

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

**Consolidated Financial Statements**

**With Independent Auditors' Report  
For the Years Ended December 31, 2018 and 2017**

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

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## Representation Letter

The entities that are required to be included in the combined financial statements of Weikeng Industrial Co., Ltd. as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Weikeng Industrial Co., Ltd. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Weikeng Industrial Co., Ltd.  
Chairman: Chiu-Chiang, Hu  
Date: March 28, 2019



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## Independent Auditors' Report

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

### Opinion

We have audited the consolidated financial statements of Weikeng Industrial Co., Ltd. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Norm of Professional Ethics for Certified Public Account of the Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

### Key Audit Matters

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

#### 1. Recognition of Operating Revenue

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

Description of key audit matters:

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

How the matter was addressed in our audit:

Our main audit procedures for the aforementioned key audit matters include testing the Group's controls surrounding revenue recognition in the order-to-cash transaction cycle, including reconciliations between the general ledger and sales system; performing the detailed test of relevant vouchers, as well as assessing whether the Group's timing on revenue recognition and the amounts recognized are in accordance with the related standards.

## 2. Valuation of Inventories

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

Description of key audit matters:

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

How the matter was addressed in our audit:

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

### **Other Matter**

Weikeng Industrial Co., Ltd. has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on this consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)

March 28, 2019

#### **Notes to Readers**

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

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

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

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Assets</b>								
<b>Current assets:</b>								
1100 Cash and cash equivalents (note (6)(a))	\$ 1,802,901	7	1,740,291	8	2100	\$ 11,737,475	46	9,122,655
1110 Financial assets at fair value through profit or loss - current (note (6)(b))	1,120	-	500	-	2120	-	-	4,904
1170 Notes and accounts receivable, net (note (6)(f))	8,423,865	33	7,997,061	38	2170	5,632,824	22	5,072,987
1200 Other receivables (notes (6)(f) and (6)(g))	1,216,802	5	365,019	2	2200	1,480,881	5	656,201
1300 Inventories, net (note (6)(h))	13,404,822	52	10,223,861	48	2230	146,592	1	86,528
1470 Prepaid expenses and other current assets	296,978	1	379,786	2	2130	151,723	1	-
	25,146,488	98	20,706,518	98	2300	137,579	-	182,274
					2320	32,392	-	192,160
						19,319,466	75	15,317,709
								72
<b>Non-current assets:</b>								
1517 Financial assets at fair value through other comprehensive income - noncurrent (note (6)(c))	63,258	-	-	-				
1523 Available-for-sale financial assets - noncurrent (note (6)(d))	-	-	1,890	-	2570	335,351	2	245,317
1543 Financial assets carried at cost - noncurrent (note (6)(e))	-	-	56,814	-	2640	131,550	-	144,333
1600 Property, plant and equipment (note (6)(i))	156,815	1	152,273	1	2670	242	-	251
1780 Intangible assets	9,369	-	8,602	-		467,143	2	389,901
1840 Deferred tax assets (note (6)(o))	152,308	1	100,647	1		19,786,609	77	15,707,610
1900 Other non-current assets	76,963	-	75,063	-				
	458,713	2	395,289	2		3,448,980	13	3,230,094
						872,702	3	929,151
						802,354	3	739,228
						143,162	1	-
						690,010	3	638,886
						(71,385)	-	(138,190)
						(67,231)	-	-
								(4,972)
						(138,616)	-	(143,162)
						5,818,592	23	5,394,197
						25,605,201	100	21,101,807
								100
<b>Total assets</b>	\$ 25,605,201	100	21,101,807	100				
<b>Liabilities and Equity</b>								
<b>Current liabilities:</b>								
Short-term borrowings (note (6)(j))								
Financial liabilities at fair value through profit or loss - current (note (6)(b))								
Notes and accounts payable:								
Other payables (notes (6)(k) and (7))								
Current tax liabilities								
Contract liabilities - current (note (6)(r))								
Other current liabilities								
Bonds payable, current portion (note (6)(l))								
<b>Non-current liabilities:</b>								
Deferred tax liabilities (note (6)(o))								
Non-current net defined benefit liabilities (note (6)(n))								
Other non-current liabilities								
<b>Total liabilities</b>								
<b>Equity (note (6)(p)):</b>								
Ordinary share					3100			
Capital surplus					3200			
Legal reserve					3310			
Special reserve					3320			
Unappropriated retained earnings					3350			
Other equity interest:								
Exchange differences on translation of foreign financial statements					3410			
Unrealized gains (losses) on financial assets at fair value through other comprehensive income					3420			
Unrealized gains (losses) on available-for-sale financial assets					3425			
<b>Total equity</b>								
<b>Total liabilities and equity</b>	\$ 25,605,201	100	21,101,807	100				



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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

	2018		2017	
	Amount	%	Amount	%
4100 Net sales revenue (notes (6)(r), (6)(s) and note (7))	\$ 52,987,131	100	51,929,408	100
5000 Cost of sales (note (6)(h))	49,587,046	94	49,123,078	95
<b>Gross profit</b>	<u>3,400,085</u>	<u>6</u>	<u>2,806,330</u>	<u>5</u>
<b>Operating expenses (notes (6)(m), (6)(n), note (7) and (12)):</b>				
6100 Selling expenses	1,584,113	3	1,429,773	3
6200 Administrative expenses	512,795	1	464,145	1
6450 Expected credit losses (note (6)(f))	34,892	-	-	-
	<u>2,131,800</u>	<u>4</u>	<u>1,893,918</u>	<u>4</u>
<b>Net operating income</b>	<u>1,268,285</u>	<u>2</u>	<u>912,412</u>	<u>1</u>
<b>Non-operating income and expenses:</b>				
7010 Other income (notes (6)(m) and note (7))	19,742	-	16,773	-
7230 Foreign currency exchange gain (losses), net (note (6)(u))	(43,335)	-	170,218	-
7235 Gains (losses) on financial assets (liabilities) at fair value through profit or loss	22,645	-	(2,230)	-
7050 Financial costs	(378,565)	(1)	(259,423)	-
7670 Impairment loss (note (6)(e))	-	-	(9,300)	-
7590 Miscellaneous disbursements	(365)	-	(950)	-
	<u>(379,878)</u>	<u>(1)</u>	<u>(84,912)</u>	<u>-</u>
7900 <b>Profit before tax</b>	888,407	1	827,500	1
7950 Income tax expense (note (6)(o))	264,353	-	196,240	-
8200 <b>Profit</b>	<u>624,054</u>	<u>1</u>	<u>631,260</u>	<u>1</u>
<b>Other comprehensive income:</b>				
8310 <b>Items that will not be reclassified to profit or loss</b>				
8311 Gains (losses) on remeasurements of defined benefit plans (note(6)(n))	(1,939)	-	9,189	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	3,031	-	-	-
8349 Less: income tax relating to components of other comprehensive income that will not be reclassified to profit or loss (note (6)(o))	(754)	-	1,563	-
	<u>1,846</u>	<u>-</u>	<u>7,626</u>	<u>-</u>
8360 <b>Items that may be reclassified subsequently to profit or loss</b>				
8361 Exchange differences on translation of foreign financial statements	77,263	-	(203,928)	-
8362 Unrealized gains (losses) on available-for-sale financial assets	-	-	(496)	-
8399 Less: income tax relating to components of other comprehensive income that may be reclassified to profit or loss (note (6) (o))	10,458	-	(34,668)	-
	<u>66,805</u>	<u>-</u>	<u>(169,756)</u>	<u>-</u>
<b>Other comprehensive income, net</b>	<u>68,651</u>	<u>-</u>	<u>(162,130)</u>	<u>-</u>
8500 <b>Comprehensive income</b>	<u>\$ 692,705</u>	<u>1</u>	<u>469,130</u>	<u>1</u>
<b>Earnings per share: (note (6)(q))</b>				
9750 <b>Basic earnings per share</b>	<u>\$ 1.83</u>		<u>1.95</u>	
9850 <b>Diluted earnings per share</b>	<u>\$ 1.78</u>		<u>1.87</u>	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity  
For the years ended December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars)

	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Retained earnings		Other equity interest				Total equity
					Unappropriated retained earnings	Unappropriated retained earnings	Exchange differences on translation of financial statements	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	Unrealized gains (losses) on financial assets for-sale	Unrealized gains (losses) on available-financial assets	
<b>Balance at January 1, 2017</b>	\$ 3,230,094	929,151	701,035	-	381,932	31,070	(4,476)	-	-	-	5,268,806
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	38,193	-	(38,193)	-	-	-	-	-	(343,739)
Cash dividends	-	-	38,193	-	(381,932)	-	-	-	-	-	(343,739)
Consolidated net income for the year ended December 31, 2017	-	-	-	-	631,260	-	-	-	-	-	631,260
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	7,626	(169,260)	(496)	-	-	-	(162,130)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	638,886	(169,260)	(496)	-	-	-	469,130
<b>Balance at December 31, 2017</b>	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:											
Legal reserve appropriated	-	-	63,126	-	(63,126)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	143,162	(143,162)	-	-	-	-	-	-
Cash dividends	-	-	63,126	-	(432,597)	-	-	-	-	-	(432,597)
Consolidated net income for the year ended December 31, 2018	-	-	-	-	624,054	-	-	-	-	-	624,054
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	(1,185)	66,805	3,031	-	-	-	68,651
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	622,869	66,805	3,031	-	-	-	692,705
Stock dividends from capital surplus	120,000	(120,000)	-	-	-	-	-	-	-	-	-
Conversion of convertible bonds	98,886	63,551	-	-	-	-	-	-	-	-	162,437
<b>Balance at December 31, 2018</b>	\$ 3,448,980	872,702	802,354	143,162	690,010	(71,385)	(67,231)	-	-	-	5,818,592

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows  
For the years ended December 31, 2018 and 2017  
(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 888,407	827,500
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation expense	16,326	16,254
Amortization expense	6,473	5,577
Expected credit losses (gains)	34,892	-
Provisions for (reversal of) bad debt expense	-	(275)
Net losses (gains) on financial assets or liabilities at fair value through profit or loss	(22,645)	2,230
Interest expense	378,565	259,423
Interest income	(6,028)	(5,408)
Impairment loss	-	9,300
Others	355	54
	<u>407,938</u>	<u>287,155</u>
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	17,155	50,554
Decrease (increase) in notes and accounts receivable	(340,232)	234,530
Decrease (increase) in inventories	(3,180,961)	(2,034,651)
Decrease (increase) in other receivables	(851,783)	(16,968)
Decrease (increase) in prepaid expenses and other current assets	82,808	(10,753)
	<u>(4,273,013)</u>	<u>(1,777,288)</u>
Increase (decrease) in notes and accounts payable	559,837	641,509
Increase (decrease) in other payable	798,867	206,482
Increase (decrease) in contract liabilities and other current liabilities	(14,436)	63,624
Others	(14,722)	(2,739)
	<u>1,329,546</u>	<u>908,876</u>
Total changes in operating assets and liabilities	<u>(2,943,467)</u>	<u>(868,412)</u>
Total adjustments	<u>(2,535,529)</u>	<u>(581,257)</u>
Cash flow from (used in) operations	(1,647,122)	246,243
Interest received	6,028	5,411
Interest paid	(350,118)	(239,799)
Income taxes paid	(173,002)	(83,195)
<b>Net cash flows from (used in) operating activities</b>	<u>(2,164,214)</u>	<u>(71,340)</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of property, plant and equipment	(21,507)	(10,914)
Decrease (increase) in refundable deposits	(1,900)	(548)
Acquisition of intangible assets	(7,219)	(6,859)
Others	422	(2,868)
<b>Net cash flows from (used in) investing activities</b>	<u>(30,204)</u>	<u>(21,189)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term loans	2,614,820	(50,926)
Cash dividends paid	(432,597)	(343,739)
<b>Net cash flows from (used in) financing activities</b>	<u>2,182,223</u>	<u>(394,665)</u>
Effect of exchange rate changes on cash and cash equivalents	74,805	(203,237)
Net increase (decrease) in cash and cash equivalents	62,610	(690,431)
Cash and cash equivalents at beginning of period	1,740,291	2,430,722
Cash and cash equivalents at end of period	<u>\$ 1,802,901</u>	<u>1,740,291</u>

See accompanying notes to consolidated financial statements.

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

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 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(c) for related information. The Company's common shares were listed on the Taiwan Stock Exchange (TSE).

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

These consolidated financial statements were authorized for issuance by the board of directors on March 28, 2019.

**(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

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**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 (recognized under other current liabilities) is currently recognized when relevant sales are expected to be paid to the customer due to the discount.

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 (recognized under other current liabilities) and an asset recognized as right to recover products from customers will be recognized for these contracts and presented in the statement of financial position.

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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2) Impacts on financial statements

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

	December 31, 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
<b>Impacted line items on the consolidated balance sheet</b>						
Notes and accounts receivable, net	\$ 8,291,517	<u>132,348</u>	8,423,865	7,997,061	<u>121,464</u>	8,118,525
<b>Impact on assets</b>		<u>\$ 132,348</u>			<u>121,464</u>	
Contract liabilities-current	\$ -	151,723	151,723	-	176,904	176,904
Other current liabilities	156,954	<u>(19,375)</u>	137,579	182,274	<u>(55,440)</u>	126,834
<b>Impact on liabilities</b>		<u>\$ 132,348</u>			<u>121,464</u>	

	For the year ended December 31, 2018		
	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balances with adoption of IFRS 15
<b>Impacted line items on the consolidated statement of cash flows</b>			
Cash flows from (used in) operating activities:			
<b>Profit before tax</b>	\$ 888,407	-	888,407
Adjustments:			
Decrease (increase) in notes and accounts receivable, net	(329,348)	(10,884)	(340,232)
Increase (decrease) in contract liabilities and other current liabilities	(25,320)	<u>10,884</u>	(14,436)
<b>Impact on cash flows from (used in) operating activities</b>		<u>-</u>	

(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**  
**Notes to the Consolidated Financial Statements**

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(g).

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(g).

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
<b>Financial Assets</b>				
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 (recognized as 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**  
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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.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
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)	-
	\$ -	1,104,754	1,850	1,106,604	67,140	(65,290)
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)	-	-	-	-
	\$ 10,173,202	(1,046,050)	-	9,127,152	-	-

(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(x).

(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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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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<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a 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.

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.

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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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 chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
  - apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
  - exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
  - use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices and warehouses. The Group estimated that the right-of-use assets and the lease liabilities to both increase by \$401,639 thousand on January 1, 2019. Besides, the Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Group is not required to make any adjustments for leases 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.

So far, the Group estimated there is no significant impact on the abovementioned adoption on consolidated financial position and consolidated financial performance.

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

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

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<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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>
October 31, 2018	Amendments to IAS 1 and IAS 8 “Definition of Material”	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

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

**(4) Summary of significant accounting policies:**

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

**(a) Statement of compliance**

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and IFRSs, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the FSC.

**(b) Basis of preparation**

**(i) Basis of measurement**

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

- 1) Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value;

(Continued)

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

- 2) Fair value through other comprehensive income (available-for-sale financial assets) are measured at fair value;
- 3) The defined benefit liability is recognized as the present value of the defined benefit obligation less the fair value of plan assets and the effect of the asset ceiling (please refer to note 4(n)).

(ii) Functional and presentation currency

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

(c) Basis of Consolidation

(i) Principle of preparation of the consolidated financial statements

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

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

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

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

(ii) List of subsidiaries in the consolidated financial statements

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

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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<b>Investor</b>	<b>Name of Subsidiary</b>	<b>Nature of operation</b>	<b>Shareholding</b>	
			<b>December 31, 2018</b>	<b>December 31, 2017</b>
WKI	Weikeng International (Shanghai) Co., Ltd. (WKS)	Electronic components computer peripherals products distribution and technical support	100 %	100 %
"	Weitech International Co., Ltd. (Weitech)	Import and export trade of electronic components	100 %	100 %
WKS	Weikeng Electronic Technology (Shanghai) Co., Ltd. (WKE)	Electronic technology development and technical advisory	100 %	100 %

(d) Foreign currencies

(i) Foreign currency transactions

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

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

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

- Fair value through other comprehensive income (available-for-sale) equity investment;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective

(ii) Foreign operations

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

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

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

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

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

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

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

An entity shall classify a liability as current when:

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

(f) Cash and cash equivalents

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

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(g) Financial instruments

(i) Financial assets (applicable from January 1, 2018)

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. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

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.

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.

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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. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

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. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

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), accounts receivable measured at FVOCI and contract assets.

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.

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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.

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;

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- 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.

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.

(ii) Financial assets (policy applicable before January 1, 2018)

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

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1) Financial assets at fair value through profit or loss

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

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

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

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

2) Available-for sale financial assets

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

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

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

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3) Loans and receivables

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

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

4) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

5) Derecognition of financial assets

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

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

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

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(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

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

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

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

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

2) Financial liabilities at fair value through profit or loss

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

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

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

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

3) Other financial liabilities

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

4) Derecognition of financial liabilities

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

5) Offsetting of financial assets and liabilities

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

(iv) Derivative financial instruments, including hedge accounting

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

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

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average-cost principle and includes expenditure incurred in acquiring the inventories, production or transition costs, and other costs incurred in bringing them to their existing location and condition.

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

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

Land has an unlimited useful life, and therefore, is not depreciated.

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

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

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

(j) Leases

(i) The Group as lessor

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

(ii) The Group as lessee

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

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

(k) Intangible assets

(i) Goodwill

1) Initial recognition

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

2) Subsequent measurement

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

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(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

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

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

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

(l) Impairment – non-derivative financial assets

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

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

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

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

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

(m) Revenue recognition

(i) Revenue from contracts with customers (policy 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.

1) 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 discounts payable to customers in relation to sales made at the end of the reporting period.

For certain contracts that permit a customer to return products, revenue would not be recognized for the products expected to be returned. In addition, the Group recognized a refund liability for these contracts and an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers on settling the refund liability.

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.

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2) Commissions

For every specific product or service which the Group promises to provide to customers, the Group should determine whether it is a principal or an agent. The Group is an agent when the other party joins to provide products or services to the customers, and the performance obligation of the Group is arranged by the other party as well. The revenue will be recognized by the net amount from receivables of the products or services provided and payments to the other party.

3) 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.

(ii) Revenue (policy applicable before January 1, 2018)

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

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

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

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

(iii) Termination benefits

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

(iv) Short term employee benefits

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

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(o) Share-based payment

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

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

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

(p) Income Taxes

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

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

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

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

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

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

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

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

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

(q) Earnings per share

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

(r) Operating segments

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

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

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

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

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

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

(a) Valuation of inventories

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

**(6) Explanation of significant accounts**

(a) Cash and cash equivalents

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Cash on hand	\$ 665	705
Checking accounts and demand deposits	<u>1,802,236</u>	<u>1,739,586</u>
	<b><u>\$ 1,802,901</u></b>	<b><u>1,740,291</u></b>

Please refer to note (6)(u) for the currency risk, interest rate risk and their sensitivity analysis of the financial assets of the Group.

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Mandatorily measured at fair value through profit or loss:		
Derivative instruments not used for hedging		
Foreign exchange contracts	\$ 590	
Non-derivative financial assets		
Stock listed on domestic markets	530	
Financial assets held-for-trading:		
Non-derivative financial assets		
Stock listed on domestic markets	<u>-</u>	<u>500</u>
	<b><u>\$ 1,120</u></b>	<b><u>500</u></b>

(Continued)

**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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	<b>December 31, 2018</b>	<b>December 31, 2017</b>
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
	<b>\$ -</b>	<b>4,904</b>

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 December 31, 2018 and held-for-trading financial instruments on December 31, 2017:

	December 31, 2018			December 31, 2017		
	Amount	Currency	Maturity date	Amount	Currency	Maturity date
<b>Financial assets</b>						
Forward exchange purchased	USD8,000	USD/TWD	2019.04~ 2019.06	-	-	-
<b>Financial liabilities</b>						
Forward exchange purchased	-	-	-	USD12,000	USD/TWD	2018.2~ 2018.4

As of December 31, 2018 and 2017, the Group did not provide any financial assets at fair value through profit or loss as collateral for its loans.

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

	<b>December 31, 2018</b>
Equity investments at fair value through other comprehensive income:	
Domestic emerging market stock	\$ 2,375
Domestic unlisted stock	36,296
Foreign unlisted stock	24,587
	<b>\$ 63,258</b>

(Continued)

**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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(i) Equity investments at fair value through other comprehensive income

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.

No strategic investments were disposed for the year ended December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(ii) The investee companies, Paradigm Venture Capital Corporation (PVC Corp.) and Clientron Corporation, classified as financial assets at fair value through other comprehensive income – non-current, reduced their common stocks and refunded capital in 2018, and the Group recorded the capital reduction receivable amounting to \$327. The amount has been fully received.

(iii) For credit risk and market risk; please refer to note 6(u).

(iv) As of December 31, 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

	<b>December 31, 2017</b>
Domestic emerging market stock	\$ <u><u>1,890</u></u>

(i) These investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018; please refer to note 6(c).

(ii) For credit risk and market risk, please refer to note 6(u).

(iii) As of December 31, 2017, the Group did not provide any available-for-sale financial assets as collaterals for its loans.

(e) Financial assets carried at cost

	<b>December 31, 2017</b>
Domestic unlisted stock	\$ 32,227
Foreign unlisted stock	<u>24,587</u>
	<b>\$ <u><u>56,814</u></u></b>

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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- (i) The aforementioned investments held by the Group were measured at cost less impairment as of December 31, 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 December 31, 2018. Please refer to note 6(c).
- (ii) The investee companies, Paradigm Venture Capital Corporation (PVC Corp.) and InnoBridge Venture Fund ILP. (InnoBridge), classified as financial assets carried at cost, reduced their common stocks and refunded capital in 2017, and the Group recorded the capital reduction receivable amounting to \$1,265. The amount has been fully received.
- (iii) Since the value of certain financial assets carried at cost had diminished, the Group recognized the impairment loss of \$9,300, which was recorded in non-operating income and expenses for the year ended December 31, 2017.
- (iv) For credit risk and market risk, please refer to note 6(u).
- (v) As of December 31, 2017, the Group did not provide any financial assets carried at cost as collateral for its loans.
- (f) Notes and accounts receivable

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Notes receivable	\$ 214,884	345,079
Accounts receivable-measured as amortized cost	7,405,937	7,926,486
Accounts receivable-fair value through other comprehensive income	988,777	-
	8,609,598	8,271,565
Less: Allowance for sales returns and discounts	-	(121,464)
Allowance for doubtful accounts	(185,733)	(153,040)
	<b>\$ 8,423,865</b>	<b>7,997,061</b>

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.

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 December 31, 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, including macroeconomic and relevant industry information. The loss allowance provision as of December 31, 2018 was determined as follows:

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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## (i) The Company

<u>Credit rating</u>	<u>Carrying amount accounts receivable</u>	<u>Expected credit loss rate</u>	<u>Loss allowance provision</u>	<u>Credit impaired</u>
Listed company	\$ -		-	
Level A	2,437,276	0.45%	10,972	No
Level B	1,227,420	1.80%	22,124	No
Unlisted company	<u>788,293</u>	0.93%	<u>7,329</u>	No
	<u>\$ 4,452,989</u>		<u>40,425</u>	

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

	<u>December 31, 2018</u>
Not past due	\$ 4,211,681
Overdue 1 to 90 days	232,967
Overdue 91 to 180 days	6,983
Overdue more than 181 days	<u>1,358</u>
	<u>\$ 4,452,989</u>

## (ii) Subsidiaries

	<u>Carrying amount accounts receivable</u>	<u>Expected credit loss rate</u>	<u>Loss allowance provision</u>
Not past due	\$ 3,403,841	0.01%	234
Overdue 90 days	607,346	4.75%	28,843
Overdue 91 to 180 days	60,359	36.19%	21,843
Overdue more than 181 days	<u>85,063</u>	100.00%	<u>85,063</u>
	<u>\$ 4,156,609</u>		<u>135,983</u>

As of December 31, 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>
Overdue 1 to 90 days	\$ 927,690
Overdue 91 to 180 days	<u>12,676</u>
	<u>\$ 940,366</u>

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

As of December 31, 2018 and 2017, the movement in the allowance for notes and trade receivable was as follows:

	<u>2018</u>	<u>2017</u>	
		<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>
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/ (reversed)	34,892	(33,171)	32,896
Amounts written off	(3,041)	(2,381)	-
Reclassifications	(102)	2,381	(4,875)
Foreign exchange gains/(losses)	944	(3,411)	(4,745)
Balance on December 31, 2018 and 2017	<u>\$ 185,733</u>	<u>39,479</u>	<u>113,561</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 account debtor does not have the ability to make payments upon the transfer of the accounts receivable factoring. The Group has not provided other guarantee except for the promissory notes which has the same amount with that of that the factoring used as the guarantee for the sales return and discount. The Group received the proceeds from the discounted accounts receivable on the selling date. Interest is calculated and paid based on the duration and interest rate of the agreement, and the remaining amounts are received when the accounts receivable are paid by the customers. In addition, the Group has to pay a service charge based on a certain rate. As of December 31, 2018 and 2017 the unreceived balances of discounted accounts receivable were \$298,036 and \$344,818, respectively, and were recognized as other receivables.

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

<b>December 31, 2018</b>					
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Range of Interest Rate</u>	<u>Collateral</u>
Financial institutions	\$ 3,640,811	7,188,730	3,342,775	1.10%~3.68%	None
<b>December 31, 2017</b>					
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Range of Interest Rate</u>	<u>Collateral</u>
Financial institutions	\$ 3,720,226	7,665,677	3,375,408	1.13%~2.52%	None

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

Please refer to note (6)(u) of the credit risk information.

(g) Other receivables

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Other receivable — the receivables of the Group as an agent (note 6(r))	\$ 895,511	-
Other receivable — accounts receivable factored	298,036	344,818
Other receivable — related parties	10	10
Tax refund	22,056	19,025
Overdue receivable	27,643	28,976
Others	<u>1,189</u>	<u>1,166</u>
	1,244,445	393,995
Less: Loss allowance	<u>(27,643)</u>	<u>(28,976)</u>
	<b><u>\$ 1,216,802</u></b>	<b><u>365,019</u></b>

As of December 31, 2017, the Group did not have any other receivables which were overdue but not impaired.

As of December 31, 2018 and 2017, the movement in the allowance for other receivables was as follows:

	<b>2018</b>	<b>2017</b>	
		<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 28,976	29,752	-
Adjustment on initial application of IFRS 9	<u>-</u>		
Balance on January 1, 2018 per IFRS 9	28,976		
Amounts written off	(1,435)	(3,270)	-
Reclassifications	<u>102</u>	<u>2,494</u>	<u>-</u>
Balance on December 31, 2018 and 2017	<b><u>\$ 27,643</u></b>	<b><u>28,976</u></b>	<b><u>-</u></b>

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

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

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## (h) Inventories

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Merchandise inventories	\$ 12,161,049	8,622,784
Goods in transit	<u>1,243,773</u>	<u>1,601,077</u>
	<b><u>\$ 13,404,822</u></b>	<b><u>10,223,861</u></b>

The details of inventory-related losses and expenses for the years ended December 31, 2018 and 2017 were as follows:

	<b>2018</b>	<b>2017</b>
Inventory valuation loss and obsolescence (Gain from price recovery of inventory)	\$ 272,944	42,532
Loss on scrapping of inventory and others	<u>2,544</u>	<u>3,064</u>
	<b><u>\$ 275,488</u></b>	<b><u>45,596</u></b>

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

## (i) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the year ended December 31, 2018 and 2017 were as follows:

	<b>Land</b>	<b>Buildings and construction</b>	<b>Transportation equipment</b>	<b>Machinery equipment</b>	<b>Office and other facilities equipment</b>	<b>Total</b>
<b>Cost or deemed cost:</b>						
Balance on January 1, 2018	\$ 77,377	51,836	15,619	16,880	170,285	331,997
Additions	-	-	1,363	2,374	17,770	21,507
Disposals	-	-	(1,514)	(898)	(23,832)	(26,244)
Effects of changes in exchange rates	-	-	(106)	(82)	1,183	995
Balance on December 31, 2018	<b><u>\$ 77,377</u></b>	<b><u>51,836</u></b>	<b><u>15,362</u></b>	<b><u>18,274</u></b>	<b><u>165,406</u></b>	<b><u>328,255</u></b>
Balance on January 1, 2017	\$ 77,377	51,836	15,945	12,793	172,922	330,873
Additions	-	-	-	4,441	6,473	10,914
Disposals	-	-	-	(267)	(2,847)	(3,114)
Effects of changes in exchange rates	-	-	(326)	(87)	(6,263)	(6,676)
Balance on December 31, 2017	<b><u>\$ 77,377</u></b>	<b><u>51,836</u></b>	<b><u>15,619</u></b>	<b><u>16,880</u></b>	<b><u>170,285</u></b>	<b><u>331,997</u></b>
<b>Depreciation and impairment loss:</b>						
Balance on January 1, 2018	\$ -	19,183	9,504	11,757	139,280	179,724
Depreciation for the year	-	863	1,532	1,397	12,534	16,326
Disposals	-	-	(1,514)	(855)	(23,416)	(25,785)
Effects of changes in exchange rates	-	-	(72)	(24)	1,271	1,175
Balance on December 31, 2018	<b><u>\$ -</u></b>	<b><u>20,046</u></b>	<b><u>9,450</u></b>	<b><u>12,275</u></b>	<b><u>129,669</u></b>	<b><u>171,440</u></b>
Balance on January 1, 2017	\$ -	18,320	8,203	11,010	133,921	171,454
Depreciation for the year	-	863	1,429	1,066	12,896	16,254
Disposals	-	-	-	(267)	(2,793)	(3,060)
Effects of changes in exchange rates	-	-	(128)	(52)	(4,744)	(4,924)
Balance on December 31, 2017	<b><u>\$ -</u></b>	<b><u>19,183</u></b>	<b><u>9,504</u></b>	<b><u>11,757</u></b>	<b><u>139,280</u></b>	<b><u>179,724</u></b>

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	<u>Land</u>	<u>Buildings and construction</u>	<u>Transportation equipment</u>	<u>Machinery equipment</u>	<u>Office and other facilities equipment</u>	<u>Total</u>
<b>Book value:</b>						
Balance on December 31, 2018	\$ 77,377	31,790	5,912	5,999	35,737	156,815
Balance on December 31, 2017	\$ 77,377	32,653	6,115	5,123	31,005	152,273
Balance on January 1, 2017	\$ 77,377	33,516	7,742	1,783	39,001	159,419

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

As of December 31, 2018 and 2017, the Group did not provide any property, plant, and equipment as collaterals for its loans.

(j) Short-term borrowings

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured loans	\$ 11,068,192	8,653,235
Short-term notes and bills payable, net	669,283	469,420
	<u>\$ 11,737,475</u>	<u>9,122,655</u>
Unused short-term credit lines	<u>\$ 3,103,678</u>	<u>3,565,020</u>
Range of interest rates	<u>0.98%~4.57%</u>	<u>0.93%~4.79%</u>

(i) Issuance and repayment of borrowings

The Group's additional amounts in loans for the year ended December 31, 2018 and 2017 were \$32,603,114 and \$32,187,056, respectively, with maturities from January to September 2019 and from January to June 2018, respectively; and the repayments were \$29,988,294 and \$32,237,982, respectively, in 2018 and 2017.

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

(k) Other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other payable — the payables of the Group's as an agent (note6(r))	\$ 884,438	-
Accrued expenses	216,568	311,905
Bonus payable	210,360	205,065
Remuneration to employees and directors	107,782	103,311
Interest payable	61,733	35,920
	<u>\$ 1,480,881</u>	<u>656,201</u>

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

- (I) Convertible bonds payable
- (i) Non-guaranteed convertible bonds:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Aggregate principal amount	\$ 200,000	200,000
Bond discount	(508)	(7,840)
Cumulative converted amount	(167,100)	-
	32,392	192,160
Less: Convertible bonds payable – could be repaid within one year	32,392	192,160
Bonds payable at end of period	\$ -	-
Embedded derivative – call and put options	\$ -	180
Equity component – conversion options (included in capital surplus – conversion options)	\$ 1,335	8,115

The effective interest rates of the forth convertible bonds was 2.47%. The annual interest expenses on convertible bonds payable for the year ended December 31, 2018 and 2017 were \$2,668 and \$4,637, respectively.

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

	<b>The Forth</b>
The compound interest present value of the convertible bonds' face value at issuance	\$ 189,660
The embedded derivative debt at issuance – redemption rights	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 – conversion options. In accordance with IFRSs, the face value of the forth domestic unsecured convertible bonds was allocated at \$165 to the capital surplus – conversion options.

At year-end, the Company revaluated the embedded derivative debt to its fair value and accounted it as financial liabilities measured at fair value through profit or loss – current for the year ended December 31, 2017. The gain or loss resulting from changes in fair value of the embedded derivative liabilities were gains of \$180 and \$3,120 for the years ended December 31, 2018 and 2017, respectively.

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(iii) The significant terms of the fourth 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%.
- 5) Terms of conversion:
  - a) Bondholders may opt to have the bonds converted into the common stock of the Company from September 23, 2016 to August 22, 2019.
  - b) Conversion price: After the adjustment for issuance of common stock for cash on September 19, 2016, the conversion price of common stock was adjusted from NT\$18.66 to NT\$18.29 (dollars) per share. After the adjustment for distributions of retained earnings of 2016, the conversion price of was NT\$17.18 (dollars) on or after July 19, 2017. After adjusting the distributions on retained earnings in 2017, the price of conversion amounted to NT\$15.63 (dollars) on or after August 27, 2018.

(iv) As the fourth convertible bonds have issued for two years, the creditors may request a buy back. Therefore, based on the conservative principles, the 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.

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

(m) Operating lease

(i) The Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Less than one year	\$ 149,046	122,884
Between one and five years	186,171	79,956
	<b><u>\$ 335,217</u></b>	<b><u>202,840</u></b>

The Group leases a number of offices under operating leases. The leases typically run for a period of 1 to 6 years. Some leases provide for additional rent payments that are based on changes in a local price index.

The Group recognized rental expenses of \$169,035 and 156,341 in 2018 and 2017, respectively.

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

(ii) The Group as lessor

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Less than one year	\$ 4,478	5,503
Between one and five years	4,426	7,781
	<b><u>\$ 8,904</u></b>	<b><u>13,284</u></b>

For the years ended December 31, 2018 and 2017, the rental revenue under operating leases are \$4,257 and \$4,274, respectively.

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

(Continued)

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

## (n) Employee benefits

## (i) Defined benefit plans

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Present value of defined benefit obligations	\$ 218,239	236,403
Fair value of plan assets	<u>(86,689)</u>	<u>(92,070)</u>
Net defined benefit liabilities (assets)	<u><b>\$ 131,550</b></u>	<u><b>144,333</b></u>

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

## 1) Composition of plan assets

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$86,689 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

## 2) Movements in present value of the defined benefit obligations

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

	<b>2018</b>	<b>2017</b>
Defined benefit obligation at January 1	\$ 236,403	251,153
Current service costs and interest	5,383	5,482
Remeasurement in net defined benefit liability (assets)	4,262	(9,579)
Benefits paid by the plan	<u>(27,809)</u>	<u>(10,653)</u>
Defined benefit obligation at December 31	<u><b>\$ 218,239</b></u>	<u><b>236,403</b></u>

(Continued)

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

**Notes to the Consolidated Financial Statements**

3) Movements of defined benefit plan assets

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

	<u>2018</u>	<u>2017</u>
Fair value of plan assets at 1 January	\$ 92,070	94,893
Contributions made	7,330	6,912
Benefits paid by the plan	(16,532)	(10,653)
Expected return on plan assets	1,498	1,308
Remeasurement of the net defined benefit liability (assets)	<u>2,323</u>	<u>(390)</u>
Fair value of plan assets at 31 December	<u>\$ 86,689</u>	<u>92,070</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 1,597	2,073
Net interest on net defined benefit liability (assets)	3,786	3,409
Expected return on plan assets	<u>(1,498)</u>	<u>(1,308)</u>
	<u>\$ 3,885</u>	<u>4,174</u>
Selling expenses	\$ 2,631	2,782
Administrative expenses	<u>1,254</u>	<u>1,392</u>
	<u>\$ 3,885</u>	<u>4,174</u>

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

The Company's remeasurement in net defined benefit liability (assets) recognized in other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Accumulated amount on 1 January	\$ 12,216	21,405
Recognized during the period	<u>1,939</u>	<u>(9,189)</u>
Accumulated amount on 31 December	<u>\$ 14,155</u>	<u>12,216</u>

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

6) Actuarial assumptions

The following are the Company's principal actuarial assumptions:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	1.375 %	1.625 %
Future salary increases	3.000 %	3.000 %

The expected allocation payment made by the Company to the defined benefit plans for the one year period after the reporting date was \$7,642.

The weighted-average duration of the defined benefit obligation is 15.78 years.

7) Sensitivity analysis

As of December 31, 2018 and 2017, if the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	<u>Impact on the defined benefit obligation</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2018		
Discount Rate	\$ (6,041)	6,303
Future salary increases	6,089	(5,867)
December 31, 2017		
Discount Rate	(6,605)	6,885
Future salary increases	6,663	(6,432)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

(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.

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

The Company and WTC recognized the pension costs under the defined contribution method amounting to \$20,819 and \$18,990 for the years ended December 31, 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 \$59,031 and \$50,821 for the years ended December 31, 2018 and 2017, respectively.

(o) 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% for the Company and WTC is applicable upon filing the corporate income tax return since 2018.

(i) Income tax expenses

- 1) The amount of income tax for the years ended December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Current tax expense		
Current period	\$ 236,691	133,695
Adjustment for prior periods	<u>(1,007)</u>	<u>7,154</u>
	<u>235,684</u>	<u>140,849</u>
Deferred tax expense		
Origination and reversal of temporary differences	(2,119)	55,391
Adjustment in tax rate	<u>30,788</u>	<u>-</u>
Income tax expense	<u>\$ 264,353</u>	<u>196,240</u>

- 2) The amount of income tax recognized in other comprehensive income for 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement from defined benefit plans	\$ <u>(754)</u>	<u>1,563</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign financial statements	\$ <u>10,458</u>	<u>(34,668)</u>

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

3) Reconciliation of income tax and profit before tax for 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Profit before tax	\$ 888,407	827,500
Income tax using the Company's domestic tax rate	224,813	221,657
Adjustment in tax rate	30,788	-
Non-deductible expenses	4,941	2,203
Net investment income and tax-exempt income	(734)	(1,082)
Change in unrecognized temporary differences	(1,509)	(13,906)
Current-year losses for which no deferred tax assets was recognized	-	(1,578)
Under (Over) provision in prior periods	(1,007)	7,154
Other	7,061	(18,208)
	<u>\$ 264,353</u>	<u>196,240</u>

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Tax effect of deductible temporary differences	\$ <u>31,935</u>	<u>30,037</u>

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

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

	<u>Defined Benefit Plans</u>	<u>Exchange differences on translation</u>	<u>Bad debt expense over the tax limitation</u>	<u>Loss on valuation of inventory</u>	<u>Allowance for sales discount</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:							
Balance at January 1, 2018	\$ 2,077	28,303	10,307	12,349	19,514	28,097	100,647
Recognized in profit or loss	-	-	1,112	55,219	3,846	1,188	61,365
Recognized in other comprehensive income	754	(10,458)	-	-	-	-	(9,704)
Balance at December 31, 2018	<u>\$ 2,831</u>	<u>17,845</u>	<u>11,419</u>	<u>67,568</u>	<u>23,360</u>	<u>29,285</u>	<u>152,308</u>

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

	<b>Defined Benefit Plans</b>	<b>Exchange differences on translation</b>	<b>Bad debt expense over the tax limitation</b>	<b>Loss on valuation of inventory</b>	<b>Allowance for sales discount</b>	<b>Others</b>	<b>Total</b>
Balance at January 1, 2017	\$ 3,640	-	5,085	11,019	20,165	27,770	67,679
Recognized in profit or loss	-	-	5,222	1,330	(651)	327	6,228
Recognized in other comprehensive income	(1,563)	28,303	-	-	-	-	26,740
Balance at December 31, 2017	<u>\$ 2,077</u>	<u>28,303</u>	<u>10,307</u>	<u>12,349</u>	<u>19,514</u>	<u>28,097</u>	<u>100,647</u>

	<b>Temporary difference from subsidiary investment</b>	<b>Exchange differences on translation</b>	<b>Others</b>	<b>Total</b>
Deferred tax liabilities:				
Balance at January 1, 2018	\$ 231,674	-	13,643	245,317
Recognized in profit or loss	97,250	-	(7,216)	90,034
Balance at December 31, 2018	<u>\$ 328,924</u>	<u>-</u>	<u>6,427</u>	<u>335,351</u>
Balance at January 1, 2017	172,210	6,365	11,488	190,063
Recognized in profit or loss	59,464	-	2,155	61,619
Recognized in other comprehensive income	-	(6,365)	-	(6,365)
Balance at December 31, 2017	<u>\$ 231,674</u>	<u>-</u>	<u>13,643</u>	<u>245,317</u>

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

<u>Year of loss</u>	<u>Amount of loss</u>	<u>Deductible amount</u>	<u>Expiry year</u>	<u>Note</u>
2010	\$ 885	863	2020	Assessed
2011	1,902	1,902	2021	Assessed
2012	931	931	2022	Assessed
2013	559	559	2023	Assessed
2014	513	513	2024	Assessed
2015	481	481	2025	Assessed
2016	488	488	2026	Assessed
2017	678	678	2027	Applied
	<u>\$ 6,437</u>	<u>6,415</u>		

- (iv) The tax authority has assessed the income tax returns of the Company and WTC for the years through 2016.

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

(p) Capital and other equities

As of December 31, 2018 and 2017, the total value of nominal ordinary shares amounted to \$3,500,000, with a par value of \$10 per share, totaling 350,000 thousand ordinary shares; of which, 344,898 thousand shares and 323,009 thousands shares, respectively, were issued. All issued shares were paid up upon issuance.

(i) Common stock

For the year ended December 31, 2018, 9,889 thousand new common shares, with a par value of \$10, amounting to \$98,886. The related registration procedures were completed as of reporting date.

(ii) Capital surplus

Balance on capital surplus of the Group were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Additional paid in capital	\$ 832,785	882,454
Treasury share transactions	37,617	37,617
Donation from shareholders	712	712
Convertible bonds– conversion options	1,335	8,115
Other	253	253
	<b><u>\$ 872,702</u></b>	<b><u>929,151</u></b>

For the year ended December 31, 2018, the capital surplus deriving from those convertible bonds, which were converted to common stock, amounted to \$63,551 (including the capital surplus-conversion options transferred to the capital surplus-additional paid-in capital of \$6,780).

In accordance with the Company Act, realized capital reserves can only be utilized for issuing new shares or being distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be utilized for issuing new shares shall not exceed 10 percent of paid-in capital. Capital reserve increased by transferring paid-in capital in excess of par value can only be capitalized until the fiscal year after the competent authority for company registrations approves registration of the capital increase.

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. The related registration procedures were completed as of reporting date.

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

(iii) Retained earnings

The Company's Article of Incorporation stipulates that Company's earnings, net of relative expenses and remuneration to employees, directors and supervisors, should first be used to pay any taxes and offset the prior years' deficits, 10% of the remaining balance is to be set aside as legal reserve, and then set aside or reverse special reserve according to the regulations and consider directly transferring into retained earnings, any remaining profit, together with any undistributed retained earnings at the beginning, be distributed according to the distribution plan proposed by the Board of Directors to be submitted during the stockholders' meeting for approval. Before the distribution of dividends, the 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 adopt this resolution. The total distribution shall not be less than 50% of the current earnings, and the cash dividends shall not be less than 20% of the total dividends.

1) Legal reverse

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

2) 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.

3) Earnings distribution

The Companies' 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:

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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	2017		2016	
	Amount per share	Total amount	Amount per share	Total amount
Cash dividends distributed to ordinary shareholders	\$1.30654696	432,597	1.06	343,739
(q) Earnings per share				
(i) Basic earnings per share				

The calculation of basic earnings per share at December 31, 2018 and 2017 was based on the profit attributable to ordinary shareholders of the Company of \$624,054 and \$631,260, respectively, and the weighted average number of ordinary shares outstanding of 340,230 and 323,009 thousand shares, respectively, calculated as follows:

- 1) Profit attributable to ordinary shareholders of the Company

	2018	2017
Profit attributable to ordinary shareholders of the Company	\$ 624,054	631,260

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

	2018	2017
Weighted-average number of ordinary share	340,230	323,009

- 3) Basic earnings per share (TWD)

	2018	2017
	\$ 1.83	1.95

- (ii) Diluted earnings per share

The calculation of diluted earnings per share on 31 December 31, 2018 and 2017 was based on profit attributable to ordinary shareholders of the Company , and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares calculated as follows.

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

	2018	2017
Profit attributable to ordinary shareholders of the Company (basic)	\$ 624,054	631,260
Convertible bonds payable	2,488	1,517
Profit attributable to ordinary shareholders of the Company (diluted)	\$ 626,542	632,777

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

	<b>2018</b>	<b>2017</b>
Weighted-average number of ordinary shares (basic)	340,230	323,009
Effect of convertible bonds	6,538	11,641
Effect of employee stock remuneration	4,605	4,094
Weighted-average number of ordinary shares (diluted) on December 31	<b>351,373</b>	<b>338,744</b>

	<b>2018</b>	<b>2017</b>
3) Diluted earnings per share (TWD)	<b>\$ 1.78</b>	<b>1.87</b>

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

	<b>2018</b>
Primary geographical markets:	
Taiwan	\$ 3,939,673
China	44,865,668
Other	4,181,790
	<b>\$ 52,987,131</b>
Major products/services lines	
Chipset/memory components	\$ 26,195,688
Assorted and other components	26,780,422
	11,021
	<b>\$ 52,987,131</b>

For the year ended December 31, 2018, the Group determined some specific merchandises or services provided by the other party in transactions (where the Group was an agent) were \$896,927, and the Group recognized the remaining amount which deducted the payment to the other party from the transactions as revenue amounting to \$10,354. The other receivables and the other payables due to the above transactions amounting to \$895,511 and \$884,438 as of December 31, 2018, respectively. Please refer to note (6)(g) and (6)(k).

The details on revenue for the year ended December 31, 2017, please refer to note (6)(s).

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

## (ii) Contract balance

	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Notes and accounts receivable	\$ 8,609,598	8,271,565
Less: allowance for impairment	<u>(185,733)</u>	<u>(153,040)</u>
	<b><u>\$ 8,423,865</u></b>	<b><u>8,118,525</u></b>
	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Contract liabilities	<b><u>\$ 151,723</u></b>	<b><u>176,904</u></b>

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

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$168,163.

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

## (s) Revenue

Revenue of the Group in 2017 was as follows:

	<b>2017</b>
Chipset/ memory components	\$ <u>26,574,978</u>
Assorted and other components	25,353,377
Service revenue	<u>1,053</u>
	<b><u>\$ 51,929,408</u></b>

For the details on revenue, please refer to note (6)(r).

## (t) Remuneration to employees and directors

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

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

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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The Company's Articles of Incorporation before amendment require that earnings shall first be offset against any deficit, then, 6% to 10% of net profit before tax (before deducting remuneration to employees and 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 was \$73,349 as well as remuneration of directors was \$18,337, for the year ended December 31, 2018. These amounts are calculated by using the Company's profit before tax for the period before deducting the amount of the remuneration to employees and directors, multiplied by the distribution ratio of remuneration to employees and directors under the Company's articles of Incorporation, and expensed under operating expenses. If the Board of Directors resolved to distribute employees' remuneration in the form of shares, the numbers of shares to be distributed were calculated based on the closing price of the Company's ordinary shares on the day before the date of the meeting of the board of directors.

For the year ended December 31, 2017, the recognized employee remuneration of the Company was \$68,933, directors' and supervisors' remuneration was \$17,233. These amounts were calculated by using the Company's pre-tax net profit for the period before deducting the amount of the remuneration to employees, directors and supervisors, multiplied by the distribution ratio of remuneration to employees, directors and supervisors under the Company's articles of Incorporation, and expensed under operating expenses. 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.

(u) Financial Instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

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

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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3) Receivables

For credit risk exposure of notes and trade receivables, please refer to note (6)(f).

Other financial assets at amortized cost include other receivables had been impaired. Please refer to the note (6)(g) for the loss allowance provision as of December 31, 2018.

(ii) Liquidity risk

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

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1 ~ 2 years</u>
<b>December 31, 2018</b>				
Non-derivative financial liabilities				
Unsecured loans	\$ 11,068,192	(11,068,192)	(11,068,192)	-
Short-term notes and bill payable, net	669,283	(670,000)	(670,000)	-
Notes and accounts payable	5,632,824	(5,632,824)	(5,632,824)	-
Other payables	1,130,014	(1,130,014)	(1,130,014)	-
Bonds payable	<u>32,392</u>	<u>(32,900)</u>	<u>(32,900)</u>	<u>-</u>
	<b><u>\$ 18,532,705</u></b>	<b><u>(18,533,930)</u></b>	<b><u>(18,533,930)</u></b>	<b><u>-</u></b>
<b>December 31, 2017</b>				
Non-derivative financial liabilities				
Unsecured loans	\$ 8,653,235	(8,653,235)	(8,653,235)	-
Short-term notes and bill payable, net	469,420	(470,000)	(470,000)	-
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:	4,724			
Outflow	-	(360,408)	(360,408)	-
Inflow	<u>-</u>	<u>355,684</u>	<u>355,684</u>	<u>-</u>
	<b><u>\$ 14,705,778</u></b>	<b><u>(14,714,018)</u></b>	<b><u>(14,514,018)</u></b>	<b><u>(200,000)</u></b>

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

(Continued)

**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:

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	\$ 224,034	USD/TWD 30.715	6,881,192	198,823	USD/TWD 29.76	5,916,962
USD	2,504	USD/CNY 6.8683	76,923	951	USD/CNY 6.5192	28,310
Non-monetary items						
USD	745	USD/TWD 30.715	22,883	762	USD/TWD 29.76	22,677
Financial liabilities						
Monetary items						
USD	243,302	USD/TWD 30.715	7,473,010	196,771	USD/TWD 29.76	5,855,891
USD	15,509	USD/CNY 6.8683	476,358	33,698	USD/CNY 6.5192	1,002,853

## 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 years ended December 31, 2018 and 2017 would have increase (decreased) the other comprehensive income \$1,144 and \$1,134, respectively. For the year ended December 31, 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.

	2018	2017
USD (against the TWD)		
Strengthening 5%	\$ (29,591)	3,054
Weakening 5%	29,591	(3,054)
USD (against the CNY)		
Strengthening 5%	(19,972)	(48,727)
Weakening 5%	19,972	48,727

(Continued)

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

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 years ended December 31, 2018 and 2017, the foreign exchange gain (loss), including both realized and unrealized, amounted to a loss of \$43,335 and a gain of \$170,218, respectively.

4) Equity market price risk

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

	December 31, 2018		December 31, 2017	
	Other comprehensive income before tax	Net income before tax	Other comprehensive income before tax	Net income before tax
Securities prices at reporting date				
Increasing 5%	\$ 119	27	95	25
Decreasing 5%	\$ (119)	(27)	(95)	(25)

(iv) Interest rate analysis

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

	Carrying amount	
	December 31, 2018	December 31, 2017
Variable rate instruments:		
Financial assets	\$ 1,219,985	1,222,836
Financial liabilities	(11,068,192)	(8,653,235)

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 \$24,621 and \$18,576 for the year ended December 31, 2018 and 2017, respectively, which would be mainly resulting from demand deposits, and unsecured loans with variable interest rates.

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

## (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 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 :

	<b>December 31, 2018</b>				
	<b>Carrying amount</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets mandatorily measured at fair value through profit or loss</b>					
Derivative instruments not used for hedging					
Forward exchange contracts	\$ 590	-	590	-	590
Stocks listed on domestic markets	<u>530</u>	530	-	-	530
Subtotal	<u>1,120</u>				
<b>Financial assets at fair value through other comprehensive income</b>					
Notes and accounts receivable, net	988,777	-	-	-	-
Emerging market stock	2,375	2,375	-	-	2,375
Stocks unlisted on domestic markets and foreign market	<u>60,883</u>	-	-	60,883	60,883
Subtotal	<u>1,052,035</u>				
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	1,802,901	-	-	-	-
Notes and accounts receivable, net	7,435,088	-	-	-	-
Other receivables	1,194,746	-	-	-	-
Guarantee deposits paid	<u>72,731</u>	-	-	-	-
Subtotal	<u>10,505,466</u>				
	<b><u>\$ 11,558,621</u></b>				

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

	<b>December 31, 2018</b>				
	<b>Carrying amount</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial liabilities measured at amortized cost</b>					
Bank loans	\$ 11,737,475	-	-	-	-
Notes and accounts payable	5,632,824	-	-	-	-
Other payables	1,130,014	-	-	-	-
Bonds payable	<u>32,392</u>	-	-	-	-
	<b><u>\$ 18,532,705</u></b>				
	<b>December 31, 2017</b>				
	<b>Book value</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets at fair value through profit or loss</b>					
Stock listed on domestic markets	\$ <u>500</u>	500	-	-	500
Subtotal	<u>500</u>				
<b>Available-for sale financial assets</b>					
Emerging market stock	1,890	1,890	-	-	1,890
Financial asset carried at cost – noncurrent	<u>56,814</u>	-	-	-	-
Subtotal	<u>58,704</u>				
<b>Loans and receivables</b>					
Cash and cash equivalents	1,740,291	-	-	-	-
Notes and accounts receivable, net	7,997,061	-	-	-	-
Other receivables	345,994	-	-	-	-
Guarantee deposits paid	<u>70,831</u>	-	-	-	-
Subtotal	<u>10,154,177</u>				
	<b><u>\$ 10,213,381</u></b>				
<b>Financial liabilities at fair value through profit or loss</b>					
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>				
<b>Financial liabilities measured at amortized cost</b>					
Short-term borrowings	\$ (9,122,655)	-	-	-	-
Notes and accounts payable	(5,072,987)	-	-	-	-
Other payables	(313,072)	-	-	-	-
Bonds payable	<u>(192,160)</u>	-	-	-	-
Subtotal	<u>(14,700,874)</u>				
	<b><u>\$ (14,705,958)</u></b>				

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

There were no transfers of financial instruments between any levels for the year ended December 31, 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.

3) Valuation technique of financial instruments measured at fair value

a) Non-derivative financial instruments

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

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

b) Derivative financial instruments

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

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

4) Reconciliation of Level 3 fair values

	<b>Fair value through other comprehensive income</b>
	<b>Unquoted equity instruments</b>
Opening balance, January 1, 2018	\$ 58,664
Total gains and losses recognized:	
In profit or loss	-
In other comprehensive income	2,520
Capital refunded	(301)
Ending Balance, December 31, 2018	<b>\$ 60,883</b>

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

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

Quantified information of significant unobservable inputs was as follows:

<b>Item</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationships between significant unobservable inputs and fair value measurement</b>
Financial assets at fair value through other comprehensive income	Guideline Public Company method	<ul style="list-style-type: none"> <li>·Price-Sales ratio (1.00 and 1.10 at December 31, 2018 and 2017, respectively)</li> <li>·Price-Book ratio (0.86 and 1.01 at December 31, 2018 and 2017, respectively)</li> <li>·Lack-of-Marketability discount rate (17.02% and 20.41% on December 31, 2018 and 2017, respectively)</li> </ul>	<ul style="list-style-type: none"> <li>The estimated fair value would increase (decrease) if:</li> <li>·The Price-Sales ratio were higher (lower);</li> <li>·the Price-Book ratio were higher (lower); or</li> <li>·the Lack-of-Marketability discount rate were lower (higher)</li> </ul>
Financial assets at fair value through profit or loss	Net Asset Value Method	<ul style="list-style-type: none"> <li>·Net asset value</li> </ul>	<ul style="list-style-type: none"> <li>·Not applicable</li> </ul>

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

(v) Financial risk management

(i) Briefings

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

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

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

(ii) Structure of risk management

The Group's finance department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations.

The Group minimizes the risk exposure through derivative financial instruments. The board of directors regulated the use of derivative and non-derivative financial instruments in accordance with the Group's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investments of excess liquidity. The internal auditors of the Group continue with the review of the amount of the risk exposure in accordance with the Group's policies and the risk management policies and procedures. The Group has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

(iii) Credit risk

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

1) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and these limits are reviewed periodically. The customers evaluated as low credit rating by the Group only have prepayment transactions with the Group.

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

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

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

**2) Investments**

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

**(iv) Liquidity risk**

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

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

Borrowings from the banks and accounts receivable factoring are important sources of liquidity for the Group. Please refer to note (6)(f) and note (6)(j) for unused short-term bank facilities and factoring amount as of December 31, 2018 and 2017.

**(v) Market risk**

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

**1) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Group, primarily the USD, CNY and HKD.

When short-term assets and liabilities denominated in a foreign currency are unbalanced, the Group uses exchange rate to buy or sell about foreign currency to ensure that the net risk is maintained at an acceptable level.

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

2) Interest rate risk

As the US. economy improves and the Federal Reserve (“Fed”) continues to tighten its capital, Fed may raise its interest rate moderately. As the Group’s debt-based position are based on USD, the Group’s capital cost will result in an increase when there is an increase in the US dollar interest rate. The New Taiwan Dollar interest rate trend will remain low in the near future, therefore, the future operating strategy determined by the management will take into consideration the cost of capital in adjusting the proportion of the borrowings in TWD in order to reduce the average cost of capital of its borrowings in the future.

3) Other price risk

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

(w) Capital management

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

The Group monitors the capital structure by way of periodical review on the liability ratio. As of December 31, 2018 and 2017 the liability ratios were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total liabilities	\$ 19,786,609	15,707,610
Total assets	25,605,201	21,101,807
Liability ratio	77 %	74 %

As of December 31, 2018, there were no changes in the Group’s approach to capital management.

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

The Group’s investing and financing activities which did not affect the current cash flow in the year ended December 31, 2018, were as follows:

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

Reconciliation of liabilities arising from financing activities were as follows:

	<u>January 1, 2018</u>	<u>Cash flows</u>	<u>December 31, 2018</u>
Total liabilities from financing activities	\$ <u>9,122,655</u>	<u>2,614,820</u>	<u>11,737,475</u>

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

**(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:

<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.	Substantive related-party

(b) Other related party transactions

(i) Sale of goods to related parties

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

	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>8</u>	<u>42</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.

(ii) Processing fee and consultancy fees from related Parties

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

	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>11,990</u>	<u>10,671</u>

(iii) Leased

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

	<u>2018</u>	<u>2017</u>
Other related parties	\$ <u>1,306</u>	<u>1,306</u>

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

## (iv) Receivable from relate parties

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	Other related parties	\$ 8	-
Other receivables	Other related parties	10	-
		<u>\$ 18</u>	<u>10</u>

## (v) Payable to related parties

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other payables	Other related parties	<u>\$ 686</u>	<u>1,089</u>

## (c) Key management personnel compensation

Key management personnel compensation comprised:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 160,748	172,526
Post-employment benefits	880	899
	<u>\$ 161,628</u>	<u>173,425</u>

**(8) Pledged assets:None****(9) Commitments and contingencies:**

The detail of commitments and contingencies were as follows:

- (a) As of December 31, 2018 and 2017 the balance of L/Cs for customs and value added tax and the purchase of merchandise were as follows:

<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>\$ 323,150</u>	<u>314,600</u>

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

**(10) Losses Due to Major Disasters:None****(11) Subsequent Events:None**

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

**(12) Other:**

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

By item	By function	For the years ended December 31,	
		2018	2017
		Operating expense	Operating expense
Employee benefits			
Salary		\$ 1,124,890	1,020,255
Labor and health insurance		88,293	77,026
Pension		83,735	73,985
Remuneration of directors		30,872	29,384
Others		48,036	44,464
Depreciation		16,326	16,254
Amortization		6,473	5,577

**(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 year ended December 31, 2018:

- (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	8,727,888	7,139,938	7,139,938	4,881,005	-	122.7 %	17,455,776	Y	-	-
"	"	WTP	100% owned subsidiary	8,727,888	703,800	645,015	337,298	-	11.10 %	17,455,776	Y	-	-
"	"	WKS	100% owned subsidiary	8,727,888	1,709,424	1,264,472	641,695	-	21.70 %	17,455,776	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 SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

- (iii) Securities held as of December 31, 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				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying amount	Percentage of ownership (%)	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company										
"	Securities of listed companies EBM Technologies Inc.	-	Financial assets mandatorily measured at fair value through profit or loss-current	34	<u>530</u>	-	<u>530</u>	34	-	
"	Feature Integration Technology Inc.	-	Financial assets at fair value through other comprehensive income-noncurrent	175	2,189	0.53	2,189	175	0.53	
"	Clientron Corp.	-	"	15	<u>186</u>	0.02	<u>186</u>	18	0.02	
					<u>2,375</u>		<u>2,375</u>			
"	Paradigm I Venture Capital Company(Paradigm I)	-	"	750	9,437	6.79	9,437	750	6.79	
"	Paradigm Venture Capital Corporation(PVC Corp.)	-	"	271	3,226	10.49	3,226	301	10.49	
"	InnoBridge Venture Fund I.L.P. (InnoBridge)	-	"	-	15,150	9.90	15,150	-	9.90	
"	Shin Kong Global Venture Capital Corp.	-	"	3,000	18,000	12.00	18,000	3,000	12.00	
"	Vision Wide Technology Co., Ltd.(VTEC)	-	"	800	15,070	1.70	<u>15,070</u>	800	1.97	
					<u>60,883</u>		<u>60,883</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
- (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	484,430 (USD15,949)	2 %	OA30	According to cost-plus pricing	-	-	-	%
	"	"	(Sales)	(631,915) (USD(21,281))	(2) %	"	"	-	88,883 (USD2,894)	2	%
WKI	The Company	Parent company	(Sales)	(484,430) (USD(15,949))	(2) %	"	"	-	-	-	%
"	"	"	Purchases	631,915 (USD21,281)	3 %	"	"	-	(88,883) (USD(2,894))	(5)	%
"	WKS	Subsidiary	(Sales)	(2,399,028) (USD(79,576))	(11) %	OA60	"	-	456,628 (USD14,867)	15	%
WKS	WKI	Parent company	Purchases	2,399,028 (USD79,576)	56 %	"	"	-	(456,628) (USD(14,867))	(41)	%

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

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

- (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			
WK1	WKS	Subsidiary	456,628 (USD14,867)	3.27	-	-	USD 5,372	-	The transactions have been eliminated in the consolidated financial statement

Note: Information as of March 28, 2019.

- (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	WK1	1	Sales Revenue	631,915	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	1.19%
"	"	"	"	Accounts Receivable	88,883	"	0.35%
"	"	"	"	Management and Credit Service Revenue	223,355	The price is set by percentage of the contract and is received quarterly.	0.42%
"	"	"	"	Other Receivables	52,626	"	0.21%
"	"	WKS	"	Sales Revenue	3,987	The price is marked up based on operating cost, OA60.	0.01%
"	"	"	"	Accounts Receivable	2,780	"	0.01%
"	"	WTP	"	Sales Revenue	39,597	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.07%
"	"	"	"	Accounts Receivable	2,222	"	0.01%

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**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	
1	WKI	The Company	2	Sales Revenue	484,430	The price is marked up based on operating cost, and the receivables depend on OA30 after offsetting the accounts payable.	0.91%	
"	"	WKS	3	Sales Revenue	2,399,028		The price is marked up based on operating cost, and the receivables depend on funding demand and OA60.	4.53%
"	"	"	"	Accounts Receivable	456,628		"	1.78%
2	WKS	WKI	"	Service Revenue	272,658	The price is set by percentage of the contract, OA30.	0.51%	
"	"	"	"	Account Receivable	23,505	"	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 from the subsidiaries to the parent company.
- 3 represents the transactions between subsidiaries.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 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			The highest holdings in the period		Net income (losses) of investee	Investment income (losses) of investor	Note
				December 31, 2018	December 31, 2017	Shares (In Thousands)	Percentage of Ownership	Carrying amount	Shares (In Thousands)	Percentage of Ownership			
The Company	WKI	HongKong	Electronic components computer peripherals products distribution and technical support	\$ 620,205	620,205	287,000	100%	3,248,974	287,000	100%	279,537	279,537	Subsidiary
"	WTC	Taipei	Electronic components and technical support	12,983	12,983	1,589	100%	26,917	1,589	100%	(187)	(187)	"
"	WTP	Singapore	"	215,564	215,564	8,956	100%	265,156	8,956	100%	2,295	2,295	"
	Total			<u>848,752</u>	<u>848,752</u>			<u>3,541,047</u>				<u>281,645</u>	
WKI	Weitech	HongKong	Import and export trade of electronic components	0.41 (HKD0.1)	0.41 (HKD0.1)	-	100%	1,659 (USD54)	-	100%	221 (USD7)	221 (USD7)	Subsidiary's subsidiary

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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(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 Taiwan as of December 31, 2018	Net income (losses) of the investee (Note 2)	Percentage of ownership	Highest balance during the year		Investment income (losses) of investor (Note 2)	Book value	Accumulated remittance of earnings in current period
					Outflow (Note 3)	Inflow				Shares/Units	Highest Percentage of ownership			
WKS	Electronic components computer peripherals products distribution and technical support	786,647 (USD25,000)	Note 1 - 4	304,594 (USD9,800)	-	-	304,594 (USD9,800)	9,349 (USD310) (Note 2)	100%	-	100%	9,349 (USD310) (Note 2)	675,045 (USD21,978)	-
WKE	Electronic technology development and technical advisory	5,067 (RMB1,000)	Note 1 - 5	-	-	-	-	(281) (USD(9))	100%	-	100%	(281) (USD(9))	4,691 (USD153)	-

- (ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA (note 3)	Upper Limit on Investment
304,594 (USD9,800)	767,875 (USD25,000)	3,491,155

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 year ended December 31, 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 RMB1,000 thousand dollars on Weikeng Electronic Technology (Shanghai) Co. Ltd. using its funds.

- (iii) Significant transactions:

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

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

**(14) Segment information:**

- (a) 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:

	<u>2018</u>	<u>2017</u>
<b>Revenue</b>		
Revenue from external customers	\$ 52,987,131	51,929,408
Intersegment revenues	<u>-</u>	<u>-</u>
Total revenue	<u>\$ 52,987,131</u>	<u>51,929,408</u>
Reportable segment profit	\$ 1,781,080	1,376,557
General administration expense	<u>(512,795)</u>	<u>(464,145)</u>
Operating income	<u>\$ 1,268,285</u>	<u>912,412</u>
Reportable segment assets	<u>\$ 25,605,201</u>	<u>21,101,807</u>

- (b) Product and service information

The Group operates in a single industry, the main industry for the trading of electronic components and computer peripheral products. Please refer to notes (6)(r) and (6)(s).

- (c) Geographic information

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

Sales to Other than Consolidated Entities:

<b>Area</b>	<u>2018</u>	<u>2017</u>
Taiwan	\$ 3,939,673	3,767,497
China	44,865,668	45,977,105
Others	<u>4,181,790</u>	<u>2,184,806</u>
	<u>\$ 52,987,131</u>	<u>51,929,408</u>

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**WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES**  
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Non-current Assets:

<b>Area</b>	<b>2018</b>	<b>2017</b>
Taiwan	\$ 150,023	153,722
China	90,272	79,844
Singapore	<u>2,753</u>	<u>2,273</u>
	<b><u>\$ 243,048</u></b>	<b><u>235,839</u></b>

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

(d) Information about major customers

There were no individual customers who accounted for over 10% of consolidated net sales in 2018 and 2017.