	951	USD/CNY 6.5192	28,310	6,320	USD/CNY 6.8592	203,806
Financial liabilities						
Monetary items						
USD	196,771	USD/TWD 29.76	5,855,891	145,282	USD/TWD 32.25	4,685,350
	33,698	USD/CNY 6.5192	1,002,853	33,835	USD/CNY 6.8592	1,091,169

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Currency risk sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and account receivables, other receivables, loans and borrowings, notes and accounts payables and other payables that are denominated in foreign currency. A change of 5% in the exchange rate of TWD or CNY against foreign currency as of December 31, 2017 and 2016 would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
USD (against the TWD)		
Strengthening 5%	\$ 3,054	70,598
Weakening 5%	(3,054)	(70,598)
USD (against the CNY)		
Strengthening 5%	(48,727)	(44,368)
Weakening 5%	48,727	44,368

3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2017 and 2016, the foreign exchange gain (loss), including both realized and unrealized, amounted to \$170,218 and \$10,501, respectively.

(iv) 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,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Variable rate instruments:		
Financial assets	\$ 1,222,836	1,852,607
Financial liabilities	(8,653,235)	(8,704,113)

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

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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If the interest rate had increased or decreased by 0.25%, the net profit before tax would have decreased or increased by \$18,576 and \$17,129 for the years ended December 31, 2017 and 2016, respectively, which would be mainly resulting from demand deposits, and Unsecured loans with variable interest rates.

(v) Fair value

1) The kinds of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss, derivative financial instruments used for hedging, and available-for sale financial assets is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

	December 31, 2017				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Stock listed on domestic markets	\$ 500	500	-	-	500
Subtotal	<u>500</u>				
Available-for sale financial assets					
Emerging market stock	1,890	1,890	-	-	1,890
Financial asset carried at cost – noncurrent	<u>56,814</u>	-	-	-	-
Subtotal	<u>58,704</u>				
Loans and receivables					
Cash and cash equivalents	1,740,291	-	-	-	-
Notes and accounts receivable	7,997,061	-	-	-	-
Other receivables	345,994	-	-	-	-
Refundable dosits	<u>70,831</u>	-	-	-	-
Subtotal	<u>10,154,177</u>				
Total	<u>\$ 10,213,381</u>				
Financial liabilities at fair value through profit or loss					
Convertible bonds payable – debt components	\$ (180)	-	(180)	-	(180)
Derivative instruments not used for hedging	<u>(4,724)</u>	-	(4,724)	-	(4,724)
Subtotal	<u>(4,904)</u>				

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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		December 31, 2017			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	\$ (9,122,655)	-	-	-	-
Accounts payable	(5,072,987)	-	-	-	-
Other payables	(313,072)	-	-	-	-
Convertible bonds payable	<u>(192,160)</u>	-	-	-	-
Subtotal	<u>(14,700,874)</u>				
Total	<u>\$ (14,705,778)</u>				
		December 31, 2016			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Open-end mutual funds	\$ 50,789	50,789	-	-	50,789
Stock listed on domestic markets	<u>891</u>	891	-	-	891
Subtotal	<u>51,680</u>				
Available-for-sale financial assets					
Emerging market stock	2,386	2,386	-	-	2,386
Financial asset carried at cost – noncurrent	<u>67,379</u>	-	-	-	-
Subtotal	<u>69,765</u>				
Loans and receivables					
Cash and cash equivalents	2,430,722	-	-	-	-
Notes and accounts receivable	8,231,316	-	-	-	-
Other receivables	327,332	-	-	-	-
Refundable deposits	<u>70,283</u>	-	-	-	-
Subtotal	<u>11,059,653</u>				
Total	<u>\$ 11,181,098</u>				
Financial liabilities at fair value through profit or loss					
Convertible bonds payable – debt components	\$ <u>(3,300)</u>	-	(3,300)	-	(3,300)
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	(9,173,581)	-	-	-	-
Accounts payable	(4,431,478)	-	-	-	-
Other payables	(204,614)	-	-	-	-
Convertible bonds payable current portion	<u>(187,522)</u>	-	-	-	-
Subtotal	<u>(13,997,195)</u>				
Total	<u>\$ (14,000,495)</u>				

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

There were no transfers from one level to another in 2017 and 2016.

2) Fair valuation technique of financial instruments measured at fair value

a) Non-derivative financial instruments

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

b) Derivative financial instruments

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

(p) Financial risk management

(i) Briefings

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

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

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

(ii) Structure of risk management

The Group's finance department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations. The Group minimizes the risk exposure through derivative financial instruments. The board of directors regulated the use of derivative and non-derivative financial instruments in accordance with the Group's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investments of excess liquidity. The internal auditors of the Group continue with the review of the amount of the risk exposure in accordance with the Group's policies and the risk management policies and procedures. The Group has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

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

(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) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically.

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

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

2) Investments

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

(iv) Liquidity risk

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

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.

Borrowings from the banks and accounts receivable are important sources of liquidity for the Group. Please refer to note (6)(c) and note (6)(f) for unused short-term bank facilities and factoring amount as of December 31, 2017 and 2016.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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 optimising 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 functional currencies of the Group, primarily the USD, CNY and HKD.

As for other monetary assets and liabilities denominated in other foreign currencies, when a short-term imbalance takes place, the Group buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

2) Interest rate risk

As the US. economy improves and the Federal Reserve ("Fed") continues to tighten its capital, Fed is highly likely to increase its interest rate, although the current interest rate is kept at a lower rate. As the Group's debt-based instruments are based on USD, the Group's capital cost will result in an increase when there is an increase in the US dollar interest rate. The New Taiwan Dollar interest rate trend will remain low in the near future, therefore, the future operating strategy determined by the management will take into consideration the cost of capital in adjusting the proportion of the borrowings in TWD in order to reduce the average cost of capital of its borrowings in the future.

3) Other price risk

The management of the Group monitors the listed or OTC share investments and open-end mutual funds based on the market indices

(q) Capital management

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

The Group monitors the capital structure by way of periodical review on the liability ratio. As of December 31, 2017 and 2016 the liability ratios were as follows:

	December 31, 2017	December 31, 2016
Total liabilities	\$ 15,707,610	14,726,160
Total assets	21,101,807	19,994,966
Liability ratio	74 %	74 %

As of 2017, there were no changes in the Group's approach to capital management.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(7) Related-party transactions:

(a) Related-party and relationship

Related-party transactions with the Group during the period covered in the consolidated financial report were as follows:

<u>Related-party</u>	<u>Relationship</u>
Wellmark Investment Co., Ltd.	The same chairman
Yang Sheng Education Foundation	The same chairman
Genlog Industrial Co., Ltd.	The chairman is the key management personnel of the company

(b) Other related party transactions

(i) Sale of goods to related parties

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

	<u>2017</u>	<u>2016</u>
Other related parties	\$ <u>42</u>	<u>14</u>

There were no significant differences in terms of collection and pricing on sales to related parties and other customers. The collection period was approximately 30 to 60 days after the sales date.

(ii) Processing fee and consultancy fees from related Parties

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

	<u>2017</u>	<u>2016</u>
Other related parties	\$ <u>10,671</u>	<u>7,807</u>

(iii) Leased

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

	<u>2017</u>	<u>2016</u>
Other related parties	\$ <u>1,306</u>	<u>1,306</u>

(iv) Receivable due from relate parties

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other receivables	Other related part	\$ <u>10</u>	<u>10</u>

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

(v) Payable to related parties

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other payables	Other related parties	\$ <u>1,089</u>	<u>487</u>

(c) Key management personnel compensation

Key management personnel compensation comprised:

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 172,526	116,319
Post-employment benefits	899	914
Share-based payment transactions	-	4,304
	<u>\$ 173,425</u>	<u>121,537</u>

(i) The Group has no termination benefits and other long-term benefits.

(ii) Please refer to note (6)(k) for further explanations related to share-based payment transactions.

(8) Pledged assets:None

(9) Commitments and contingencies:

The detail of commitments and contingencies were as follows:

(a) As of December 31, 2017 and 2016 the balance of L/Cs for customs and value added tax and the purchase of merchandise were as follows:

<u>December 31, 2017</u>	<u>December 31, 2016</u>
<u>\$ 314,600</u>	<u>344,500</u>

(b) Please refer to note (6)(h) for the future rental payables calculated based on the office and plant operating lease agreements signed by the Group.

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, it will increase the Group's current tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by \$17,761 and \$43,150, respectively.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(12) Other:

- (a) A followings are the summary statement of current period employee benefits, depreciation and amortization expenses by function:

By item	For the years ended December 31	
	By function	
	2017	2016
	Operating expense	Operating expense
Employee benefits		
Salary	\$ 1,049,639	931,725
Labor and health insurance	77,026	73,858
Pension	73,985	69,879
Others	44,464	38,944
Depreciation	16,254	19,239
Amortization	5,577	6,743

(13) Disclosures:

- (a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group in 2017:

- (i) Loans to other parties: None
(ii) Guarantees and endorsements for other parties:

(in thousands of new taiwan dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary (note 2)	Subsidiary endorsements/ guarantees to third parties on behalf of parent company (note 2)	Endorsements/ guarantees to third parties on behalf of companies in Mainland China (note 2)
		Name	Relationship with the Company										
0	The Company	WKI	100% owned subsidiary	8,091,296	6,235,415	5,219,240	3,847,340	-	96.8 %	16,182,591	Y	-	-
"	"	WTP	100% owned subsidiary	8,091,296	451,350	386,880	233,667	-	7.2 %	16,182,591	Y	-	-
"	"	WKS	100% owned subsidiary	8,091,296	1,883,634	1,232,118	377,179	-	22.8 %	16,182,591	Y	-	Y

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

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

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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- (iii) Securities held as of December 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company	Open-end mutual funds:									
"	Securities of listed companies EBK Technologies Inc.	-	Financial assets measured at fair value through profit or loss-current	34	500	-	500	34	-	
"	Feature Integration Technology Inc.	-	Available-for-sale financial assets - non current	175	1,718	0.53	1,718	175	0.53	
"	Clientron Corp.	-	"	18	172	0.02	172	18	0.02	
					1,890		1,890			
"	Paradigm I Venture Capital Company (Paradigm I)	-	Financial assets carried at cost - non current	750	9,437	6.79	-	750	6.79	
"	Paradigm Venture Capital Corporation(PVC Corp.)	-	"	301	3,527	10.49	-	383	10.49	
"	InnoBridge Venture Fund I.L.P. (InnoBridge)	-	"	-	15,150	9.90	-	-	9.90	
"	Shin Kong Global Venture Capital Corp.	-	"	3,000	18,000	12.00	-	3,000	12.00	
"	Vision Wide Technology Co., Ltd.(VTEC)	-	"	800	10,700	1.97	-	800	1.97	
					56,814					

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

Name of company	Related party	Nature of relationship	Transaction details			Transactions with terms different from others		Notes/Accounts receivable (payable)		Note	
			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	WKI	100%owned subsidiary	Purchases	413,711 (USD13,529)	2 %	OA30	According to cost-plus pricing	-	(1,904) (USD(64))	- %	Note
"	"	"	Sales	(717,935) (USD(23,672))	(3) %	"	"	-	68,178 (USD2,291)	2 %	"
WKI	The Company	Parent company	Sales	(413,711) (USD(13,529))	(2) %	"	"	-	1,904 (USD64)	- %	"
"	"	"	Purchases	77,935 (USD23,672)	3 %	"	"	-	(68,178) (USD(2,291))	(3) %	"
"	WKS	Subsidiary	Sales	(2,500,581) (USD(82,159))	(11) %	OA60	"	-	1,009,671 (USD33,928)	28 %	"
WKS	WKI	Parent company	Purchases	2,500,581 (USD82,159)	53 %	"	"	-	(1,009,671) (USD(33,928))	(71) %	"

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

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts	Note
					Amount	Action taken			
WKI	WKS	Subsidiary	1,009,671 (USD33,928)	2.34	-	-	USD 16,328	-	The transactions have been eliminated in the consolidated financial statement

Note: Information as of March 20, 2018.

- (ix) Trading in derivative instruments: Please refer to notes (6)(b).
(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
				Account name	Amount	Trading terms	
0	The Company	WKI	1	Sales Revenue	717,935	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	1.38%
"	"	"	"	Accounts Receivable	68,178	"	0.32%
"	"	"	"	Management and Trusted Service Revenue	216,303	The price is set by percentage of the contract and is received quarterly.	0.42%
"	"	"	"	Other Receivables	56,529	"	0.27%
"	"	WKS	"	Sales Revenue	15,316	The price is marked up based on operating cost, OA60.	0.03%
"	"	"	"	Accounts Receivable	2,464	"	0.01%
"	"	WTP	"	Sales Revenue	80,666	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.16%
"	"	"	"	Accounts Receivable	14,415	"	0.07%
1	WKI	The Company	2	Sales Revenue	413,711	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.80%

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
1	WKI	The Company	2	Accounts Receivable	1,904	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.01%
"	"	WKS	3	Sales Revenue	2,500,581	The price is marked up based on operating cost, and the receivables depend on funding demand and OA60.	4.82%
"	"	"	"	Accounts Receivable	1,009,671	"	4.78%
3	WKS	WKI	"	Service Revenue	211,320	The price is set by percentage of the contract, OA30.	0.41%
"	"	"	"	Accounts Receivable	5,951	"	0.03%

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, 2017 (excluding information on investees in Mainland China):

(in thousands of foreign currency)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Highest			The highest holdings in the period		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2017	December 31, 2016	Shares (In Thousands)	Percentage of Ownership	Carrying Value	Shares (In Thousands)	Percentage of Ownership			
The Company	WKI	HongKong	Electronic components computer peripherals products	\$ 620,205	373,011	287,000	100%	2,903,506	287,000	100%	340,063	340,063	Subsidiary
"	WTC	Taipei	distribution and technical support	12,983	78,335	1,589	100%	27,104	9,589	100%	(686)	(686)	"
"	WTP	Singapore	Electronic components and technical support	215,564	140,189	8,956	100%	254,645	8,956	100%	9,717	9,717	"
	Total			<u>848,752</u>	<u>591,535</u>			<u>3,185,255</u>				<u>349,094</u>	
WKI	Weitech	HongKong	Import and export trade of electronic components	0.41 (HKD0.1)	0.41 (HKD0.1)	-	100%	1,392 (USD47)	-	100%	254 (USD8)	254 (USD8)	Subsidiary's subsidiary

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

(c) Information on investment in mainland China:

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

(in thousands of foreign currency)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017	Net income (losses) of the investee (Note 2)	Percentage of ownership	Highest balance during the year		Investment income (losses) (Note 2)	Book value	Accumulated remittance of earnings in current period
					Outflow (Note 3)	Inflow				Shares/Units	Highest Percentage of ownership			
WKS	Electronic components computer peripherals products distribution and technical support	786,647 (USD25,000)	Note 1 - 4	304,594 (USD9,800)	-	-	304,594 (USD9,800)	93,276 (USD3,065) (Note 2)	100%	-	100 %	93,276 (USD3,065) (Note 2)	676,322 (USD22,726)	-
WKE	Electronic technology development and technical advisory	5,067 (RMB1,000)	Note 1 - 5	-	-	-	-	(393) (USD(13))	100%	-	100 %	(393) (USD(13))	5,040 (USD169)	-

- (ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA (note 3)	Upper Limit on Investment
304,594 (USD9,800)	744,000 (USD25,000)	3,236,518

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

Note 2: The investment gains and losses of the current period are recognized according to the financial statements, which have been audited and certified by the Company's independent auditors, and were translated into New Taiwan Dollars at the average exchange rates in 2017.

Note 3: The currency were translated into New Taiwan Dollars at the exchange rates at the reporting date, December 31, 2017.

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

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

- (iii) Significant transactions:

Please refer to Information on significant transactions for the information on significant direct or indirect transactions between the Group and the investee companies in Mainland China in 2017.

(14) Segment information:

- (a) The Group has two reportable segments: the electronic components segment and the peripheral equipment segment. The electronic components segment engages in the sale of electronic components. The peripheral equipment segment engages in the sale of computer peripheral equipment.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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The Group's reportable segments are the strategic business units that offer different products. They are managed separately because each business requires different marketing strategies. Most of the business were acquired as individual units, and the management was retained at the time of the acquisition.

- (b) The Group does not allocate tax expense or non-recurring gains and losses to reportable segments. Besides, all gains and losses of reportable segments do not include the general administrative expenses such as salaries that cannot be directly attributed to the reportable segments. The amounts of operating segment information are the same as the amounts in the reports used by the chief operating decision maker.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies as stated in note (4). The intersegment sales and transfers that are accounted for by the "Group" are regarded the same as the sales and transfers were being transacted by the 3rd parties, i.e. at current market price.

The details and reconciliations of operating segments were as follows:

	For the year ended December 31, 2017			
	Electronic components segment	Peripheral equipment segment	Adjustment & elimination	Total
Revenue				
Revenue from external customers	\$ 48,894,758	3,034,650	-	51,929,408
Intersegment revenues	-	-	-	-
Total revenue	<u>\$ 48,894,758</u>	<u>3,034,650</u>	<u>-</u>	<u>51,929,408</u>
Reportable segment profit	<u>\$ 1,313,742</u>	<u>62,815</u>	<u>-</u>	1,376,557
Generally administrative expense				(464,145)
Operating income				<u>\$ 912,412</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
	For the year ended December 31, 2016			
	Electronic components segment	Peripheral equipment segment	Adjustment & elimination	Total
Revenue				
Revenue from external customers	\$ 41,330,211	2,411,446	-	43,741,657
Intersegment revenues	-	-	-	-
Total revenue	<u>\$ 41,330,211</u>	<u>2,411,446</u>	<u>-</u>	<u>43,741,657</u>
Reportable segment profit	<u>\$ 1,006,381</u>	<u>67,021</u>	<u>-</u>	1,073,402
Generally administrative expense				(448,398)
Operating income				<u>\$ 625,004</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(c) Product and service information

The Group operates in a single industry, the main industry for the trading of electronic components and computer peripheral products.

(d) Geographic information

Stated below are the geographic information on the Group's sales presented by destination of customer and non-current assets presented by location.

Revenue from external customers:

Area	<u>2017</u>	<u>2016</u>
Taiwan	\$ 3,767,497	3,185,009
China	45,977,105	38,911,345
Others	<u>2,184,806</u>	<u>1,645,303</u>
Total	<u>\$ 51,929,408</u>	<u>43,741,657</u>

Non-current Assets:

Area	<u>2017</u>	<u>2016</u>
Taiwan	\$ 153,722	151,062
China	79,844	83,503
Singapore	<u>2,273</u>	<u>2,843</u>
Total	<u>\$ 235,839</u>	<u>237,408</u>

Non-current assets include property, plant and equipment, intangible assets, and other assets, not including deferred tax assets and pension fund assets.

(e) Information about major customers

There were no individual customers who accounted for over 10% of consolidated net sales in 2017 and 2016.