

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

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

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Six Months Ended June 30, 2018 and 2017**

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

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of the Weikeng Industrial Co., Ltd. (the "Company") and its subsidiaries (together referred to as the "Group") as of June 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2018 and 2017, as well as the changes in equity and cash flows for the six months ended June 30, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2018 and 2017, and of its consolidated financial performance for the three months and six months ended June 30, 2018 and 2017, as well as its consolidated cash flows for the six months ended June 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.



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

KPMG

Taipei, Taiwan (Republic of China)
August 10, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of June 30, 2018 and 2017

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018, December 31, and June 30, 2017

(Expressed in Thousands of New Taiwan Dollars)

	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note (6)(a))	\$ 2,347,428	9	1,740,291	8	2,445,075	11
1110 Financial assets at fair value through profit or loss - current (note (6)(b))	14,008	-	500	-	1,371	-
1170 Notes and accounts receivable, net (note (6)(f))	8,842,481	34	7,997,061	38	7,687,442	36
1200 Other receivables (note (6)(f))	265,872	1	365,019	2	321,375	2
1300 Inventories, net (note(6)(g))	13,530,413	53	10,223,861	48	10,137,491	47
1470 Prepaid expenses and other current assets	392,222	2	379,786	2	430,503	2
	<u>25,392,424</u>	<u>99</u>	<u>20,706,518</u>	<u>98</u>	<u>21,023,257</u>	<u>98</u>
Non-current assets:						
1517 Financial assets at fair value through other comprehensive income -noncurrent (note (6)(c))	63,497	-	-	-	-	-
1523 Available-for-sale financial assets -noncurrent (note (6)(d))	-	-	1,890	-	2,070	-
1543 Financial assets carried at cost -noncurrent (note (6)(e))	-	-	56,814	-	67,379	-
1600 Property, plant and equipment (note (6)(b))	156,082	1	152,273	1	153,561	1
1780 Intangible assets	12,933	-	8,602	-	7,015	-
1840 Deferred tax assets (note (6)(m))	84,023	-	100,647	1	95,311	1
1900 Other non-current assets	73,532	-	75,063	-	67,908	-
	<u>390,067</u>	<u>1</u>	<u>395,289</u>	<u>2</u>	<u>393,244</u>	<u>2</u>
Total assets	<u>\$ 25,782,491</u>	<u>100</u>	<u>21,101,807</u>	<u>100</u>	<u>21,416,501</u>	<u>100</u>
Liabilities and Equity						
Current liabilities:						
2100 Short-term borrowings (note (6)(l))	\$ 9,775,668	38	9,122,655	43	8,891,115	41
2120 Financial liabilities at fair value through profit or loss -current (note (6)(b))	-	-	4,904	-	-	-
2170 Notes and accounts payable	8,207,826	32	5,072,987	24	5,969,614	28
2200 Other payables	593,395	2	656,201	3	485,449	2
2216 Dividends payable	432,597	2	-	-	343,739	2
2230 Current tax liabilities	214,651	1	86,528	-	70,410	-
2130 Contract liabilities -current (note (6)(p))	394,457	2	-	-	-	-
2300 Other current liabilities	135,960	-	182,274	1	129,686	1
2320 Bonds payable, current portion (note (6)(j))	96,479	-	192,160	1	-	-
	<u>19,851,033</u>	<u>77</u>	<u>15,317,709</u>	<u>72</u>	<u>15,890,013</u>	<u>74</u>
Non-current liabilities:						
2500 Financial liabilities at fair value through profit or loss -noncurrent (note (6)(b))	-	-	-	-	2,580	-
2530 Convertible bonds payable (note (6)(j))	-	-	-	-	189,821	1
2570 Deferred tax liabilities (note (6)(m))	245,327	2	245,317	1	189,872	1
2640 Non-current net defined benefit liabilities (note (6)(l))	142,720	-	144,333	1	134,932	1
2670 Other non-current liabilities	250	-	251	-	323	-
	<u>388,297</u>	<u>2</u>	<u>389,901</u>	<u>2</u>	<u>537,528</u>	<u>3</u>
	<u>20,239,330</u>	<u>79</u>	<u>15,707,610</u>	<u>74</u>	<u>16,427,541</u>	<u>77</u>
Total liabilities						
Equity (note (6)(n)):						
3100 Ordinary share	3,408,767	13	3,230,094	15	3,230,094	15
3200 Capital surplus	848,180	3	929,151	5	929,151	4
3310 Legal reserve	802,354	3	739,228	4	739,228	3
3320 Special reserve	143,162	-	-	-	-	-
3350 Unappropriated retained earnings	452,421	2	638,886	3	198,823	1
Other equity interest:						
3410 Exchange differences on translation of foreign financial statements	(44,404)	-	(138,190)	(1)	(103,546)	-
3420 Unrealized gains (losses) on financial assets at fair value through other comprehensive income	(67,319)	-	-	-	-	-
3425 Unrealized gains (losses) on available-for-sale financial assets	-	-	(4,972)	-	(4,792)	-
	<u>(111,723)</u>	<u>-</u>	<u>(143,162)</u>	<u>(1)</u>	<u>(108,338)</u>	<u>-</u>
	<u>5,543,161</u>	<u>21</u>	<u>5,394,197</u>	<u>26</u>	<u>4,988,960</u>	<u>23</u>
	<u>25,782,491</u>	<u>100</u>	<u>21,101,807</u>	<u>100</u>	<u>21,416,501</u>	<u>100</u>
Total liabilities and equity						

See accompanying notes to consolidated financial statements.

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

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2018 and 2017

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

	For the three months ended June 30				For the six months ended June 30				
	2018		2017		2018		2017		
	Amount	%	Amount	%	Amount	%	Amount	%	
4100	Net sales revenue (note (6)(p) and note (7))	\$ 13,256,695	100	11,765,255	100	26,664,215	100	22,667,006	100
5000	Cost of sales (note (6)(g))	<u>12,278,460</u>	<u>93</u>	<u>11,127,271</u>	<u>95</u>	<u>24,923,725</u>	<u>93</u>	<u>21,424,910</u>	<u>95</u>
	Gross profit	<u>978,235</u>	<u>7</u>	<u>637,984</u>	<u>5</u>	<u>1,740,490</u>	<u>7</u>	<u>1,242,096</u>	<u>5</u>
	Operating expenses (note (6)(k), (6)(l), note (7) and (12)):								
6100	Selling expenses	404,893	3	384,175	3	771,532	3	714,699	3
6200	Administrative expenses	119,045	1	109,557	1	242,549	1	215,925	1
6450	Expected credit losses (note (6)(f))	<u>10,988</u>	-	-	-	<u>30,050</u>	-	-	-
		<u>534,926</u>	<u>4</u>	<u>493,732</u>	<u>4</u>	<u>1,044,131</u>	<u>4</u>	<u>930,624</u>	<u>4</u>
	Net operating income	<u>443,309</u>	<u>3</u>	<u>144,252</u>	<u>1</u>	<u>696,359</u>	<u>3</u>	<u>311,472</u>	<u>1</u>
	Non-operating income and expenses:								
7010	Other income (note (6)(k) and note (7))	3,627	-	3,730	-	10,878	-	5,720	-
7230	Foreign currency exchange gain (losses), net (note (6)(r))	(89,895)	-	43,430	-	(1,061)	-	64,992	-
7235	Gains (losses) on financial assets (liabilities) at fair value through profit or loss	13,492	-	(393)	-	8,447	-	234	-
7050	Financial costs	(90,243)	(1)	(60,555)	-	(158,291)	(1)	(117,854)	-
7590	Miscellaneous disbursements	<u>(381)</u>	-	<u>(865)</u>	-	<u>(381)</u>	-	<u>(881)</u>	-
		<u>(163,400)</u>	<u>(1)</u>	<u>(14,653)</u>	-	<u>(140,408)</u>	<u>(1)</u>	<u>(47,789)</u>	-
7900	Profit before tax	279,909	2	129,599	1	555,951	2	263,683	1
7950	Tax expense (note (6)(m))	<u>82,628</u>	-	<u>31,584</u>	-	<u>171,037</u>	1	<u>64,858</u>	-
8200	Profit	<u>197,281</u>	<u>2</u>	<u>98,015</u>	<u>1</u>	<u>384,914</u>	<u>1</u>	<u>198,825</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	-	-	-	-	-	-	-	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	186	-	-	-	2,943	-	-	-
8349	Less: income tax relating to components of other comprehensive income that will not be reclassified to profit or loss (note (6)(m))	-	-	-	-	<u>(366)</u>	-	-	-
		<u>186</u>	-	-	-	<u>3,309</u>	-	-	-
8360	Items that may be reclassified subsequently to profit or loss								
8361	Exchange differences on translation of foreign financial statements	148,317	1	6,933	-	110,989	1	(162,188)	(1)
8362	Unrealized gains (losses) on available-for-sale financial assets	-	-	(377)	-	-	-	(316)	-
8399	Less: income tax relating to components of other comprehensive income that may be reclassified to profit or loss (note (6)(m))	<u>29,663</u>	-	<u>1,179</u>	-	<u>17,203</u>	-	<u>(27,572)</u>	-
	Components of other comprehensive income that may be reclassified subsequently to profit or loss	<u>118,654</u>	<u>1</u>	<u>5,377</u>	-	<u>93,786</u>	<u>1</u>	<u>(134,932)</u>	<u>(1)</u>
	Other comprehensive income, net	<u>118,840</u>	<u>1</u>	<u>5,377</u>	-	<u>97,095</u>	<u>1</u>	<u>(134,932)</u>	<u>(1)</u>
8500	Comprehensive income	<u>\$ 316,121</u>	<u>3</u>	<u>103,392</u>	<u>1</u>	<u>482,009</u>	<u>2</u>	<u>63,893</u>	-
	Earnings per share: (note (6)(o))								
9750	Basic earnings per share	<u>\$ 0.58</u>		<u>0.30</u>		<u>1.14</u>		<u>0.62</u>	
9850	Diluted earnings per share	<u>\$ 0.57</u>		<u>0.30</u>		<u>1.10</u>		<u>0.60</u>	

See accompanying notes to consolidated financial statements.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Retained earnings				Other equity interest			Total equity
	Ordinary shares	Stock dividend to be distributed	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	
Balance at January 1, 2017	\$ 3,230,094	-	929,151	701,035	-	381,932	31,070	-	(4,476)	5,268,806
Appropriation and distribution of retained earnings:	-	-	-	38,193	-	(38,193)	-	-	-	-
Legal reserve appropriated	-	-	-	38,193	-	(38,193)	-	-	-	(343,739)
Cash dividends	-	-	-	38,193	-	(381,932)	-	-	-	(343,739)
Consolidated net income for the six months ended June 30, 2017	-	-	-	-	-	198,825	-	-	-	198,825
Other comprehensive income for the six months ended June 30, 2017	-	-	-	-	-	-	(134,616)	-	(316)	(134,932)
Total comprehensive income for the six months ended June 30, 2017	-	-	-	-	-	198,825	(134,616)	-	(316)	63,893
Balance at June 30, 2017	\$ 3,230,094	-	929,151	739,228	-	198,825	(103,546)	-	(4,792)	4,988,960
Balance at January 1, 2018	\$ 3,230,094	-	929,151	739,228	-	638,886	(138,190)	-	(4,972)	5,394,197
Effects of retrospective application	-	-	-	-	-	67,140	-	(70,262)	-	1,850
Balance at January 1, 2018 after adjustment	3,230,094	-	929,151	739,228	-	706,026	(138,190)	(70,262)	-	5,396,047
Appropriation and distribution of retained earnings:	-	-	-	63,126	-	(63,126)	-	-	-	-
Legal reserve appropriated	-	-	-	63,126	-	(63,126)	-	-	-	-
Cash dividends	-	-	-	-	143,162	(143,162)	-	-	-	-
Consolidated net income for the six months ended June 30, 2018	-	-	-	63,126	143,162	(638,885)	-	-	-	(432,597)
Other comprehensive income for the six months ended June 30, 2018	-	-	-	-	-	384,914	-	-	-	384,914
Total comprehensive income for the six months ended June 30, 2018	-	-	-	-	-	366	93,786	2,943	-	97,095
Stock dividends from capital surplus	-	120,000	(120,000)	-	-	385,280	93,786	2,943	-	482,009
Conversion of convertible bonds	58,673	-	39,029	-	-	-	-	-	-	97,702
Balance at June 30, 2018	\$ 3,288,767	120,000	848,180	802,354	143,162	452,421	(44,404)	(67,319)	-	5,543,161

Balance at January 1, 2017

Appropriation and distribution of retained earnings:

Legal reserve appropriated

Cash dividends

Consolidated net income for the six months ended June 30, 2017

Other comprehensive income for the six months ended June 30, 2017

Total comprehensive income for the six months ended June 30, 2017

Balance at June 30, 2017

Balance at January 1, 2018

Effects of retrospective application

Balance at January 1, 2018 after adjustment

Appropriation and distribution of retained earnings:

Legal reserve appropriated

Special reserve appropriated

Cash dividends

Consolidated net income for the six months ended June 30, 2018

Other comprehensive income for the six months ended June 30, 2018

Total comprehensive income for the six months ended June 30, 2018

Stock dividends from capital surplus

Conversion of convertible bonds

Balance at June 30, 2018

See accompanying notes to consolidated financial statements.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30,	
	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 555,951	263,683
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	7,805	8,538
Amortization expense	3,143	2,880
Expected credit losses (gains)	30,050	-
Provisions for (reversal of) bad debt expense	-	79,664
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(8,447)	(410)
Interest expense	158,291	117,854
Interest income	(3,049)	(2,208)
Others	378	(790)
	<u>188,171</u>	<u>205,528</u>
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	(9,918)	50,826
Decrease (increase) in notes and accounts receivable, net	(754,006)	464,210
Decrease (increase) in inventories, net	(3,306,552)	(1,948,281)
Decrease (increase) in other receivables	99,170	26,676
Decrease (increase) in prepaid expenses and other current assets	(12,436)	(61,470)
	<u>(3,983,742)</u>	<u>(1,468,039)</u>
Increase (decrease) in notes and accounts payable	3,134,839	1,538,136
Increase (decrease) in other payable	(67,587)	48,863
Increase (decrease) in contract liabilities and other current liabilities	226,679	11,036
Others	(1,613)	(1,328)
	<u>3,292,318</u>	<u>1,596,707</u>
Total adjustments	<u>(503,253)</u>	<u>334,196</u>
Cash flow from (used in) operations	52,698	597,879
Interest received	3,026	2,211
Interest paid	(151,450)	(113,702)
Income taxes paid	(42,733)	(24,201)
Net cash flows from (used in) operating activities	<u>(138,459)</u>	<u>462,187</u>
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(10,352)	(4,687)
Decrease (increase) in refundable deposits	1,531	2,475
Acquisition of intangible assets	(7,052)	(2,559)
Net cash flows from (used in) investing activities	<u>(15,873)</u>	<u>(4,771)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	653,013	(282,466)
Increase (decrease) in guarantee deposits received	-	73
Net cash flows from (used in) financing activities	<u>653,013</u>	<u>(282,393)</u>
Effect of exchange rate changes on cash and cash equivalents	108,456	(160,670)
Net increase (decrease) in cash and cash equivalents	607,137	14,353
Cash and cash equivalents at beginning of period	1,740,291	2,430,722
Cash and cash equivalents at end of period	<u>\$ 2,347,428</u>	<u>2,445,075</u>

See accompanying notes to consolidated financial statements.

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

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2018 and 2017

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

(1) Company history

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

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

These consolidated financial statements were authorized for issuance by the board of directors on August 10, 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, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "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

(Continued)

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

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 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initial application of this Standard. There were no impact on its opening balance of retained earnings on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue was recognized when the goods were delivered to the customers’ premises previously, which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognized at this point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

The Group offers trade discounts and volume rebates to its customers. For certain contracts that provide discount to customers, the reduction of revenue and allowance for sales discounts (reduction of accounts receivable) will have to be recognized when the discount is probably to occur and the amount can be estimated reliably. 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. (recognized under other current liabilities)

For certain contracts that permit a customer to return products, revenue was recognized when a reasonable estimate of the returns could be made previously, provided that all other criteria for revenue recognition were met. Otherwise, a revenue recognition was deferred until the return period lapses or a reasonable estimate of returns could be made. Under IFRS 15, 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. 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. (recognized under other current liabilities)

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

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Group's consolidated financial statements:

Impacted line items on the consolidated balance sheet	June 30, 2018			January 1, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balances upon adoption of IFRS 15	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balances upon adoption of IFRS 15
Notes and accounts receivable, net	\$ 8,712,906	129,575	8,842,481	7,997,061	121,464	8,118,525
Impact on assets		129,575			121,464	
Contract liabilities-current	\$ -	394,457	394,457	-	176,904	176,904
Other current liabilities	400,842	(264,882)	135,960	182,274	(55,440)	126,834
Impact on liabilities		129,575			121,464	

Impacted line items on the consolidated statement of cash flows	For the six months ended June 30, 2018		
	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balances with adoption of IFRS 15
Cash flows from (used in) operating activities:			
Profit before tax	\$ 555,951	-	555,951
Adjustments:			
Decrease (increase) in notes and accounts receivable, net	(745,895)	(8,111)	(754,006)
Increase (decrease) in contract liabilities and other current liabilities	218,568	8,111	226,679
Impact on cash flows from (used in) operating activities		-	

(ii) 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.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Previously, the Group's approach was to include the impairment of trade receivables in selling expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous 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 asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(c).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(c).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

• Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

• The following assessments have been made on the basis of the facts and circumstances that existed 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.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Loans and receivables (note 3)	1,740,291	Amortized cost	1,740,291
Equity instruments	Held-for-trading (note 1)	500	Mandatorily at FVTPL	500
"	Available-for-sale (note 2)	1,890	FVOCI	1,890
"	Financial assets at cost (note 2)	56,814	FVOCI	58,664
Notes and accounts receivable, net	Loans and receivables (note 3)	6,951,011	Amortized cost	6,951,011
"	Loans and receivables (note 4)	1,046,050	FVOCI	1,046,050
Other receivables	Loans and receivables (note 3)	365,019	Amortized cost	365,019
Guarantee deposits paid (accounting for other non-current assets)	Loans and receivables (note 3)	70,831	Amortized cost	70,831

Note1: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Note2: These equity securities (including financial assets measured at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Resulting in an increase of \$1,850 thousands in those assets recognized, and a decrease of \$65,290 thousands in the other equity interest, as well as the increase of \$67,140 thousands in retained earnings were recognized on January 1, 2018.

Note3: Cash and equivalents, notes and accounts receivable, other receivables and guarantee deposits paid that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

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

Note4: The corporate debt securities was categorized as amortized cost under IAS 39. The Group assesses that these securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and by selling securities. Consequently, the Group has designated these investments at the date of initial application as measured at FVOCI.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	<u>2017.12.31</u>			<u>2018.1.1</u>	<u>2018.1.1</u>	<u>2018.1.1</u>
	<u>IAS 39</u>			<u>IFRS 9</u>	<u>Retained</u>	<u>Other</u>
	<u>Carrying</u>	<u>Reclassifications</u>	<u>Remeasurements</u>	<u>Carrying</u>	<u>earnings</u>	<u>equity</u>
	<u>Amount</u>			<u>Amount</u>		
Mandatorily measured at fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 500	-	-	500	-	-
Fair value through other comprehensive income						
Beginning balance (IAS39)	\$ -	-	-	-	-	-
Addition – from loans and receivables	-	1,046,050	-	-	-	-
Addition – equity instruments:						
From available-for-sale (measured at cost)	-	58,704	1,850	67,140	(65,290)	-
	<u>\$ -</u>	<u>1,104,754</u>	<u>1,850</u>	<u>1,106,604</u>	<u>67,140</u>	<u>(65,290)</u>
Amortized cost						
Beginning balance of cash and cash equivalents, notes and accounts receivable, net and other financial assets	\$ 10,173,202	-	-	-	-	-
Subtractions:						
To FVOCI	-	(1,046,050)	-	-	-	-
	<u>\$ 10,173,202</u>	<u>(1,046,050)</u>	<u>-</u>	<u>9,127,152</u>	<u>-</u>	<u>-</u>

(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 present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(u).

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

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

(i) IFRS 16 “Leases”

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

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on its financial statements in the period of initial application will depend on future economic conditions, including the Group’s discounting rate, the composition of the Group’s lease portfolio at that date, the Group’s latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases of offices and warehouses, except for those amounts that needed to be assessed.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to:

- IFRS 16 definition of a lease to all its contracts; or
- practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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

2) Transition

As a lessee, the Group can apply the standard using the following:

·retrospective approach; or

·modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which the Group is the lessor except where the Group is the intermediate lessor in a sub-lease.

(ii) IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments clarify that:

- 1) 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
- 2) 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 recognized in other comprehensive income.

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

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

As of the date, the following IFRSs have been issued by the IASB, but have yet to be endorsed by the FSC:

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

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The above IFRSs may not be relevant to the Group.

(4) Summary of significant accounting policies:

(a) Statement of compliance

The 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.

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statement are the same as those in the consolidated financial statement for the year ended December 31, 2017. For the related information, please refer to note (4) of the consolidated financial statement for the year ended December 31, 2017.

(b) Basis of Consolidation

List of subsidiaries in the consolidated financial statements

Investor	Name of Subsidiary	Nature of operation	Shareholding		
			June 30, 2018	December 31, 2017	June 30, 2017
The Company	Weikeng International Co., Ltd. (WKI)	Electronic components computer peripherals products distribution and technical support	100 %	100 %	100 %
"	Weikeng Technology Co., Ltd. (WTC)	Electronic components and technical support	100 %	100 %	100 %
"	Weikeng Technology Pte. Ltd. (WTP)	"	100 %	100 %	100 %
WKI	Weikeng International (Shanghai) Co., Ltd. (WKS)	Electronic components computer peripherals products distribution and technical support	100 %	100 %	100 %
"	Weitech International Co., Ltd. (Weitech)	Import and export trade of electronic components	100 %	100 %	100 %

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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Investor	Name of Subsidiary	Nature of operation	Shareholding		
			June 30, 2018	December 31, 2017	June 30, 2017
WKS	Weikeng Electronic Technology (Shanghai) Co., Ltd. (WKE)	Electronic technology development and technical advisory	100 %	100 %	100 %

(c) Financial instruments (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

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

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

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

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Group, therefore, those receivables are measured at FVOCI and presented as accounts receivable.

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

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of debt investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized 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.

3) Fair value through profit or loss (FVTPL)

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

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

4) Impairment of financial assets

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

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

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

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

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

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

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

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

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

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

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

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

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

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

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

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Group recognizes the difference between its 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 on fair value through other comprehensive income”, in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

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On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and 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 no longer recognized on the basis of the relative fair values of those parts.

(d) Revenue from contracts with customers (applicable from January 1, 2018)

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

(i) Sale of goods

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

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

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

(ii) Financing components

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

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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(e) Income Taxes

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

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

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the effective tax rate at the time of realization or liquidation and recognized directly in equity or other comprehensive income as tax expense.

(f) Employee benefits

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

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

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

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to note (5) of the consolidated financial statements for the year ended December 31, 2017.

(6) Explanation of significant accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to note (6) of the 2017 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Cash on hand	\$ 731	705	622
Checking accounts and demand deposits	2,224,857	1,739,586	2,444,453
Time deposits	<u>121,840</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,347,428</u>	<u>1,740,291</u>	<u>2,445,075</u>

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

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

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Mandatorily measured at fair value through profit or loss:			
Derivative instruments not used for hedging			
Foreign exchange contracts	\$ 13,423		
Convertible bonds embedded options	20		
Non-derivative financial assets			
Stock listed on domestic markets	565		
Financial assets held-for-trading:			
Derivative instruments not used for hedging			
Foreign exchange contracts		-	705
Non-derivative financial assets			
Stock listed on domestic markets	-	500	666
	<u>\$ 14,008</u>	<u>500</u>	<u>1,371</u>
	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Current financial liabilities measured at fair value through profit or loss:			
Convertible bonds embedded options	\$ -	180	-
Held-for-trading financial liabilities			
Derivative instruments not used for hedging			
Forward exchange contracts	-	4,724	-
	<u>\$ -</u>	<u>4,904</u>	<u>-</u>
Non-current financial liabilities at fair value through profit or loss:			
Convertible bonds embedded options	\$ -	-	2,580

The Group holds derivative instruments to hedge certain foreign currency and interest risk the Group is exposed to arising from its operating, financing and investing activities. The following derivative instruments, without the application of hedge accounting, were classified as mandatorily measured at fair value through profit or loss on June 30, 2018 and held-for-trading financial instruments on December 31 and June 30, 2017:

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

	June 30, 2018			December 31, 2017			June 30, 2017		
	Amount	Currency	Maturity date	Amount	Currency	Maturity date	Amount	Currency	Maturity date
Financial assets									
Forward exchange purchased	USD24,000	USD/TWD	2018.9~ 2018.12	-	-	-	USD2,000	USD/TWD	2017.10
Financial liabilities									
Forward exchange purchased	-	-	-	USD12,000	USD/TWD	2018.2~ 2018.4	-	-	-

(c) Financial assets at fair value through other comprehensive income – noncurrent

	<u>June 30, 2018</u>
Equity investments at fair value through other comprehensive income:	
Domestic emerging market stock	\$ 2,313
Domestic unlisted stock	36,597
Foreign unlisted stock	<u>24,587</u>
	<u>\$ 63,497</u>

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

On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets and financial assets carried at cost on December 31, 2017 and June 30, 2017.

No strategic investments were disposed for the six months ended June 30, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(ii) For credit risk and market risk; please refer to note 6(r).

(iii) As of June 30, 2018, the Group did not provide any financial assets at fair value through other comprehensive income as collateral for its loans.

(d) Available-for-sale financial assets – noncurrent

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Domestic emerging market stock	\$ <u>1,890</u>	<u>2,070</u>

(i) These investments were classified as financial assets at fair value through other comprehensive income on June 30, 2018; please refer to note 6(c).

(Continued)

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

- (ii) For credit risk and market risk, please refer to note 6(r).
- (iii) As of December 31 and June 30, 2017, the Group did not provide any available-for-sale financial assets as collateral for its loans.

(e) Financial assets carried at cost

	December 31, 2017	June 30, 2017
Domestic unlisted stock	\$ 32,227	42,350
Foreign unlisted stock	<u>24,587</u>	<u>25,029</u>
	<u>\$ 56,814</u>	<u>67,379</u>

- (i) The aforementioned investments held by the Group were measured at amortized cost as of December 31 and June 30, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably. These investments were classified as financial assets at fair value through other comprehensive income on June 30, 2018. Please refer to note 6(c).

- (ii) For credit risk and market risk, please refer to note 6(r).
- (iii) As of December 31 and June 30, 2017, the Group did not provide any financial assets measured at cost as collateral for its loans.

(f) Notes and accounts receivable

	June 30, 2018	December 31, 2017	June 30, 2017
Notes receivable	\$ 304,605	345,079	364,388
Accounts receivable-measured as amortized cost	7,069,566	7,926,486	7,699,928
Accounts receivable-fair value through other comprehensive income	<u>1,656,888</u>	<u>-</u>	<u>-</u>
	9,031,059	8,271,565	8,064,316
Less: Allowance for sales returns and discounts	-	(121,464)	(142,277)
Allowance for doubtful accounts	<u>(188,578)</u>	<u>(153,040)</u>	<u>(234,597)</u>
	<u>\$ 8,842,481</u>	<u>7,997,061</u>	<u>7,687,442</u>

The Group has assessed a portion of its accounts receivable that was held within a business model whose objective is achieved by selling financial assets; therefore, such accounts receivable were measured at fair value through other comprehensive income since January 1, 2018.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on June 30, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics of the customer's ability to pay all due amounts in accordance with contract terms, as well as incorporated forward looking information. The loss allowance provision in Taiwan as of June 30, 2018 was determined as follows:

(i) The Company

<u>Credit rating</u>	<u>Carrying amount accounts receivable</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Listed company	\$ -		-
Level A	2,653,858	0.54%	14,209
Level B	1,386,937	1.50%	20,838
Unlisted company	<u>756,211</u>	1.95%	<u>14,768</u>
	<u>\$ 4,797,006</u>		<u>49,815</u>

(ii) Subsidiaries

	<u>Carrying amount accounts receivable</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 3,278,153	0.01%	301
1 to 90 days past due	523,867	6.35%	33,269
91 to 180 days past due	34,576	30.57%	10,570
More than 181 days past due	<u>92,852</u>	100%	<u>92,852</u>
	<u>\$ 3,929,448</u>		<u>136,992</u>

As of December 31 and June 30, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and trade receivable, and the aging analysis of notes and trade receivable, which were past due but not impaired, was as follows:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
1 to 90 days past due	\$ 927,690	739,794
91 to 180 days past due	12,676	27,196
More than 181 days past due	<u>-</u>	<u>490</u>
	<u>\$ 940,366</u>	<u>767,480</u>

(Continued)

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

The movement in the allowance for notes and trade receivable was as follows:

	For the six months ended June 30, 2018	For the six months ended June 30, 2017	
		Individually assessed impairment	Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	\$ 153,040	76,061	90,285
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	153,040		
Impairment loss recognized	30,050	49,745	29,919
Amounts written off	(132)	(2,401)	-
Reclassifications	(94)	2,401	(2,401)
Foreign exchange gains/(losses)	5,714	(4,833)	(4,179)
Balance on June 30, 2018 and 2017	<u>\$ 188,578</u>	<u>120,973</u>	<u>113,624</u>

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 June 30, 2018, December 31 and June 30, 2017 the unreceived balances of discounted accounts receivable were \$265,139, \$344,818 and \$320,361, respectively, and were recognized as other receivables.

As of June 30, 2018, December 31 and June 30, 2017, the details of accounts receivable factored were as follows:

June 30, 2018					
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial institutions	\$ 2,826,218	7,174,089	2,561,079	1.13%~3.13%	None
December 31, 2017					
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial institutions	\$ 3,720,226	7,665,677	3,375,408	1.13%~2.52%	None

(Continued)

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

June 30, 2017					
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral
Financial institutions	\$ 3,288,533	7,459,958	2,968,172	1.13%~2.19%	None

The Group entered into accounts receivable factoring agreements, which allow it to have the right of recourse, with other companies in the first half of 2017. The balance of accounts receivable that have been sold amounting to \$112,223 (CNY25,362), which was classified as other payables, had been received on June 30, 2017. However, since those accounts receivable failed to meet the required conditions on the elimination of financial assets, they still reflect on the balance of accounts receivable as of the reporting date.

As of June 30, 2018, December 31 and June 30, 2017, the Group did not provide any receivables as collaterals for its loans.

(g) Inventories

	June 30, 2018	December 31, 2017	June 30, 2017
Merchandise inventories	\$ 12,429,870	8,622,784	9,161,567
Goods in transit	1,100,543	1,601,077	975,924
	\$ 13,530,413	10,223,861	10,137,491

The details of inventory-related losses and expenses for the years ended June 30, 2018 and 2017 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Inventory valuation loss and obsolescence (Gain from price recovery of inventory)	\$ (170)	(123)	19,464	9,247
Loss on scrapping of inventory and others	277	178	350	253
	\$ 107	55	19,814	9,500

As of June 30, 2018, December 31 and June 30, 2017, the Group did not provide any inventories as collaterals for its loans.

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

(h) Property, plant and equipment

	Land	Buildings and construction	Transportation equipment	Machinery equipment	Office and other facilities equipment	Total
Carrying amounts:						
Balance on January 1, 2018	\$ 77,377	32,653	6,115	5,123	31,005	152,273
Balance on June 30, 2018	\$ 77,377	32,221	5,610	6,478	34,396	156,082
Balance on January 31, 2017	\$ 77,377	33,516	7,742	1,783	39,001	159,419
Balance on June 30, 2017	\$ 77,377	33,086	6,771	3,196	33,131	153,561

The Group's property, plant and equipment have no significant additions, disposals, impairments or reversals during from January 1 to June 30, 2018 and 2017. Information on depreciation for the period is disclosed in the note (12)(a). Please refer to note (6)(e) of the 2017 annual consolidated financial statements.

(i) Short-term borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
Unsecured loans	\$ 9,335,915	8,653,235	8,221,924
Short-term notes and bills payable, net	439,753	469,420	669,191
	<u>\$ 9,775,668</u>	<u>9,122,655</u>	<u>8,891,115</u>
Unused short-term credit lines	<u>\$ 4,562,681</u>	<u>3,565,020</u>	<u>4,134,185</u>
Range of interest rates	<u>0.98%~4.79%</u>	<u>0.93%~4.79%</u>	<u>0.94%~4.79%</u>

(i) Issuance and repayment of borrowings

The Group's additional amounts in loans for the six months ended June 30, 2018 and 2017 were \$15,158,795 and \$15,936,303, respectively, with maturities from July, 2018 to March, 2019 and from August, 2017 to March, 2018, respectively; and the repayments were \$14,505,782 and \$16,218,769, respectively.

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

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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(j) Convertible bonds payable

(i) Non-guaranteed convertible bonds:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Aggregate principal amount	\$ 200,000	200,000	200,000
Bond discount	(2,721)	(7,840)	(10,179)
Cumulative converted amount	<u>(100,800)</u>	<u>-</u>	<u>-</u>
	96,479	192,160	189,821
Less: Convertible bonds payable – could be repaid within one year	<u>96,479</u>	<u>192,160</u>	<u>-</u>
Bonds payable at end of period	<u>\$ -</u>	<u>-</u>	<u>189,821</u>
Embedded derivative – call and put options	<u>\$ (20)</u>	<u>180</u>	<u>2,580</u>
Equity component – conversion options (included in capital surplus – redemption rights)	<u>\$ 4,025</u>	<u>8,115</u>	<u>8,115</u>

The effective interest rates of the fourth convertible bonds was 2.47%. The annual interest expenses on convertible bonds payable for the six months ended June 30, 2018 and 2017 were \$2,022 and \$2,299, respectively.

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

There were no significant issues, repurchases and repayments of bonds payable for the six months ended June 30, 2018 and 2017. Please refer to Note (6)(g) of the 2017 annual consolidated financial statements for the related information.

(k) Operating lease

There were no significant leases contracts for the period from January 1 to June 30, 2018 and 2017. Please refer to note (6)(h) of the 2017 annual consolidated financial statements.

(l) Employee benefits

(i) Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2017 and 2016.

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The Company make defined benefit plan contributions to the pension fund account at 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.

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

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	2018	2017	2018	2017
Operating expense	\$ <u>972</u>	<u>1,043</u>	<u>1,943</u>	<u>2,087</u>

(ii) Defined contribution plans

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

The Company and WTC recognized the pension costs under the defined contribution method amounting to \$5,146, \$4,689, \$10,179 and \$9,383 for the three months and six months ended June 30, 2018 and 2017, 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 \$14,501, \$12,089, \$28,011 and \$24,095 for the three months and six months ended June 30, 2018 and 2017, respectively.

(m) Income taxes

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 corporate income tax return commencing FY 2018. The group spreads the effect of the change in the tax rate by an adjustment to the estimated annual effective income tax rate.

(i) Income tax expenses

The amount of income tax for the three months and six months ended June 30, 2018 and 2017 were as follows:

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	2018	2017	2018	2017
Current tax expense	\$ <u>82,628</u>	<u>31,584</u>	<u>171,037</u>	<u>64,858</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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The amount of income tax recognized in other comprehensive income for the three months and six months ended June 30, 2018 and 2017 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Items that will not be reclassified subsequently to profit or loss:				
Re-measurement from defined benefit plans	\$ -	-	(366)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation	\$ 29,663	1,179	17,203	(27,572)

(ii) The tax authority has examined the income tax returns of the Company and WTC for the years through 2016.

(n) Capital and other equities

As of June 30, 2018, December 31 and June 30, 2017, 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, 340,877 thousand shares (including the conversion of 402 thousands convertible bonds and the stock dividend of 12,000 thousands shares to be distributed from capital surplus, which have yet to be completed), 323,009 thousands shares and 323,009 thousands shares, respectively, were issued. All issued shares were paid up upon issuance.

(i) Common stock

For the six months ended June 30, 2018, 5,867 thousand new common shares, with a par value of \$10, amounting to \$58,673, were issued due to the conversion of convertible bonds. The related registration procedures for the 402 thousand shares have yet to be completed as of reporting date.

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

(ii) Capital surplus

Balance on capital surplus of the Group were as follows:

	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Additional paid in capital	\$ 805,573	882,454	865,664
Treasury share transactions	37,617	37,617	37,617
Donation from shareholders	712	712	712
Employee share options	-	-	16,790
Convertible bonds– redemption rights	4,025	8,115	8,115
Other	253	253	253
	<u>\$ 848,180</u>	<u>929,151</u>	<u>929,151</u>

For the six months ended June 30, 2018, the capital surplus deriving from those convertible bonds, which were converted to common stock, amounted to \$39,029 (including the capital surplus-conversion options transferred to the capital surplus-additional paid-in capital of \$4,090).

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.

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

(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 SUBSIDIARIES
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1) Special reverse

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

2) Earnings distribution

The Company's earnings distribution for 2017 and 2016 were decided via a general meeting of the shareholders held on June 13, 2018 and June 15, 2017, respectively. The relevant information was as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Amount per share</u>	<u>Total amount</u>	<u>Amount per share</u>	<u>Total amount</u>
Cash dividends distributed to ordinary shareholders	\$1.30654696	<u>432,597</u>	1.06	<u>343,739</u>

(o) Earnings per share

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

(i) Basic earnings per share

1) Profit attributable to ordinary shareholders of the Company

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Profit attributable to ordinary shareholders of the Company	\$ <u>197,281</u>	<u>98,015</u>	<u>384,914</u>	<u>198,825</u>

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

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Weighted-average number of ordinary share	<u>338,562</u>	<u>323,009</u>	<u>336,910</u>	<u>323,009</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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(ii) Diluted earnings per share

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Profit attributable to ordinary shareholders of the Company (basic)	\$ 197,281	98,015	384,914	198,825
Convertible bonds payable	<u>865</u>	<u>1,209</u>	<u>1,822</u>	<u>1,579</u>
Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 198,146</u>	<u>99,224</u>	<u>386,736</u>	<u>200,404</u>

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Weighted-average number of ordinary shares (basic)	338,562	323,009	336,910	323,009
Effect of convertible bonds	8,089	10,935	9,740	10,935
Effect of employee stock remuneration	<u>1,974</u>	<u>1,234</u>	<u>3,370</u>	<u>2,231</u>
Weighted-average number of ordinary shares (diluted) on June 30	<u>348,625</u>	<u>335,178</u>	<u>350,020</u>	<u>336,175</u>

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WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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- (p) Revenue from contracts with customers
 (i) Disaggregation of revenue

	<u>For the three months ended June 30, 2018</u>	<u>For the six months ended June 30, 2018</u>
Primary geographical markets:		
Taiwan	\$ 1,083,124	2,146,957
China	11,280,408	22,946,948
Other	<u>893,163</u>	<u>1,570,310</u>
	<u>\$ 13,256,695</u>	<u>26,664,215</u>
Major products/services lines		
Chipset/memory components	\$ 6,313,450	13,427,534
Assorted and other components	6,943,240	13,236,669
Service revenue	<u>5</u>	<u>12</u>
	<u>\$ 13,256,695</u>	<u>26,664,215</u>

- (ii) Contract balance

	<u>June 30, 2018</u>	<u>January 1, 2018</u>
Notes and accounts receivable	\$ 9,031,059	8,271,565
Less: allowance for impairment	<u>(188,578)</u>	<u>(153,040)</u>
	<u>\$ 8,842,481</u>	<u>8,118,525</u>
Contract liabilities	<u>\$ 394,457</u>	<u>176,904</u>

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

The amount of revenue recognized for the six months ended June 30, 2018 that was included in the contract liability balance at the beginning of the period was \$93,889.

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

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****(q) Remuneration to employees and directors**

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

The Company's articles of incorporation after modification require that earning shall first be offset against any deficit, then, 6% to 10% of net profit before tax (before deducting remuneration to employees and directors) will be distributed as employee remuneration and a maximum of 2.5% will be allocated as directors' 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.

The accrued remuneration of the Company's employees were \$22,309 and \$44,619; as well as directors were \$5,577 and \$11,155 for the three and six months ended June 30, 2018, 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. The board of directors decide to issue stocks as employee remuneration; the calculation of the said remuneration was based on the closing price on the day before the board of directors.

The Company's articles of incorporation before modification required 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.

The accrued remuneration of the Company's employees were \$10,784 and \$21,592; as well as directors and supervisors were \$2,696 and \$5,398 for the three and six months ended June 30, 2017, 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.

For the year ended December 31, 2017 and 2016, the recognized employee remuneration of the Company were \$68,933 and \$40,680; directors' and supervisors' remuneration were \$17,233 and \$10,170, respectively. There were no differences between the distributed amounts and the accrued amounts in the consolidated financial statements. The related information can be accessed from Market Observation Post System website.

(Continued)

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

(r) Financial Instruments

Except for those mentioned below, there were no significant changes in the fair value of the Group's financial instruments and degree of exposure to credit risk. Please refer to the note (6)(o) of the consolidated financial statement for the year ended December 31, 2017.

(i) Credit risk

1) Credit risk exposure

For credit risk exposure of notes and trades receivables, please refer to note 6(f). The amount of other financial assets at amortized cost includes other receivables which had been impaired.

The loss allowance provision for the six months ended June 30, 2018 was determined as follows:

	Other receivables
Balance on January 1, 2018 per IAS39	\$ 28,976
Adjustment on initial application of IFRS 9	-
Balance on January 1, 2018 per IFRS 9	28,976
Impairment loss recognized	-
Reclassification	94
Effects of changes in exchange rates	-
Balance on June 30, 2018	<u>\$ 29,070</u>

(ii) Liquidity risk

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

	Carrying Amount	Contractual cash flows	Within a year	1 ~ 2 years	2 ~ 5 years
June 30, 2018					
Non-derivative financial liabilities					
Unsecured loans	\$ 9,335,915	(9,335,915)	(9,335,915)	-	-
Short-term notes and bill payable, net	439,753	(440,000)	(440,000)	-	-
Notes and accounts payable	8,207,826	(8,207,826)	(8,207,826)	-	-
Other payables and dividends payable	747,216	(747,216)	(747,216)	-	-
Bonds payable	96,479	(99,200)	-	(99,200)	-
	<u>\$ 18,827,189</u>	<u>(18,830,157)</u>	<u>(18,730,957)</u>	<u>(99,200)</u>	<u>-</u>

(Continued)

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

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</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 bills payable, net	469,420	(470,000)	(470,000)	-	-
Notes and 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 at fair value through profit or loss:					
Convertible bonds payable embedded derivatives	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>
June 30, 2017					
Non-derivative financial liabilities					
Unsecured loans	\$ 8,221,924	(8,221,924)	(8,221,924)	-	-
Short-term notes and bill payable, net	669,191	(670,000)	(670,000)	-	-
Notes and accounts payable	5,969,614	(5,969,614)	(5,969,614)	-	-
Other payables and dividends payable	646,763	(646,763)	(646,763)	-	-
Bonds payable	189,821	(200,000)	-	-	(200,000)
Derivative financial liabilities					
Financial liabilities at fair value through profit or loss:					
Convertible bonds payable embedded derivatives	2,580	-	-	-	-
	<u>\$ 15,699,893</u>	<u>(15,708,301)</u>	<u>(15,508,301)</u>	<u>-</u>	<u>(200,000)</u>

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

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

(iii) Market risk

1) Currency risk

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

	June 30, 2018			December 31, 2017			June 30, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets									
Monetary items									
USD	\$ 217,771	USD/TWD 30.46	6,633,297	198,823	USD/TWD 29.76	5,916,962	184,174	USD/TWD 30.37	5,593,355
USD	2,179	USD/CNY 6.6266	66,380	951	USD/CNY 6.5192	28,310	2,326	USD/CNY 6.7851	70,649
Non-monetary items									
USD	762	USD/TWD 30.46	23,211	762	USD/TWD 29.76	22,677	775	USD/TWD 30.37	23,537
Financial liabilities									
Monetary items									
USD	282,857	USD/TWD 30.46	8,615,833	196,771	USD/TWD 29.76	5,855,891	178,250	USD/TWD 30.37	5,413,457
USD	26,619	USD/CNY 6.6266	810,816	33,698	USD/CNY 6.5192	1,002,853	38,376	USD/CNY 6.7851	1,165,468

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, financial assets at fair value through other comprehensive income, loans and borrowings, notes and accounts payables and other payables that are denominated in foreign currency. A change of 5% in the exchange rate of TWD or CNY against foreign currency for the six months ended June 30, 2018 and 2017 would have increase (decreased) the other comprehensive income \$1,161 and \$1,177, respectively. For the six months ended June 30, 2018 and 2017 would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

	<u>For the six months ended June 30, 2018</u>	<u>For the six months ended June 30, 2017</u>
USD (against the TWD)		
Strengthening 5%	\$ (99,127)	8,995
Weakening 5%	99,127	(8,995)

(Continued)

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

	<u>For the six months ended June 30, 2018</u>	<u>For the six months ended June 30, 2017</u>
USD (against the CNY)		
Strengthening 5%	(37,222)	(54,741)
Weakening 5%	37,222	54,741

3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the six months ended June 30, 2018 and 2017, the foreign exchange gain (loss), including both realized and unrealized, amounted to a loss of \$1,061 and a gain of \$64,992, 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>June 30, 2018</u>	<u>June 30, 2017</u>
Variable rate instruments:		
Financial assets	\$ 1,691,524	1,636,246
Financial liabilities	(9,335,915)	(8,221,924)

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

If the interest rate had increased or decreased by 0.25%, the Group's net profit before tax would have decreased or increased by \$9,555 and \$8,232 for the six months ended June 30, 2018 and 2017, respectively, which would be mainly resulting from demand deposits, and unsecured loans with variable interest rates.

(v) Fair value

1) Categories and the fair value of financial instruments

The fair value of financial assets and liabilities at fair value through profit or loss, and financial assets at fair value through other comprehensive income (available-for-sale financial assets) are measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following

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

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 :

	June 30, 2018				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets mandatorily measured at fair value through profit or loss					
Derivative instruments not used for hedging					
Forward exchange contracts	\$ 13,423	-	13,423	-	13,423
Convertible bonds payable embedded derivatives	20	-	20	-	20
Stocks listed on domestic markets	<u>565</u>	565	-	-	565
Subtotal	<u>14,008</u>				
Financial assets at fair value through other comprehensive income					
Notes and accounts receivable, net	1,656,888	-	-	-	-
Emerging market stock	2,313	2,313	-	-	2,313
Stocks unlisted on domestic markets and foreign market	<u>61,184</u>	-	-	61,184	61,184
Subtotal	<u>1,720,385</u>				
Financial assets measured at amortized cost					
Cash and cash equivalents	2,347,428	-	-	-	-
Notes and accounts receivable, net	7,185,593	-	-	-	-
Other receivables	265,872	-	-	-	-
Guarantee deposits paid	<u>69,300</u>	-	-	-	-
Subtotal	<u>9,868,193</u>				
	<u>\$ 11,602,586</u>				
Financial liabilities measured at amortized cost					
Bank loans	\$ (9,775,668)	-	-	-	-
Notes and accounts payable	(8,207,826)	-	-	-	-
Other payables and dividends payable	(747,216)	-	-	-	-
Bonds payable	<u>(96,479)</u>	-	-	-	-
	<u>\$(18,827,189)</u>				

(Continued)

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

	December 31, 2017				
	Carrying amount	Fair Value			
		Level 1	Level 2	Level 3	Total
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					
Subtotal	<u>56,814</u>	-	-	-	-
Subtotal	<u>58,704</u>				
Loans and receivables					
Cash and cash equivalents	1,740,291	-	-	-	-
Notes and accounts receivable, net	7,997,061	-	-	-	-
Other receivables	345,994	-	-	-	-
Guarantee deposits paid	70,831	-	-	-	-
Subtotal	<u>10,154,177</u>				
	<u>\$ 10,213,381</u>				
Financial liabilities at fair value through profit or loss					
Convertible bonds payable embedded derivatives	\$ (180)	-	(180)	-	(180)
Derivative instruments not used for hedging	<u>(4,724)</u>	-	(4,724)	-	(4,724)
Subtotal	<u>(4,904)</u>				
Financial liabilities measured at amortized cost					
Short-term borrowings	(9,122,655)	-	-	-	-
Accounts payable	(5,072,987)	-	-	-	-
Other payables	(313,072)	-	-	-	-
Bonds payable	<u>(192,160)</u>	-	-	-	-
Subtotal	<u>(14,700,874)</u>				
	<u>\$ (14,705,778)</u>				

(Continued)

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

	June 30, 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 \$	666	666	-	-	666
Forward exchange contracts	<u>705</u>	-	705	-	705
Subtotal	<u>1,371</u>				
Available-for sale financial assets					
Emerging market stock	2,070	2,070	-	-	2,070
Financial asset carried at cost – noncurrent	<u>67,379</u>	-	-	-	-
Subtotal	<u>69,449</u>				
Loans and receivables					
Cash and cash equivalents	2,445,075	-	-	-	-
Notes and accounts receivable, net	7,687,442	-	-	-	-
Other receivables	321,375	-	-	-	-
Guarantee deposits paid	<u>67,808</u>	-	-	-	-
Subtotal	<u>10,521,700</u>				
	<u>\$ 10,592,520</u>				
Financial liabilities at fair value through profit or loss					
Convertible bonds payable embedded derivatives	\$ (2,580)	-	(2,580)	-	(2,580)
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ (8,891,115)	-	-	-	-
Notes and accounts payable	(5,969,614)	-	-	-	-
Other payables and dividends payable	(646,763)	-	-	-	-
Bonds payable	<u>(189,821)</u>	-	-	-	-
Subtotal	<u>(15,697,313)</u>				
	<u>\$ (15,699,893)</u>				

There were no transfers of financial instruments between any levels for the six months ended June 30, 2018 and 2017.

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

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

- a) Financial assets measured at amortized cost (debt investment that has no active markets)

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

(Continued)

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

3) Valuation technique of financial instruments measured at fair value

a) Non-derivative financial instruments

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

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

b) Derivative financial instruments

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

4) Reconciliation of Level 3 fair values

	Fair value through other comprehensive income
	<u>Unquoted equity instruments</u>
Opening balance, January 1, 2018	\$ 58,664
Total gains and losses recognized:	
In profit or loss	-
In other comprehensive income	2,520
Ending Balance, June 30, 2018	<u>\$ 61,184</u>

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

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

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

Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationships between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income	Guideline Public Company method	·Price-Sales ratio (1.26 and 1.10 at June 30, 2018 and December 31, 2017, respectively) ·Price-Book ratio (1.07 and 1.01 at June 30, 2018 and December 31, 2017, respectively) ·Lack-of-Marketability discount rate (20.41% on June 30, 2018 and December 31, 2017)	The estimated fair value would increase (decrease) if: ·The Price-Sales ratio were higher (lower); ·the Price-Book ratio were higher (lower); or ·the Lack-of-Marketability discount rate were lower (higher)
Financial assets at fair value through profit or loss	Net Asset Value Method	·Net asset value	·Not applicable

(s) Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the note (6)(p) of consolidated financial statements for the year ended December 31, 2017.

(t) Capital management

The Group's objectives, policies and procedures of capital management are consistent with those disclosed in the consolidated financial statements as of and December 31, 2017. In addition, there were no significant differences between the summary quantitative data of the items of capital management in the consolidated financial statements and those disclosed in the consolidated financial statements as of and December 31, 2017. Please refer to note (6)(q) of the consolidated financial statements December 31, 2017 for further details.

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

- (u) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the six months ended June 30, 2018 and 2017, were as follows:

- (i) For conversion of convertible bonds to ordinary shares, please refer to notes (6)(j).

Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2018	Cash flows	June 30, 2018
Total liabilities from financing activities	\$ 9,122,655	653,013	9,775,668

(7) Related-party transactions

- (a) Name and relationship with related parties

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

Related-party	Relationship
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:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Other related parties	\$ -	24	1	24

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

- (ii) Processing fee and consultancy fees from related Parties

Other related parties 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:

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Other related parties	\$ <u>3,178</u>	<u>1,734</u>	<u>6,330</u>	<u>3,731</u>

(iii) Leased

The Group leased assets to related parties comprised was as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Other related parties	\$ <u>327</u>	<u>327</u>	<u>653</u>	<u>653</u>

(iv) Receivable from relate parties

Account	Related party categories	June 30, 2018	December 31, 2017	June 30, 2017
Accounts receivable	Other related parties	\$ -	-	26
Other receivables	Other related parties	10	10	-
		<u>\$ 10</u>	<u>10</u>	<u>26</u>

(v) Payable to related parties

Account	Related party categories	June 30, 2018	December 31, 2017	June 30, 2017
Other payables	Other related parties	\$ <u>1,133</u>	<u>1,089</u>	<u>396</u>

(c) Key management personnel compensation

Key management personnel compensation comprised:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Short-term employee benefits	\$ 42,066	32,979	93,342	63,571
Post-employment benefits	225	229	450	457
	<u>\$ 42,291</u>	<u>33,208</u>	<u>93,792</u>	<u>64,028</u>

(8) Pledged assets:None

(9) Commitments and contingencies:

As of June 30, 2018, December 31 and June 30, 2017, the balance of L/Cs for customs and the purchase of merchandise amounted to \$320,600, \$314,600 and \$320,700, respectively.

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

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(12) Other:

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

	By function	For the three months ended June 30,	
		2018	2017
		Operating expense	Operating expense
By item			
Employee benefits			
Salary	\$	277,731	221,309
Labor and health insurance		20,906	18,023
Pension		20,619	17,821
Remuneration of directors		8,893	5,454
Others		13,454	11,856
Depreciation		3,971	4,213
Amortization		1,693	1,420

	By function	For the six months ended June 30,	
		2018	2017
		Operating expense	Operating expense
By item			
Employee benefits			
Salary	\$	545,653	446,318
Labor and health insurance		42,474	37,081
Pension		40,133	35,565
Remuneration of directors		18,896	10,312
Others		27,081	22,485
Depreciation		7,805	8,538
Amortization		3,143	2,880

- (b) Seasonality of operations:

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

(13) Other disclosures:

- (a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for the six months ended June 30, 2018:

(Continued)

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

- (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	8,314,742	5,950,110	5,950,110	3,542,762	-	107.3 %	16,629,483	Y	-	-
"	"	WTP	100% owned subsidiary	8,314,742	613,620	548,280	347,288	-	9.90 %	16,629,483	Y	-	-
"	"	WKS	100% owned subsidiary	8,314,742	1,425,684	1,258,718	672,233	-	22.70 %	16,629,483	Y	-	Y

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

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

- (iii) Securities held as of June 30, 2018 (excluding investment in subsidiaries, associates and joint ventures):

(Shares/units (thousands))

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units	Carrying amount	Percentage of ownership (%)	Fair value	
The Company								
"	Securities of listed companies EBM Technologies Inc.	-	Financial assets mandatorily measured at fair value through profit or loss-current	34	565	-	565	
"	Feature Integration Technology Inc.	-	Financial assets at fair value through other comprehensive income-noncurrent	175	2,133	0.53	2,133	
"	Clientron Corp.	-	"	18	180	0.02	180	
"	Paradigm I Venture Capital Company(Paradigm I)	-	"	750	9,437	6.79	9,437	
"	Paradigm Venture Capital Corporation(PVC Corp.)	-	"	301	3,527	10.49	3,527	
"	InnoBridge Venture Fund ILP. (InnoBridge)	-	"	-	15,150	9.90	15,150	
"	Shin Kong Global Venture Capital Corp.	-	"	3,000	18,000	12.00	18,000	
"	Vision Wide Technology Co., Ltd.(VTEC)	-	"	800	15,070	1.97	15,070	
					61,184		61,184	

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
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- (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	165,844 (USD5,603)	1 %	OA30	According to cost-plus pricing	-	(1,685) (USD(55))	- %	
"	"	"	(Sales)	(494,537) (USD(16,822))	(3) %	"	"	-	116,186 (USD3,814)	2 %	"
WKI	The Company	Parent company	Purchases	494,537 (USD16,822)	5 %	"	"	-	(116,186) (USD(3,814))	(4) %	"
"	"	"	(Sales)	(165,844) (USD(5,603))	(2) %	"	"	-	1,685 (USD55)	- %	"
"	WKS	Subsidiary	(Sales)	(1,185,685) (USD(40,155))	(11) %	OA60	"	-	811,530 (USD26,642)	24 %	"
WKS	WKI	Parent company	Purchases	1,185,685 (USD40,155)	61 %	"	"	-	(811,530) (USD(26,642))	(58) %	"

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

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

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period (Note)	Allowance for bad debts	Note
					Amount	Action taken			
The Company	WKI	100%owned subsidiary	116,186 (USD3,814)	10.73	-	-	USD 3,814	-	The transactions have been eliminated in the consolidated financial statement
WKI	WKS	Subsidiary	811,530 (USD26,642)	2.60	-	-	USD 9,081	-	"

Note: Information as of August 10, 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			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	WKI	1	Sales Revenue	494,537	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	1.85%
"	"	"	"	Accounts Receivable	116,186	"	0.45%

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND 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
0	The Company	WKI	1	Management and Trusted Service Revenue	110,534	The price is set by percentage of the contract and is received quarterly.	0.41%
"	"	"	"	Other Receivables	72,556	"	0.28%
"	"	WKS	"	Sales Revenue	2,229	The price is marked up based on operating cost,OA60.	0.01%
"	"	"	"	Accounts Receivable	3,583	"	0.01%
"	"	WTP	"	Sales Revenue	32,645	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.12%
"	"	"	"	Accounts Receivable	16,293	"	0.06%
1	WKI	The Company	2	Sales Revenue	165,844	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.62%
"	"	"	"	Accounts Receivable	1,685	"	0.01%
"	"	WKS	3	Sales Revenue	1,185,685	The price is marked up based on operating cost, and the receivables depend on funding demand and OA60.	4.45%
"	"	"	"	Accounts Receivable	811,530	"	3.15%
3	WKS	WKI	"	Service Revenue	83,600	The price is set by percentage of the contract,OA30.	0.31%
"	"	"	"	Account Receivable	23,055	"	0.09%

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.

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(b) Information on investees:

The following is the information on investees for the six months ended June 30, 2018 (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			Net income (losses) of investee	Investment income (losses) of investor	Note
				June 30, 2018	December 31, 2017	Shares (in Thousands)	Percentage of Ownership	Carrying amount			
The Company	WKI	HongKong	Electronic components computer peripherals	\$ 620,205	620,205	287,000	100%	3,197,502	192,402	192,402	Subsidiary
"	WTC	Taipei	products distribution and technical support	12,983	12,983	1,589	100%	27,192	88	88	"
"	WTP	Singapore	Electronic components and technical support	215,564	215,564	8,956	100%	270,065	9,141	9,141	"
	Total			<u>848,752</u>	<u>848,752</u>			<u>3,494,759</u>		<u>201,631</u>	
WKI	Weitech	HongKong	Import and export trade of electronic components	0.41 (HKD0.1)	0.41 (HKD0.1)	-	100%	1,562 (USD52)	143 (USD5)	143 (USD5)	Subsidiary's subsidiary

(c) Information on investment in mainland China:

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

(in thousands of foreign currency)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from June 30, 2018	Net income (losses) of the investee (Note 2)	Percentage of ownership	Investment income (losses) of investor (Note 2)	Carrying amount	Accumulated remittance of earnings in current period
					Outflow (Note 3)	Inflow						
WKS	Electronic components computer peripherals products distribution and technical support	786,647 (USD25,000)	Note 1 - 4	304,594 (USD9,800)	-	-	304,594 (USD9,800)	(32,179) (USD(1,090)) (Note 2)	100%	(32,179) (USD(1,090)) (Note 2)	686,262 (USD22,530)	-
WKE	Electronic technology development and technical advisory	5,067 (RMB1,000)	Note 1 - 5	-	-	-	-	(2,001) (USD(68))	100%	(2,001) (USD(68))	3,291 (USD108)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of June 30, 2018	Investment Amounts Authorized by Investment Commission, MOEA (note 3)	Upper Limit on Investment
304,594 (USD9,800)	761,500 (USD25,000)	3,325,897

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 for the six months ended June 30, 2018.

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

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 CNY1,000 thousand dollars on Weikeng Electronic Technology (Shanghai) Co. Ltd. using its funds.

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(iii) Significant transactions:

Please refer to Information on significant transactions for the information on significant direct or indirect transactions, which were eliminated in the preparation of consolidated financial statements, between the Group and the investee companies in Mainland China in 2018.

(14) Segment information:

The Group's electronic components segment was merged with the peripheral equipment segment for internal segment adjustment in June 2018. Therefore, the Group has only one operating segment, which is the electronic components segment, of which, the major activities are the purchase and sales of electronic components and computer peripherals, technical service, as well as the import/export trade business. The Group's details and reconciliations of operating segment are consistent with the consolidated financial statements. Please refer to the consolidated statements of comprehensive income and the consolidated balance sheet for the segment profit and assets, respectively.

The details and reconciliations of operating segments after adjustment and comparative information were as follows:

	For the three months ended		For the six months ended	
	June 30		June 30	
Electronic components segment	2018	2017	2018	2017
Revenue				
Revenue from external customers	\$ 13,256,695	11,765,255	26,664,215	22,667,006
Intersegment revenues	-	-	-	-
Total revenue	<u>\$ 13,256,695</u>	<u>11,765,255</u>	<u>26,664,215</u>	<u>22,667,006</u>
Reportable segment profit	\$ 562,354	253,809	938,908	527,397
General administration expense	(119,045)	(109,557)	(242,549)	(215,925)
Operating income	<u>\$ 443,309</u>	<u>144,252</u>	<u>696,359</u>	<u>311,472</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>