

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

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2017 and 2016

(With Independent Auditors' Review Report Thereon)

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

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Independent Auditors' Review Report

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

We have reviewed the accompanying consolidated interim balance sheets of Weikeng Industrial Co., Ltd. and its subsidiaries as of June 30, 2017 and 2016, the consolidated interim statements of comprehensive income for the three months and six months ended June 30, 2017 and 2016, and changes in equity and cash flows for the six months ended June 30, 2017 and 2016. These consolidated interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our reviews in accordance with Statement on Auditing Standard 36, "Engagements to Review Financial Statements". A review consists principally of inquiries of the Company's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to in the first paragraph in order for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standards 34, "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

KPMG

Taipei, Taiwan (Republic of China)
August 10, 2017

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

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

WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2017, December 31 and June 30, 2016
 (Expressed in Thousands of New Taiwan Dollars)

	June 30, 2017		December 31, 2016		June 30, 2016	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note 6)(a))	\$ 2,445,075	11	2,430,722	12	2,224,438	13
1110 Financial assets measured at fair value through profit or loss-current (note 6)(b))	1,371	-	51,680	-	36,693	-
1170 Notes and accounts receivable, net (note 6)(c))	7,687,442	36	8,231,316	41	5,989,336	36
1200 Other receivables (notes 6)(c) and (7))	321,375	2	348,054	2	269,564	2
1300 Inventories, net (note 6)(d))	10,137,491	47	8,189,210	41	7,501,683	45
1470 Prepaid expenses and other current assets	430,503	2	369,033	2	339,877	2
	<u>21,023,257</u>	<u>98</u>	<u>19,620,015</u>	<u>98</u>	<u>16,361,591</u>	<u>98</u>
Non-current assets:						
1523 Available-for-sale financial assets -noncurrent (note 6)(b))	2,070	-	2,386	-	2,143	-
1543 Financial assets carried at cost -noncurrent (note 6)(b))	67,379	-	67,379	-	68,156	-
1600 Property, plant and equipment (note 6)(e))	153,561	1	159,419	1	162,729	1
1780 Intangible assets	7,015	-	7,706	-	10,126	-
1840 Deferred tax assets	95,311	1	67,679	-	67,805	-
1900 Other non-current assets	67,908	-	70,382	1	72,303	1
	<u>393,244</u>	<u>2</u>	<u>374,951</u>	<u>2</u>	<u>383,262</u>	<u>2</u>
Total assets	<u>\$ 21,416,501</u>	<u>100</u>	<u>19,994,966</u>	<u>100</u>	<u>16,744,853</u>	<u>100</u>
Liabilities and Equity						
Current liabilities:						
2100 Short-term borrowings (note 6)(f))	\$ 8,891,115	41	9,173,581	46	7,680,090	46
2170 Notes and accounts payable	5,969,614	28	4,431,478	22	3,225,751	19
2200 Other payables (notes 6)(b), (6)(c) and (7))	485,449	2	434,733	2	424,724	3
2216 Dividends payable	343,739	2	-	-	423,390	2
2230 Current tax liabilities	70,410	-	30,322	-	50,179	-
2300 Other current liabilities	129,686	1	118,650	1	89,041	1
	<u>15,890,013</u>	<u>74</u>	<u>14,188,764</u>	<u>71</u>	<u>11,893,175</u>	<u>71</u>
Non-current liabilities:						
2500 Financial liabilities measured at fair value through profit or loss -noncurrent (note 6)(b))	2,580	-	3,300	-	-	-
2530 Convertible bonds payable (note 6)(b))	189,821	1	187,522	1	-	-
2570 Deferred tax liabilities	189,872	1	190,063	1	198,220	1
2640 Non-current net defined benefit liabilities	154,932	1	156,260	1	146,727	1
2670 Other noncurrent liabilities	323	-	251	-	251	-
	<u>537,528</u>	<u>3</u>	<u>537,396</u>	<u>3</u>	<u>345,198</u>	<u>2</u>
	<u>16,427,541</u>	<u>77</u>	<u>14,726,160</u>	<u>74</u>	<u>12,238,373</u>	<u>73</u>
Total liabilities	<u>3,230,094</u>	<u>15</u>	<u>3,230,094</u>	<u>16</u>	<u>2,830,094</u>	<u>18</u>
Equity attributable to owners of parent (note 6)(k) :						
3100 Common stock	929,151	4	929,151	5	703,993	4
3200 Capital surplus	739,228	3	701,035	3	701,035	4
3310 Legal reserve	198,825	1	381,932	2	212,866	1
3350 Unappropriated retained earnings	(103,546)	-	31,070	-	63,211	-
Other equity interest:						
3410 Exchange differences on translation of foreign financial statements	(4,792)	-	(4,476)	-	(4,719)	-
3425 Unrealized gains (losses) on available-for-sale financial assets	(108,338)	-	26,594	-	58,492	-
	<u>4,988,960</u>	<u>23</u>	<u>5,268,806</u>	<u>26</u>	<u>4,506,480</u>	<u>27</u>
Total equity	<u>\$ 21,416,501</u>	<u>100</u>	<u>19,994,966</u>	<u>100</u>	<u>16,744,853</u>	<u>100</u>
Total liabilities and equity						

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2017 and 2016

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

	For the three months ended June 30,				For the six months ended June 30,				
	2017		2016		2017		2016		
	Amount	%	Amount	%	Amount	%	Amount	%	
4100	Net sales revenue (note (7))	\$ 11,765,255	100	10,139,787	100	\$ 22,667,006	100	19,577,187	100
5000	Cost of sales (note (6)(d))	<u>11,127,271</u>	<u>95</u>	<u>9,544,891</u>	<u>94</u>	<u>21,424,910</u>	<u>95</u>	<u>18,405,132</u>	<u>94</u>
	Gross profit	<u>637,984</u>	<u>5</u>	<u>594,896</u>	<u>6</u>	<u>1,242,096</u>	<u>5</u>	<u>1,172,055</u>	<u>6</u>
	Operating expenses (notes (6)(i), (6)(m), note (7) and (12)(a)):								
6100	Selling expenses	384,175	3	327,963	3	714,699	3	638,491	3
6200	Administrative expenses	<u>109,557</u>	<u>1</u>	<u>104,208</u>	<u>1</u>	<u>215,925</u>	<u>1</u>	<u>210,114</u>	<u>1</u>
		<u>493,732</u>	<u>4</u>	<u>432,171</u>	<u>4</u>	<u>930,624</u>	<u>4</u>	<u>848,605</u>	<u>4</u>
	Net operating income	<u>144,252</u>	<u>1</u>	<u>162,725</u>	<u>2</u>	<u>311,472</u>	<u>1</u>	<u>323,450</u>	<u>2</u>
	Non-operating income and expenses:								
7010	Other income (note (7))	3,730	-	2,599	-	5,720	-	5,263	-
7230	Foreign currency exchange gain (losses), net (note (6)(n))	43,430	-	(11,331)	-	64,992	-	9,506	-
7235	Gains (losses) on financial assets (liabilities) at fair value through profit or loss	(393)	-	(81)	-	234	-	(178)	-
7050	Financial costs	(60,555)	-	(38,783)	(1)	(117,854)	-	(79,171)	(1)
7590	Miscellaneous disbursements	<u>(865)</u>	<u>-</u>	<u>(290)</u>	<u>-</u>	<u>(881)</u>	<u>-</u>	<u>(292)</u>	<u>-</u>
		<u>(14,653)</u>	<u>-</u>	<u>(47,886)</u>	<u>(1)</u>	<u>(47,789)</u>	<u>-</u>	<u>(64,872)</u>	<u>(1)</u>
7900	Profit before tax	129,599	1	114,839	1	263,683	1	258,578	1
7950	Tax expense (note (6)(j))	<u>31,584</u>	<u>-</u>	<u>19,826</u>	<u>-</u>	<u>64,858</u>	<u>-</u>	<u>45,712</u>	<u>-</u>
8200	Profit	<u>98,015</u>	<u>1</u>	<u>95,013</u>	<u>1</u>	<u>198,825</u>	<u>1</u>	<u>212,866</u>	<u>1</u>
	Other comprehensive income:								
8360	Items that may be reclassified subsequently to profit or loss								
8361	Exchange differences on translation of foreign financial statements	6,933	-	4,520	-	(162,188)	(1)	(54,228)	-
8362	Unrealized gains (losses) on available-for-sale financial assets	(377)	-	(151)	-	(316)	-	229	-
8399	Less: income tax relating to components of other comprehensive income that may be reclassified subsequently to profit or loss	<u>1,179</u>	<u>-</u>	<u>769</u>	<u>-</u>	<u>(27,572)</u>	<u>-</u>	<u>(9,219)</u>	<u>-</u>
		<u>5,377</u>	<u>-</u>	<u>3,600</u>	<u>-</u>	<u>(134,932)</u>	<u>(1)</u>	<u>(44,780)</u>	<u>-</u>
	Other comprehensive income, net	<u>5,377</u>	<u>-</u>	<u>3,600</u>	<u>-</u>	<u>(134,932)</u>	<u>(1)</u>	<u>(44,780)</u>	<u>-</u>
8500	Comprehensive income	<u>\$ 103,392</u>	<u>1</u>	<u>98,613</u>	<u>1</u>	<u>63,893</u>	<u>-</u>	<u>168,086</u>	<u>1</u>
	Earnings per share: (note (6)(l))								
9750	Basic net income per share	<u>\$ 0.30</u>		<u>0.34</u>		<u>0.62</u>		<u>0.75</u>	
9850	Diluted net income per share	<u>\$ 0.30</u>		<u>0.33</u>		<u>0.60</u>		<u>0.75</u>	

See accompanying notes to consolidated financial statements.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings			Other equity interest		Total equity
	Common stock	Capital surplus	Legal reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	
Balance as of January 1, 2016	\$ 2,830,094	703,993	653,991	470,434	108,220	4,761,784
Appropriation and distribution of retained earnings:						
Legal reserve	-	-	47,044	(47,044)	-	-
Cash dividends	-	-	-	(423,390)	-	(423,390)
Profit for the six months ended June 30, 2016	-	-	-	212,866	-	212,866
Other comprehensive income	-	-	-	-	(45,009)	(44,780)
Comprehensive income	-	-	-	212,866	(45,009)	168,086
Balance as of June 30, 2016	\$ 2,830,094	703,993	701,035	212,866	63,211	4,506,480
Balance as of January 1, 2017	\$ 3,230,094	929,151	701,035	381,932	31,070	5,268,806
Appropriation and distribution of retained earnings:						
Legal reserve	-	-	38,193	(38,193)	-	-
Cash dividends	-	-	-	(343,739)	-	(343,739)
Profit for the six months ended June 30, 2017	-	-	-	198,825	-	198,825
Other comprehensive income	-	-	-	-	(134,616)	(134,932)
Comprehensive income	-	-	-	198,825	(134,616)	63,893
Balance as of June 30, 2017	\$ 3,230,094	929,151	739,228	198,825	(103,546)	4,988,960

See accompanying notes to consolidated financial statements.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows
For the six months ended June 30, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30,	
	2017	2016
Cash flows from operating activities:		
Profit before tax	\$ 263,683	258,578
Adjustments:		
Depreciation expense	8,538	9,632
Amortization expense	2,880	3,287
Provision (reversal of provision) for bad debt expense	79,664	16,807
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(410)	178
Interest expense	117,854	79,171
Interest income	(2,208)	(2,340)
Others	(790)	-
	<u>205,528</u>	<u>106,735</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Changes in financial assets at fair value through profit or loss	50,826	-
Decrease (increase) in notes and accounts receivable	464,210	313,948
Decrease (increase) in inventories, net	(1,948,281)	(1,172,977)
Decrease (increase) in other receivables	26,676	36,981
Decrease (increase) in prepaid expenses and other current assets	(61,470)	73,069
	<u>(1,468,039)</u>	<u>(748,979)</u>
Changes in operating liabilities:		
Increase (decrease) in notes and accounts payable	1,538,136	(130,951)
Increase (decrease) in other payables	48,863	(103,090)
Increase (decrease) in other current liabilities	11,036	21,041
Increase (decrease) in non-current net defined benefit liabilities	(1,328)	(530)
	<u>1,596,707</u>	<u>(213,530)</u>
Total changes in operating assets and liabilities	<u>128,668</u>	<u>(962,509)</u>
Total adjustments	<u>334,196</u>	<u>(855,774)</u>
Cash flow from (used in) operations	597,879	(597,196)
Interest received	2,211	2,336
Interest paid	(113,702)	(78,006)
Income taxes paid	(24,201)	(48,450)
Net cash flows from (used in) operating activities	<u>462,187</u>	<u>(721,316)</u>
Cash flows used in investing activities:		
Additions to property, plant and equipment	(4,687)	(11,525)
Decrease (increase) in refundable deposits	2,475	(694)
Additions to intangible assets	(2,559)	(2,410)
Decrease (increase) in restricted assets	-	2,962
Others	-	3,072
Net cash flows from (used in) investing activities	<u>(4,771)</u>	<u>(8,595)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(282,466)	604,350
Increase (decrease) in guarantee deposits received	73	(973)
Net cash flows from (used in) financing activities	<u>(282,393)</u>	<u>603,377</u>
Foreign currency translation adjustments	<u>(160,670)</u>	<u>(52,804)</u>
Net increase (decrease) in cash and cash equivalents	14,353	(179,338)
Cash and cash equivalents at beginning of period	<u>2,430,722</u>	<u>2,403,776</u>
Cash and cash equivalents at end of period	<u>\$ 2,445,075</u>	<u>2,224,438</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
As Of June 30, 2017 And 2016 Reviewed Only, Not Audited In Accordance With The Generally
 Accepted Auditing Standards

WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Interim Financial Statements

June 30, 2017 and 2016

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

(1) Company history

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

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

These consolidated interim financial statements were authorized for issuance by the board of directors on August 10, 2017.

(3) Application of new standards, amendments and interpretations:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

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

(Continued)

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 36 “ Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets”	January 1, 2014
Amendments to IAS 39 “ Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010–2012 Cycle and 2011–2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated interim financial statements.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

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

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

(Continued)

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

(i) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The Group has not met the requirements of the new standard which requires the Group to revise its accounting processes and internal controls related to reporting financial instruments. However, the Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at June 30, 2017 and hedging relationships designated under during the first half of 2017 under IAS 39.

1) Classification and measurement - Financial assets

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

At June 30, 2017, the Group had equity investments classified as available-for-sale with a fair value of \$2,070 thousand and financial assets measured at cost of \$67,379 thousand that are held for long-term strategic purposes, however, the Group has yet to decide whether to classify them as FVOCI or FVTPL. In the former case, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. In the latter case, all fair value gains and losses would be recognized in profit or loss as they arise, increasing volatility in the Group’s profits.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at June 30, 2017, would have had a material impact on its accounting for trade receivables.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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2) Impairment-Financial assets and contact assets

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

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

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

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

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

The Group assessed that the application of IFRS 9’s impairment requirements would not result in any material impact.

3) Disclosures

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

4) Transition

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

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at 1 January 2018.

(Continued)

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

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 replaces existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”, as well as decides the methods used, timing, and amounts of revenue recognition by using single analysis five-step model.

For the sales of goods, revenue is currently recognized depending on the individual terms of the sales agreement. According to the existing accounting standards, revenue is recognized at this point provided that persuasive confirmation (usually signed-off sales agreements) exists, the related risks and rewards of ownership are transferred, sales and costs can be measured reliably and their recoverability is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control over the goods. The Group assessed that the point at which the risks and rewards of ownership transfer and customers obtain controls are similar, which would not result in any material impact.

(iii) Amendments to IAS 7 “Disclosure Initiative”

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

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

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

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

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

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

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

(4) Summary of significant accounting policies:

- (a) Statement of compliance

The consolidated interim 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 interim financial statements, the Chinese version shall prevail.

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

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

Except the following accounting policies mentioned below, the significant accounting policies used in the interim financial statement are consistent with the consolidated financial statement for the year ended December 31, 2016. For related information, please refer to note (4) of the consolidated financial statement for the year ended December 31, 2016.

(b) Basis of Consolidation

- (i) Principle of preparation of the consolidated interim financial statements is consistent with the consolidated financial statement for the year ended December 31, 2016. For related information, please refer to note (4)(c) of the consolidated financial statement for the year ended December 31, 2016.
- (ii) List of subsidiaries in the consolidated interim financial statements

Name of investor	Name of subsidiary	Nature of operation	Shareholding		
			June 30, 2017	December 31, 2016	June 30, 2016
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 Ptd. Ltd. (WTP)	"	100 %	100 %	100 %
WKI	Weikeng International (Shanghai) Co., Ltd. (WKS)	Electronic components computer peripherals products distribution and technical support	100 %	100 %	100 %
"	Weitech International Co., Ltd. (Weitech)	Import and export trade of electronic components	100 %	100 %	100 %
WKS	Weikeng Electronic Technology (Shanghai) Co., Ltd. (WKE)	Electronic technology development and technical advisory	100 %	100 %	100 %

(c) Income Taxes

The income tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting".

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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Income tax expense for the year is best estimated by multiplying the pretax 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.

(d) Employee benefits

Pension cost for an interim period is calculated 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) Major sources of significant accounting assumptions, judgments, and estimation uncertainty:

The preparation of the consolidated interim financial statements in conformity with IFRSs (in accordance with IAS 34 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.

Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment is in accordance with note (5) of the 2016 consolidated financial statements.

(6) Explanation of significant accounts:

Except for described below, there were no significant differences between these consolidated interim financial statements and the annual consolidated financial statements for the year ended December 31, 2016. Please refer to note (6) of the consolidated financial statements for the ended December 31, 2016 for related information.

(a) Cash and cash equivalents

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Cash on hand	\$ 622	639	654
Checking accounts and demand deposits	2,444,453	2,355,140	2,208,784
Time deposits	-	15,000	15,000
Bills purchased under resale agreement	-	59,943	-
	<u>\$ 2,445,075</u>	<u>2,430,722</u>	<u>2,224,438</u>

(Continued)

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

(b) Financial instruments

(i) Details are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Financial assets measured at fair value through profit or loss			
Financial assets held-for-trading:			
Derivative instruments not used for hedging	\$ 705	-	21
Non-derivative financial instruments	<u>666</u>	<u>51,680</u>	<u>36,672</u>
	1,371	51,680	36,693
Available-for-sale financial instruments	2,070	2,386	2,143
Financial assets carried at cost	<u>67,379</u>	<u>67,379</u>	<u>68,156</u>
	<u>\$ 70,820</u>	<u>121,445</u>	<u>106,992</u>
Current	\$ 1,371	51,680	36,693
Non-current	<u>69,449</u>	<u>69,765</u>	<u>70,299</u>
	<u>\$ 70,820</u>	<u>121,445</u>	<u>106,992</u>
Financial liabilities measured at fair value through profit or loss			
Derivative instruments not used for hedging (recorded in other payables)	\$ -	-	86
Convertible bonds embedded options	<u>2,580</u>	<u>3,300</u>	<u>-</u>
	<u>\$ 2,580</u>	<u>3,300</u>	<u>86</u>
Current	\$ -	-	86
Non-current	<u>2,580</u>	<u>3,300</u>	<u>-</u>
	<u>\$ 2,580</u>	<u>3,300</u>	<u>86</u>

(Continued)

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

(ii) Derivative instruments not used for hedging

The Group uses derivative instruments to hedge certain currency and interest risk the Group is exposed to arising from its operating, financing and investing activities. The Group held the following derivative instruments presented as held-for-trading financial assets and financial liabilities on June 30, 2017, December 31 and June 30, 2016:

	June 30, 2017			December 31, 2016			June 30, 2016		
	Amount	Currency	Maturity date	Amount	Currency	Maturity date	Amount	Currency	Maturity date
Derivative financial assets									
Forward exchange bought	USD2,000	USD/TWD	2017.10	-	-	-	USD2,000	USD/TWD	2016.9
Derivative financial liabilities									
Forward exchange bought	-	-	-	-	-	-	USD2,000	USD/TWD	2016.11

(iii) Financial assets carried at cost investments held by the Group are measured at amortized cost at year-end 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.

(iv) For convertible bonds payable – debt components include an embedded derivative; please see note (6)(g).

(v) The significant foreign currency equity investment risk on the reporting date was as follows:

	June 30, 2017			December 31, 2016			June 30, 2016		
	Foreign Currency	Exchange Rate	TWD	Foreign Currency	Exchange Rate	TWD	Foreign Currency	Exchange Rate	TWD
USD	\$ 775	30.37	23,537	775	32.25	24,994	775	32.335	25,060

(vi) As of June 30, 2017, December 31 and June 30, 2016, the Group did not hold any collateral for its financial asset.

(c) Notes and accounts receivable and other receivables

	June 30, 2017	December 31, 2016	June 30, 2016
Notes receivable	\$ 364,388	496,829	407,365
Accounts receivable	7,699,928	8,119,394	5,836,117
Other receivables	351,127	377,806	320,848
	8,415,443	8,994,029	6,564,330
Less: Allowance for sales returns and discounts	(142,277)	(218,561)	(134,741)
Allowance for doubtful accounts	(264,349)	(196,098)	(170,689)
	<u>\$ 8,008,817</u>	<u>8,579,370</u>	<u>6,258,900</u>

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

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Notes and accounts receivable	\$ <u>7,687,442</u>	<u>8,231,316</u>	<u>5,989,336</u>
Other receivable-current	\$ <u>321,375</u>	<u>348,054</u>	<u>269,564</u>

The aging analysis of notes and accounts receivable and other receivables which were past due but not impaired was as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Overdue period less than 90 days	\$ 739,794	759,312	591,411
Overdue period for 90 ~ 180 days	27,196	5,493	30,010
Overdue period more than 180 days	490	-	-
	\$ <u>767,480</u>	<u>764,805</u>	<u>621,421</u>

The change of allowance for doubtful accounts and other receivable for the years ended June 30, 2017 and 2016 were as follows:

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2017	\$ 105,813	90,285	196,098
Impairment loss recognized	49,745	29,919	79,664
Amounts written off	(2,401)	-	(2,401)
Reclassifications	2,401	(2,401)	-
Foreign exchange gains (loss)	(4,833)	(4,179)	(9,012)
Balance on June 30, 2017	\$ <u>150,725</u>	<u>113,624</u>	<u>264,349</u>
	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2016	\$ 48,579	110,415	158,994
Impairment loss recognized	-	16,807	16,807
Amounts written off	-	(3,389)	(3,389)
Reclassifications	2,705	(2,705)	-
Foreign exchange gains (loss)	-	(1,723)	(1,723)
Balance on June 30, 2016	\$ <u>51,284</u>	<u>119,405</u>	<u>170,689</u>

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

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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The Group has entered into accounts receivable factoring agreements with banks. According to the factoring agreement, the Group does not bear the loss if the accounts receivable does not have the ability to make payments upon the transfer of the accounts receivable factoring. The Group has not provided other guarantee except for the promissory notes which has the same amount with that of that the factoring used as the guarantee for the sales return and discount. The Group received the proceeds from the discounted accounts receivable on the selling date. Interest is calculated and paid based on the duration and interest rate of the agreement, and the remaining amounts are received when the accounts receivable are paid by the customers. In addition, the Group has to pay a service charge based on a certain rate. As of June 30, 2017, December 31 and June 30, 2016, the unreceived balances of discounted accounts receivable were \$320,361, \$323,849 and \$263,985, respectively, and were recognized as other receivables.

As of June 30, 2017, December 31 and June 30, 2016, the details of accounts receivable factored were as follows:

June 30, 2017				
Accounts receivable factored (gross)	Factoring amount	Cash received in advance	Significant term in transferring of accounts receivable	Deducted amount
\$ 3,288,533	7,459,958	2,968,172	Non-recourse factoring	3,288,533
December 31, 2016				
Accounts receivable factored (gross)	Factoring amount	Cash received in advance	Significant term in transferring of accounts receivable	Deducted amount
\$ 3,284,581	8,720,005	2,960,732	Non-recourse factoring	3,284,581
June 30, 2016				
Accounts receivable factored (gross)	Factoring amount	Cash received in advance	Significant term in transferring of accounts receivable	Deducted amount
\$ 2,853,756	7,222,472	2,589,771	Non-recourse factoring	2,853,756

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.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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As of June 30, 2017, December 31 and June 30, 2016, the Group did not provide any receivables as collaterals for its loans.

(d) Inventories

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Merchandise inventories	\$ 9,161,567	7,356,315	6,568,761
Goods in transit	975,924	832,895	932,922
	<u>\$ 10,137,491</u>	<u>8,189,210</u>	<u>7,501,683</u>

The details of inventory-related losses and expenses for the years ended June 30, 2017 and 2016 were as follows:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Inventory valuation loss and obsolescence (Gain from price recovery of inventory)	\$ (123)	(1,049)	9,247	(1,478)
Loss on scrapping of inventory and others	178	(4)	253	6,598
	<u>\$ 55</u>	<u>(1,053)</u>	<u>9,500</u>	<u>5,120</u>

As of June 30, 2017, December 31 and June 30, 2016, the Group did not provide any inventories as collaterals for its loans.

(e) Property, plant and equipment

	<u>Land</u>	<u>Buildings and Structures</u>	<u>Transportation equipment</u>	<u>Machinery equipment</u>	<u>Office and other facilities equipment</u>	<u>Total</u>
Book value:						
Balance on June 30, 2017	\$ 77,377	33,086	6,771	3,196	33,131	153,561
Balance on December 31, 2016	\$ 77,377	33,516	7,742	1,783	39,001	159,419
Balance on June 30, 2016	\$ 77,377	33,949	8,861	1,152	41,390	162,729

The Group's property, plant and equipment have no significant additions, disposals, impairments or reversals during from January 1 to June 30, 2017 and 2016, and the depreciation amount is on the note (12)(a). Please refer to note (6)(e) of consolidated financial statements for the year ended December 31, 2016.

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

(f) Short-term borrowings

	June 30, 2017	December 31, 2016	June 30, 2016
Unsecured loans	\$ 8,221,924	8,704,113	7,210,999
Short-term notes and bills payable, net	<u>669,191</u>	<u>469,468</u>	<u>469,091</u>
	<u>\$ 8,891,115</u>	<u>9,173,581</u>	<u>7,680,090</u>
Unused short-term credit lines	<u>\$ 4,134,185</u>	<u>4,526,901</u>	<u>5,716,515</u>
Annual interest rates	<u>0.94%~4.79%</u>	<u>0.96%~4.37%</u>	<u>1.02%~4.37%</u>

(i) Issuance and repayment of borrowings

For the periods from January 1 to June 30, 2017 and 2016, the Group's additional amounts in loans were \$15,936,303 and \$13,381,865, respectively, with maturities from August, 2017 to March, 2018 and from July to December, 2016, respectively; and the repayments were \$16,218,769 and \$12,777,515, respectively.

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

(g) Convertible bonds payable

(i) Non-guaranteed convertible bonds

	June 30, 2017	December 31, 2016	June 30, 2016
Aggregate principal amount	\$ 200,000	200,000	-
Bond discount	(10,179)	(12,478)	-
Cumulative redeemed amount	<u>-</u>	<u>-</u>	<u>-</u>
	189,821	187,522	-
Less: Convertible bonds payable – could be repaid within one year	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 189,821</u>	<u>187,522</u>	<u>-</u>
Embedded derivative – call and put options	<u>\$ 2,580</u>	<u>3,300</u>	<u>-</u>
Equity component – conversion options (included in capital surplus – redemption rights)	<u>\$ 8,115</u>	<u>8,115</u>	<u>-</u>

The effective interest rates of the forth convertible bonds was 2.47%. The annual interest expenses on convertible bonds payable from January 1 to June 30, 2017 was \$2,299.

(Continued)

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

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

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

The Company revaluated the embedded derivative debt to its fair value and accounted it as financial liabilities measured at fair value through profit or loss – noncurrent. The gain or loss resulting from changes in fair value of the embedded derivative liabilities was a gain of \$720 for the six months ended June 30, 2017.

- (iii) The significant terms of the forth convertible bonds were as follows:

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

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

(Continued)

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

5) Terms of conversion:

- a) Bondholders may opt to have the bonds converted into the common stock of the Company from September 23, 2016 to August 22, 2019.
- b) Conversion price: After the adjustment for issuance of common stock for cash on September 19, 2016, the conversion price of common stock was adjusted from NT\$18.66 to NT\$18.29 (dollars) per share.

(h) Operating lease

There were no significant leases contracts for the period from January 1 to June 30, 2017 and 2016. Please refer to note (6)(i) of consolidated financial statements for the year ended December 31, 2016.

(i) Employee benefits

(i) Defined benefit plans

Given there was no significant volatility of the market or any significant reimbursement, settlement or other one-time event in the prior fiscal year, the Group's pension cost in the interim financial statements was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate as of December 31, 2016 and 2015.

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.

Details of pension costs under defined benefit plans were as follows:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Operating expense	\$ 1,043	1,251	2,087	2,502

(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 Group 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 \$4,689, \$4,611, \$9,383 and \$9,009 for the three months ended June 30, 2017 and 2016 and six months ended June 30, 2017 and 2016, respectively.

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

The subsidiaries included in the consolidated financial statements recognized a pension expense and an employee welfare expense amounting to \$12,089, \$11,558, \$24,095 and \$23,390 for the three months ended June 30, 2017 and 2016 and six months ended June 30, 2017 and 2016, respectively.

(j) Income taxes

(i) Income tax expenses

The amount of income tax for the three months ended June 30, 2017 and 2016 and six months ended June 30, 2017 and 2016, respectively.

	<u>For the three months ended</u> <u>June 30,</u>		<u>For the six months ended</u> <u>June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current tax expense				
Recognized during the				
period	\$ <u>31,584</u>	<u>19,826</u>	<u>64,858</u>	<u>45,712</u>

The amount of income tax recognized in other comprehensive income for the three months ended June 30, 2017 and 2016 and six months ended June 30, 2017 and 2016, respectively.

	<u>For the three months ended</u> <u>June 30,</u>		<u>For the six months ended</u> <u>June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Exchange differences on				
translation of foreign				
financial statements	\$ <u>1,179</u>	<u>769</u>	<u>(27,572)</u>	<u>(9,219)</u>

(ii) The tax authority has examined the income tax returns of the Company and WTC through 2014 and 2015, respectively.

(iii) Information related to the Company's unappropriated earnings and tax deduction ratio was summarized below:

	<u>June 30, 2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30, 2016</u>
	Unappropriated earnings retained of 1998 and after	\$ <u>198,825</u>	<u>381,932</u>
Balance of imputation credit account	\$ <u>71,264</u>	<u>50,085</u>	<u>93,553</u>

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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	2016(expected)	2015(actual)
Creditable ratio for earnings distribution to R.O.C residents	<u>18.45 %</u>	<u>19.69 %</u>

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

(k) Capital and other equities

As of June 30, 2017, December 31 and June 30, 2016, the total value of nominal ordinary shares amounted to \$3,500,000; with a par value of \$10 per share, totalling 350,000 thousand ordinary shares; of which, 323,009, 323,009 and 283,009 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(i) Common stock

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

(ii) Capital surplus

Balance on capital surplus of the Group were as follows:

	June 30, 2017	December 31, 2016	June 30, 2016
Additional paid in capital	\$ 865,664	865,664	665,664
Treasury share transactions	37,617	37,617	37,617
Donation from shareholders	712	712	712
Employee share options	16,790	16,790	-
Convertible bonds-redemption rights	8,115	8,115	-
Other	<u>253</u>	<u>253</u>	<u>-</u>
	<u>\$ 929,151</u>	<u>929,151</u>	<u>703,993</u>

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

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

(iii) Retain 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.

(iv) Earnings distribution

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

	2016		2015	
	Amount per share	Total amount	Amount per share	Total amount
Cash dividends distributed to ordinary shareholders	\$ 1.06	<u>343,739</u>	1.50	<u>423,390</u>

(l) 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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
	Profit attributable to ordinary shareholders of the Company	\$ <u>98,015</u>	<u>95,013</u>	<u>198,825</u>

(Continued)

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

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

	For the three months ended		For the six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Issued ordinary shares on January 1 (Weighted-average number of ordinary share on June 30)	<u>323,009</u>	<u>283,009</u>	<u>323,009</u>	<u>283,009</u>

(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	
	2017	2016	2017	2016
Profit attributable shareholders of the Company (basic)	\$ 98,015	95,013	198,825	212,866
Convertible bonds payable	<u>1,209</u>	<u>-</u>	<u>1,579</u>	<u>-</u>
Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 99,224</u>	<u>95,013</u>	<u>200,404</u>	<u>212,866</u>

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

	For the three months ended		For the six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Weighted-average number of ordinary shares (basic)	323,009	283,009	323,009	283,009
Effect of conversion of convertible notes	10,935	-	10,935	-
Effect of employee stock remuneration	<u>1,234</u>	<u>997</u>	<u>2,231</u>	<u>2,262</u>
Weighted-average number of ordinary shares (diluted) on June 30	<u>335,178</u>	<u>284,006</u>	<u>336,175</u>	<u>285,271</u>

(Continued)

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

(m) Remuneration to employees, directors and supervisors

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

The accrued remuneration of the Company's employees were \$10,784, \$10,216, \$21,592 and \$22,840; as well as directors and supervisors were \$2,696, \$2,554, \$5,398 and \$5,710 for the three and six months ended June 30, 2017 and 2016, respectively. These amounts are calculated by using the Company's pre-tax net profit for the period before deducting the amount of the remuneration to employees and directors, multiplied by the distribution ratio of remuneration to employees and directors under the Company's articles of association, and expensed under operating expenses. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution years. 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.

In 2016 and 2015, the recognized employee remuneration of the Company were \$40,680 and \$51,096; directors' and supervisors' remuneration were \$10,170 and \$12,774, 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.

(n) Financial Instruments

Except as described below, there were no significant changes in the Group's fair value of financial instruments exposed to credit risk. Please refer to the note (6)(p) of the consolidated financial statement for the year ended December 31, 2016.

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

(i) Liquidity risk

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

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1 ~ 2 years</u>	<u>2 ~ 5 years</u>	<u>Over 5 years</u>
June 30, 2017						
Non-derivative financial liabilities						
Unsecured loans	\$ 8,221,924	(8,221,924)	(8,221,924)	-	-	-
Short-term notes and bills 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 measured at fair value for profit or loss:						
Embedded derivative convertible bonds	2,580	-	-	-	-	-
	<u>\$ 15,699,893</u>	<u>(15,708,301)</u>	<u>(15,508,301)</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>
December 31, 2016						
Non-derivative financial liabilities						
Unsecured loans	\$ 8,704,113	(8,704,113)	(8,704,113)	-	-	-
Short-term notes and bills payable, net	469,468	(470,000)	(470,000)	-	-	-
Notes and accounts payable	4,431,478	(4,431,478)	(4,431,478)	-	-	-
Other payables	204,614	(204,614)	(204,614)	-	-	-
Bonds payable	187,522	(200,000)	-	-	(200,000)	-
Derivative financial liabilities						
Financial liabilities measured at fair value for profit or loss:						
Embedded derivative convertible bonds	3,300	-	-	-	-	-
	<u>\$ 14,000,495</u>	<u>(14,010,205)</u>	<u>(13,810,205)</u>	<u>-</u>	<u>(200,000)</u>	<u>-</u>

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
Notes to 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>	<u>Over 5 years</u>
June 30, 2016						
Non-derivative financial liabilities						
Unsecured loans	\$ 7,210,999	(7,210,999)	(7,210,999)	-	-	-
Short-term notes and bills payable, net	469,091	(470,000)	(470,000)	-	-	-
Notes and accounts payable	3,225,751	(3,225,751)	(3,225,751)	-	-	-
Other payables and dividends payable	590,447	(590,447)	(590,447)	-	-	-
Derivative financial liabilities						
Financial liabilities at fair value through profit or loss:						
Forward exchange contracts:	86					
Outflow	-	(64,480)	-	-	-	-
Inflow	-	64,394	-	-	-	-
	<u>\$ 11,496,374</u>	<u>(11,497,283)</u>	<u>(11,497,197)</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(ii) Currency risk

1) Exposure to foreign currency risk

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

	<u>June 30, 2017</u>			<u>December 31, 2016</u>			<u>June 30, 2016</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
Financial assets									
Monetary items									
USD	\$ 184,174	USD/TWD 30.37	5,593,355	189,064	USD/TWD 32.25	6,097,315	128,442	USD/TWD 32.335	4,153,163
USD	2,326	USD/CNY 6.7851	70,649	6,320	USD/CNY 6.8592	203,806	3,471	USD/CNY 6.5216	112,235
Financial liabilities									
Monetary items									
USD	178,250	USD/TWD 30.37	5,413,457	145,282	USD/TWD 32.25	4,685,350	128,733	USD/TWD 32.335	4,162,573
USD	38,376	USD/CNY 6.7851	1,165,468	33,835	USD/CNY 6.8592	1,091,169	24,811	USD/CNY 6.5216	802,269

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

2) Currency risk sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and account receivables, other receivables, loans and borrowings, notes and accounts payables and other payables that are denominated in foreign currency. A change of 5% in the exchange rate of TWD or CNY against foreign currency as of June 30, 2017 and 2016 would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
USD (against the TWD)		
Strengthening 5%	\$ 8,995	(471)
Weakening 5%	(8,995)	471
USD (against the CNY)		
Strengthening 5%	(54,741)	(34,502)
Weakening 5%	54,741	34,502

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, 2017 and 2016, the foreign exchange gain (loss), including both realized and unrealized, amounted to \$64,992 and \$9,506, respectively.

4) 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, 2017</u>	<u>June 30, 2016</u>
Variable rate instruments:		
Financial assets	\$ 1,636,246	1,786,566
Financial liabilities	(8,221,924)	(7,210,099)

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

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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If the interest rate had increased or decreased by 0.25%, the net profit before tax would have decreased or increased by \$8,232 and \$6,779 for the six months ended June 30, 2017 and 2016, respectively, which would be mainly resulting from demand deposits and unsecured loans with variable interest rates.

(iii) Fair value

1) The kinds of financial instruments and fair value

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

	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	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>				

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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	June 30, 2016				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at fair value through profit or loss:					
Forward exchange contracts	\$ (86)	-	(86)	-	(86)
Financial liabilities at amortized cost through profit or loss:					
Short-term borrowings	(7,680,090)	-	-	-	-
Notes and accounts payable	(3,225,751)	-	-	-	-
Other payables and dividends payable	(590,447)	-	-	-	-
Subtotal	<u>(11,496,288)</u>	-	-	-	-
	<u>\$ (11,496,374)</u>				

There were no transfers from one level to another for the six months ended June 30, 2017 and 2016.

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

a) Non-derivative financial instruments

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

b) Derivative financial instruments

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

(o) Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the note (6)(q) of consolidated financial statements for the year ended December 31, 2016.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(p) 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, 2016. 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, 2016. Please refer to note (6)(r) of the consolidated financial statements December 31, 2016 for related information.

(7) Related-party transactions:

(a) Related-party and relationship

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

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

(b) Significant related party transactions

(i) Sale of goods to related parties

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

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Other related-parties	<u>\$ 24</u>	<u>4</u>	<u>24</u>	<u>12</u>

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

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(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:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Other related-parties	\$ <u>1,734</u>	<u>1,956</u>	<u>3,731</u>	<u>3,897</u>

(iii) Leased

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

	Rental income			
	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Other related-parties	\$ <u>327</u>	<u>327</u>	<u>653</u>	<u>653</u>

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

(iv) Receivable due from relate parties

Account	Related party categories	June 30, 2017	December 31, 2016	June 30, 2016
Notes and accounts receivable	Other related parties	\$ 26	-	-
Other receivable	Other related parties	-	10	-
		<u>\$ 26</u>	<u>10</u>	<u>-</u>

(v) Payable to related parties

Account	Related party categories	June 30, 2017	December 31, 2016	June 30, 2016
Other payables	Other related parties	\$ <u>396</u>	<u>487</u>	<u>576</u>

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(c) Key management personnel compensation

Key management personnel compensation comprised:

	For the three months ended		For the six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Short-term employee benefits	\$ 32,979	31,200	63,571	64,101
Post-employment benefits	229	231	457	463
	<u>\$ 33,208</u>	<u>31,431</u>	<u>64,028</u>	<u>64,564</u>

(8) Pledged assets:None

(9) Commitments and contingencies:

As of June 30, 2017, and December 31 and June 30, 2016, the balance of L/Cs for customs and the purchase of merchandise amounted to \$320,700, \$344,500 and \$426,188, respectively.

(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 expenses by function:

By item	By function	For the three months ended June 30,	
		2017	2016
		Classified as Operating expense	Classified as Operating expense
Employee benefits			
Salary	\$	226,763	220,935
Labor and health insurance		18,023	18,824
Pension		17,821	17,419
Others		11,856	11,349
Depreciation		4,213	4,834
Amortization		1,420	1,616

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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By item	By function	For the six months ended June 30,	
		2017	2016
		Classified as Operating expense	Classified as Operating expense
Employee benefits			
Salary	\$	456,630	444,145
Labor and health insurance		37,081	37,134
Pension		35,565	34,901
Others		22,485	18,809
Depreciation		8,538	9,632
Amortization		2,880	3,287

(b) Seasonality of interim operations:

The operation of the Group is not subject to seasonal fluctuations.

(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, 2017:

(i) Loans to other parties: None

(ii) Guarantees and endorsements for other parties:

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	7,483,440	6,235,415	5,591,085	4,119,821	-	112.1 %	14,966,880	Y	-	-
"	"	WTP	"	7,483,440	451,350	303,700	250,979	-	6.1 %	14,966,880	Y	-	-
"	"	WKS	100% owned subsidiary's subsidiary	7,483,440	1,883,634	1,718,942	411,962	-	34.5 %	14,966,880	Y	-	Y

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

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

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

- (iii) Securities held as of June 30, 2017 (excluding investment in subsidiaries, associates and joint ventures):

(Shares/units (thousands))

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The company	Securities of listed companies EBM Technologies Inc.	-	Financial assets measured at fair value through profit or loss - current	34	666	-	666	
"	Feature Integration Technology Inc.	-	Available-for-sale financial assets - non current	175	2,070	0.53	2,070	
"	Technology Partners Venture Capital Corporation	-	Financial assets carried at cost - non current	21	-	1.11	-	
"	Paradigm I Venture Capital Company(Paradigm I)	-	"	750	9,437	6.79	-	
"	MuChip Co., Ltd.	-	"	2	-	0.02	-	
"	Paradigm Venture Capital Corporation(PVC Corp.)	-	"	383	4,350	10.49	-	
"	InnoBridge Venture Fund LLP. (InnoBridge)	-	"	-	15,592	9.90	-	
"	Clientron Corp.	-	"	18	-	0.02	-	
"	Vmedia Research ,Inc. (Vmedia)	-	"	930	-	3.58	-	
"	Always Positive Solar Silicon, Limited (APSS)	-	"	900	-	1.89	-	
"	Mainland Technology Limited	-	"	225	-	4.69	-	
"	Luxmill Electronic Co., Ltd.	-	"	104	-	2.53	-	
"	Ours Technology Inc.(OTI)	-	"	110	-	1.85	-	
"	Shin Kong Global Venture Capital Corp.	-	"	3,000	18,000	12.00	-	
"	Vision Wide Technology Co., Ltd.(VTEC)	-	"	800	20,000	1.97	-	
					<u>67,379</u>			

- (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 ITS 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:

(in thousands of foreign currency)

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	Sales	(314,945) (USD(10,300))	(3) %	OA30	According to cost-plus pricing	-	31,014 (USD1,021)	1 %	Note
"	"	"	Purchases	273,219 (USD8,887)	2 %	"	"	-	(1,239) (USD(41))	- %	"
WKI	The Company	Parent company	Sales	(273,219) (USD(8,887))	(3) %	"	"	-	1,239 (USD41)	- %	"
"	"	"	Purchases	314,945 (USD10,300)	3 %	"	"	-	(31,014) (USD(1,021))	(1) %	"
"	WKS	Subsidiary	Sales	(1,184,109) (USD(38,592))	(11) %	OA60	"	-	1,167,898 (USD38,456)	32 %	"
WKS	WKI	Parent company	Purchases	1,184,109 (USD38,592)	47 %	"	"	-	(1,167,898) (USD(38,456))	(63) %	"

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

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

(in thousands of foreign currency)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts	Note
					Amount	Action taken			
WKI	WKS	Subsidiary	1,167,898 (USD38,456)	2.06	-	-	USD 15,142	-	The transactions have been eliminated in the consolidated financial statement

Note: Information as of August 10, 2017.

- (ix) Trading in derivative instruments: Please refer to note (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	314,945	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	1.39%
"	"	"	"	Accounts Receivable	31,014	"	0.14%

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	WKI	1	Management and Trusted Service Revenue	100,191	The price is set by percentage of the contract and is received quarterly.	0.44%
"	"	"	"	Other Receivables	66,417	"	0.31%
"	"	WKS	"	Sales Revenue	10,795	The price is marked up based on operating cost,OA60.	0.05%
"	"	"	"	Accounts Receivable	4,036	"	0.02%
"	"	WTP	"	Sales Revenue	35,657	The price is marked up based on operating cost, OA30.	0.15%
"	"	"	"	Accounts Receivable	23,971	"	0.11%
1	WKI	The Company	2	Sale Revenue	273,219	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	1.21%
"	"	"	"	Accounts Receivables	1,239	"	0.01%
"	"	WKS	3	Sale Revenue	1,184,109	The price is marked up based on operating cost,OA60.	5.22%
"	"	"	"	Accounts Receivable	1,167,898	"	5.43%
2	WKS	WKI	"	Service Revenue	104,254	The price is set by percentage of the contract,OA30.	0.46%
"	"	"	"	Accounts Receivable	23,489	"	0.11%

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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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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(b) Information on investees:

The following is the information on investees for the six months ended June 30, 2017 (excluding information on investees in Mainland China):

(in thousands of foreign currency)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Shares (In Thousands)	Highest Percentage of Ownership	Carrying Value	Net income (losses) of investee	Share of profits/losses of investee	Note
				June 30, 2017	December 31, 2016						
The Company	WKI	HongKong	Electronic components computer peripherals products distribution and technical support	\$ 620,205	373,011	287,000	100%	2,701,746	101,769	101,769	Subsidiary
"	WTC	Taipei	Electronic components and technical support	12,983	78,335	1,589	100%	27,458	(332)	(332)	"
"	WTP	Singapore	"	215,564	140,189	8,956	100%	253,512	3,378	3,378	"
				<u>\$ 848,752</u>	<u>591,535</u>			<u>2,982,716</u>		<u>104,815</u>	
WKI	Weitech	HongKong	Import and export trade of electronic components	0.41 (HKD0.1)	0.41 (HKD0.1)	-	100%	1,301 (USD43)	133 (USD4)	133 (USD4)	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, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of June 30, 2017	Net income (losses) of the investee (Note 2)	Percentage of ownership	Investment income (losses) (Note 2)	Book value	Accumulated remittance of earnings in current period
					Outflow (Note 3)	Inflow						
WKS	Electronic components computer peripherals products distribution and technical support	786,647 (USD25,000)	Note 1 - 4	304,594 (USD9,800)	-	-	304,594 (USD9,800)	4,118 (USD134)	100%	4,118 (USD134)	578,501 (USD19,048)	-
WKE	Electronic technology development and technical advisory	5,067 (CNY1,000)	Note 1 - 5	-	-	-	-	(1,790) (USD58)	100%	(1,790) (USD58)	3,575 (USD117)	-

(ii) Limitation on investment in Mainland China:

(in thousands of foreign currency)

Accumulated Investment in Mainland China as of June 30, 2017	Investment Amounts Authorized by Investment Commission, MOEA (note 3)	Upper Limit on Investment
304,594 (USD9,800)	759,250 (USD25,000)	2,993,376

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, 2017.

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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Note 3: The currency were translated into New Taiwan Dollars at the exchange rates at the reporting date, June 30, 2017.

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

Note 5: The difference was due to Weikeng International (Shanghai) Co. Ltd.'s investment of CNY1,000 thousand dollars on Weikeng Electronic Technology (Shanghai) Co. Ltd. using its funds.

(iii) Significant transactions:

Please refer to Information on significant transactions for the information on significant direct or indirect transactions between the Group and the investee companies in Mainland China for the six months ended June 30, 2017.

(14) Segment information:

The details and reconciliations of operating segments were as follows:

	For the three months ended June 30, 2017			
	Electronic components segment	Peripheral equipment segment	Adjustment & elimination	Total
Revenue				
Revenue from external customers	\$ 11,075,067	690,188	-	11,765,255
Intersegment revenues	-	-	-	-
Total revenue	<u>\$ 11,075,067</u>	<u>690,188</u>	<u>-</u>	<u>11,765,255</u>
Reportable segment profit	<u>\$ 236,018</u>	<u>17,791</u>	<u>-</u>	253,809
Generally administrative expense				(109,557)
Operating income				<u>\$ 144,252</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
	For the three months ended June 30, 2016			
	Electronic components segment	Peripheral equipment segment	Adjustment & elimination	Total
Revenue				
Revenue from external customers	\$ 9,715,947	423,840	-	10,139,787
Intersegment revenues	-	-	-	-
Total revenue	<u>\$ 9,715,947</u>	<u>423,840</u>	<u>-</u>	<u>10,139,787</u>
Reportable segment profit	<u>\$ 263,801</u>	<u>11,152</u>	<u>-</u>	274,953
Generally administrative expense				(112,228)
Operating income				<u>\$ 162,725</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

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WEIKENG INDUSTRIAL CO., LTD. AND ITS SUBSIDIARIES
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	For the six months ended June 30, 2017			
	Electronic components segment	Peripheral equipment segment	Adjustment & elimination	Total
Revenue				
Revenue from external customers	\$ 21,339,487	1,327,519	-	22,667,006
Intersegment revenues	-	-	-	-
Total revenue	<u>\$ 21,339,487</u>	<u>1,327,519</u>	<u>-</u>	<u>22,667,006</u>
Reportable segment profit	<u>\$ 482,132</u>	<u>45,265</u>	<u>-</u>	527,397
Generally administrative expense				(215,925)
Operating income				<u>\$ 311,472</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
	For the six months ended June 30, 2016			
	Electronic components segment	Peripheral equipment segment	Adjustment & elimination	Total
Revenue				
Revenue from external customers	\$ 18,637,034	940,153	-	19,577,187
Intersegment revenues	-	-	-	-
Total revenue	<u>\$ 18,637,034</u>	<u>940,153</u>	<u>-</u>	<u>19,577,187</u>
Reportable segment profit	<u>\$ 509,148</u>	<u>24,416</u>	<u>-</u>	533,564
Generally administrative expense				(210,114)
Operating income				<u>\$ 323,450</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>