WEIKENG INDUSTRIAL CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditors’ Report Thereon)

KPMG

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Weikeng Industrial Co., Ltd. and subsidiaries as of December 31, 2013 and 2012, and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statement based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China and the generally accepted auditing standards. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of consolidated financial statement. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Weikeng Industrial Co., Ltd. and subsidiaries as of December 31, 2013 and 2012, and January 1, 2012, and the results of their consolidated operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission R.O.C..

KPMG

Weikeng Industrial Co., Ltd. has prepared the annual parent company only financial reports as of and for the years ended December 31, 2013 and 2012, on which we have issued an unqualified opinion.

KPMG

March 26, 2014

The accompanying financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the International Financial Reporting Standards, International Accounting Standards and interpretations endorsed by the Financial Supervisory Commissions in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying 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 versions of the auditors' report and financial statements, the Chinese version shall prevail.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013, and December 31, and January 1, 2012
(expressed in thousands of New Taiwan dollars)

Assets	December 31, 2013 Amount	%	December 31, 2012 Amount	%	January 1, 2012 Amount	%
Current assets:						
Cash and cash equivalents (note6(a))	$ 2,066,043	14	1,766,384	15	2,459,696	18
Financial assets measured at fair value through profit or loss-current (note6(b))	116,291	1	62,622	1	68,426	1
Notes and accounts receivable, net (note6(c)and 7)	6,163,092	42	4,598,065	39	4,870,813	36
Other receivables (note6(c))	137,725	1	112,178	1	87,316	1
Inventories, net (note6(d))	5,476,212	37	4,285,907	37	5,094,640	38
Prepaid expenses and other current assets	392,414	2	374,726	3	292,129	2
	14,351,777	97	11,199,882	96	12,873,020	96
Non-current assets:						
Available-for-sale financial assets –noncurrent (note6(b))	2,046	-	1,920	-	71,132	1
Financial assets carried at cost – noncurrent (note6(b))	70,579	1	88,930	1	113,334	1
Property, plant and equipment (note6(e))	167,490	1	166,976	1	151,694	1
Intangible assets	19,930	-	18,170	-	27,880	-
Deferred tax assets (note 6(j))	62,242	-	64,588	1	52,108	-
Other non-current assets (note 8)	71,770	1	67,751	1	79,416	1
	394,057	3	408,335	4	495,564	4
Total assets	$ 14,745,834	100	11,608,217	100	13,368,584	100

Liabilities and equity	December 31, 2013 Amount	%	December 31, 2012 Amount	%	January 1, 2012 Amount	%
Current liabilities:						
Short-term borrowings (note6(f))	$ 5,344,275	37	3,382,081	29	3,995,374	30
Notes and accounts payable (note 7)	3,869,386	26	3,003,382	26	3,725,074	28
Accrued expenses and other current liabilities (note6(b), note (m))	407,700	3	348,969	3	503,419	4
Current tax liabilities	59,399	-	43,185	-	81,648	-
Other current liabilities	118,991	1	114,788	1	85,938	1
Convertible bonds payable, current portion (note 6(g))	752,083	5	-	-	-	-
	10,551,834	72	6,892,405	59	8,391,453	63
Non-current liabilities:						
Financial liabilities measured at fair value through profit or loss – noncurrent (note6(b))	-	-	24,326	-	33,322	-
Convertible bonds payable (note6(j))	-	-	741,556	7	730,241	6
Deferred tax liabilities (note6(i))	144,244	1	121,167	1	117,252	1
Accrued pension liability (note6(i))	144,836	1	153,727	1	140,323	1
Other noncurrent liability	1,223	-	1,193	-	5,783	-
	290,303	2	1,041,969	9	1,026,921	8
Total liabilities	10,842,137	74	7,934,374	68	9,418,374	71
Equity attributable to owners of parent (note6(k)):						
Common stock	2,439,864	17	2,439,386	21	2,439,386	18
Capital surplus	389,924	3	389,415	3	389,415	3
Legal reserve	551,264	4	507,863	5	441,177	3
Special reserve	144,101	1	52,285	-	143,579	1
Unappropriated retained earnings (note 6(k))	464,889	2	431,244	4	593,364	5
Other equity interest:						
Exchange differences on translation of foreign financial statements	(80,991)	(1)	(140,870)	(1)	(77,736)	(1)
Unrealized gains (losses) on available-for-sale financial assets	(5,354)	-	(5,480)	-	21,025	-
	(86,345)	(1)	(146,350)	(1)	(56,711)	(1)
Total equity	3,903,697	26	3,673,843	32	3,950,210	29
Total liabilities and equity	$ 14,745,834	100	11,608,217	100	13,368,584	100

See accompanying notes to financial statements.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated statements of comprehensive income

For the years ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan dollars, except net income per share amounts)

	2013 Amount	%	2012 Amount	%
Net sales revenue (note 7)	$ 33,299,359	100	29,308,439	100
Cost of sales (note 6(d) and note 7)	31,111,369	94	27,340,819	93
Gross profit	2,187,990	6	1,967,620	7
Operating expenses (note 7 and note 12):				
Selling expenses	1,117,087	3	1,052,785	4
Administrative expenses	428,335	1	357,972	1
	1,545,422	4	1,410,757	5
Net operating income	642,568	2	556,863	2
Non-operating income and expenses:				
Other income	22,198	-	17,227	-
Gain on disposal of investments (note 6(b))	-	-	45,927	-
Foreign currency exchange gain, net	73,090	-	51,250	-
Gain or loss on financial assets(liabilities) measured at fair value through profit or loss	19,979	-	3,088	-
Financial cost	(70,952)	-	(78,574)	-
Impairment loss (notes 6(b))	(15,000)	-	(19,871)	-
Miscellaneous disbursements	(13,262)	-	(17,588)	-
	16,053	-	1,459	-
Profit before tax	658,621	2	558,322	2
Tax expense (note 6(j))	130,548	-	123,491	(1)
Profit	528,073	2	434,831	3
Other comprehensive income:				
Other comprehensive income, before tax, exchange differences on translation of foreign financial statements	72,144	-	(76,029)	-
Other comprehensive income, before tax, unrealized gain (loss) on available-for-sale financial assets	126	-	(26,505)	-
Other comprehensive income before tax actuarial gains (losses) on defined benefit plans	8,068	-	(14,111)	-
Less: income tax relating to components of other comprehensive income	13,636	-	(15,294)	-
Other comprehensive income, net of tax	66,702	-	(101,351)	-
Comprehensive income	$ 594,775	2	333,480	3
Earnings per share (note 6(l))				
Basic net income per share	$	2.16		1.78
Diluted net income per share	$	1.85		1.56

See accompanying notes to financial statements.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Consolidated statements of changes in equity
For the years ended December 31, 2013 and 2012
(expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated retained earnings	Other equity interest: Exchange differences on translation of foreign financial statements	Other equity interest: Unrealized gains (losses)on available-for-sale financial assets	Total equity
Balance as of January 1, 2012	$ 2,439,386	389,415	441,177	143,579	593,364	(77,736)	21,025	3,950,210
Appropriation (note 1):								
Legal reserve	-	-	66,686	-	(66,686)	-	-	-
Reversal of special reserve	-	-	-	(91,294)	91,294	-	-	-
Cash dividends	-	-	-	-	(609,847)	-	-	(609,847)
Profit for the year ended December 31, 2012	-	-	-	-	434,831	-	-	434,831
Other comprehensive income	-	-	-	-	(11,712)	(63,134)	(26,505)	(101,351)
Comprehensive income	-	-	-	-	423,119	(63,134)	(26,505)	333,480
Balance on December 31, 2012	$ 2,439,386	389,415	507,863	52,285	431,244	(140,870)	(5,480)	3,673,843
Appropriation (note2):								
Legal reserve	-	-	43,401	-	(43,401)	-	-	-
Special reserve	-	-	-	91,816	(91,816)	-	-	-
Cash dividends	-	-	-	-	(365,908)	-	-	(365,908)
Convertible bonds payable converted into common stock	478	509	-	-	-	-	-	987
Profit for the year ended December 31, 2013	-	-	-	-	528,073	-	-	528,073
Other comprehensive income	-	-	-	-	6,697	59,879	126	66,702
Comprehensive income	-	-	-	-	534,770	59,879	126	594,775
Balance as of December 31, 2013	$ 2,439,864	389,924	551,264	144,101	464,889	(80,991)	(5,354)	3,903,697

Note1: Directors' and supervisor's remuneration amounting to $20,744 and employee bonuses amounting to $82,976 were recognized in 2011 consolidated statements of comprehensive income.
Note2: Directors' and supervisor's remuneration amounting to $8,964 and employee bonuses amounting to $35,855 were recognized in 2012 consolidated statements of comprehensive income.

See accompanying notes to financial statements.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Consolidated statements of cash flows

For the years ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan dollars)

		2013	2012
Cash flows from (used in) operating activities:			
Profit before tax	$	658,621	558,322
Adjustments:			
Depreciation expense		19,909	14,832
Amortization expense		12,046	9,619
Interest expense		70,952	78,574
Interest income		(3,999)	(5,220)
Gain on disposal of available-for-sale financial assets		-	(45,927)
Impairment loss on financial assets		15,000	19,871
		113,908	71,749
Changes in operating assets and liabilities:			
Changes in operating assets:			
Changes in financial assets and liabilities at fair value through profit or loss		(54,588)	6,574
Decrease (increase) in notes and accounts receivable		(1,565,027)	272,748
Decrease (increase) in inventories, net		(1,190,416)	808,491
Increase in prepayments and other current assets		(17,688)	(82,597)
Increase in other receivables		(26,305)	(24,862)
		(2,854,024)	980,354
Changes in operating liabilities:			
Increase (decrease) in notes and accounts payable		866,004	(721,692)
Increase in other current liabilities		4,203	28,850
Increase (decrease) in other payables		42,894	(144,855)
Other		(15,834)	(2,725)
		897,267	(840,422)
Total changes in operating assets and liabilities		(1,956,757)	139,932
Total adjustments		(1,842,849)	211,681
Cash flows from (used in) operations		(1,184,228)	770,003
Interest received		3,997	5,220
Interest paid		(51,846)	(72,271)
Income taxes paid		(104,533)	(160,922)
Net cash flows from (used in) operating activities		(1,336,610)	542,030
Cash flows from (used in) investing activities:			
Proceeds from disposal of available-for-sale financial assets		-	88,634
Additions to property, plant and equipment		(20,199)	(32,497)
Increase (decrease) in refundable deposits		(2,358)	8,383
Additions to intangible assets		(12,503)	(4,052)
Other		3,306	5,238
Net cash flows from (used in) investing activities		(31,754)	65,706
Cash flows from (used in) financing activities:			
Increase (decrease) in short-term borrowings		1,962,194	(613,293)
Cash dividends paid		(365,908)	(609,847)
Other		30	(2,982)
Net cash flows (used in) from financing activities		1,596,316	(1,226,122)
Foreign currency translation adjustments		71,707	(74,926)
Net increase (decrease) in cash and cash equivalents		299,659	(693,312)
Cash and cash equivalents at beginning of period		1,766,384	2,459,696
Cash and cash equivalents at end of period	**$**	**2,066,043**	**1,766,384**

See accompanying notes to financial statements.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(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.306 Sec. 1, Neihu Rd., Neihu Dist., Taipei City. The major activities of the are Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") 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 26, 2014.

(3) New standards and interpretations not yet adopted

(a) New standards and interpretations endorsed by the Financial Supervisory Commissions R.O.C. ("FSC") but not yet in effect

The International Accounting Standards Board ("IASB") issued the International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"), which should take effect on January 1, 2013 (In December 2011, the IASB postponed the effective date of IFRS 9 to January 1, 2015; however in November 2013, the ISAB cancelled the announcement mentioned above to allow the preparer of financial statements to have sufficient time to convert to the new standard.) This standard had been approved by the FSC; however, the effective date has not been announced. In accordance with FSC rules, early adoption is not permitted, and companies shall follow the guidance in the 2009 version of International Accounting Standard 39 *Financial Instruments* ("IAS 39"). Upon the adoption of this new standard, it is expected there will be significant impacts on the classification and measurement of financial instruments in the parent-company-only financial statements.

(b) New standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB that may have an impact on the consolidated financial statements has not yet endorsed by the FSC:

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Issue date	New standards and amendments	Description	Effective date per IASB
May 12, 2011	• IFRS 10 Consolidated Financial Statements	On May 12, 2011, the IASB issued a series of standards and amendments related to consolidation, joint arrangements, and investments.	January 1, 2013
June 28, 2012	• IFRS 11 Joint Arrangements • IFRS 12 Disclosure of Interests in Other Entities • Amended IAS 27 Separate Financial Statements • Amended IAS 28 Investments in Associates and Joint Ventures	The new standards provide a single model for determining whether an entity has control over an investee (including special purpose entities), other than the consolidation process, in which the original guidance and method applies. In addition, joint arrangements are separated into joint operations (formerly known as jointly controlled assets and jointly controlled operations), and joint venture (formerly known as jointly controlled entities), and removal of the proportionate consolidation method. On June 28, 2012, amendments were issued clarifying the guidance over the transition period. The Company expects the adoption of the standards above will increase the information of related disclosures and change the way of determining whether an entity has control over the investee.	
May 12, 2011	• IFRS 13 Fair Value Measurement	Replaces fair value measurement guidance in other standards, and consolidates as one single guidance. The Group is in the process of assessing the impact on the consolidated financial statements at the time of adoption. The amendments will increase the information of fair value disclosures.	January 1, 2013

(Continued)

Issue date	New standards and amendments	Description	Effective date per IASB
June 16, 2011	‧ Amended IAS 1 Presentation of Financial Statements	Items presented in other comprehensive income shall be based on whether they are potentially reclassifiable to profit or loss subsequently. The Company expects the adoption of the standards above will change the way of presentation of other comprehensive income in the consolidated statements of comprehensive income.	July 1, 2012
June 16, 2011	‧ Amended IAS 19 Employee Benefits	Eliminates the corridor method and eliminates the option to recognize changes in the net defined benefit liability (asset) in profit or loss; in addition, requires the immediate recognition of past service cost. The Company believes that the adoption of standards above will not have a significant effect on financial statements.	January 1, 2013

(4) Significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically mentioned, the following accounting policies were applied consistently throughout the presented periods in the financial statements, and the consolidated balance sheet as of January 1, 2012 prepared for the conversion to International Financial Reporting Standards (IFRSs), International Accounting standards (IASs), and IFRIC Interpretations and SIC interpretations endorsed by the FSC ("IFRSs endorsed by the FSC").

The financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(a) Statement of compliance

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

These are the Group's first IFRS consolidated annual financial statements for part of the period covered by the first IFRS (endorsed by the FSC) annual financial statements, and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Group is provided in note 14.

(b) Basis of preparation

1. Basis of preparation

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

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

(ii) Available-for-sale financial assets are measured at fair value;

(iii) The defined benefit asset is recognized as plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less the present value of the defined benefit obligation.

2. Functional and presentation currencies

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.

(Continued)

(c) Basis of Consolidation

1. Principle of preparation of the consolidated financial statements

   The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. 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.

   Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

2. List of subsidiaries in the consolidated financial statements

			Percentage of ownership		
Investor	**Name of Subsidiary**	**Nature of operation**	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
The Company	Weikeng International Co., Ltd. (WKI)	Purchase and sale of electronic components	100%	100%	100%
The Company	Weikeng Technology Co., Ltd. (WTC)	〃	100%	100%	100%
The Company	Weikeng Technology Pte. Ltd. (WTP)	〃	100%	100%	100%
WKI	Weikeng International (Shanghai) Co., Ltd.	International trade, import and export trade, and bonded trade	100%	100%	100%
WKI	Weitech International Co., Ltd. (Weitech)	Purchase and sale of electronic components	100%	100%	100%

(Continued)

(d) Foreign currencies

1. 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 assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

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

- available-for-sale financial assets;

- 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

2. 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, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

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 planed nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

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

An entity shall classify an asset as current when:

1. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

2. It holds the asset primarily for the purpose of trading;

3. It expects to realize the asset within twelve months after the reporting period; or

4. The asset is cash and 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.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

1. It expects to settle the liability in its normal operating cycle;

2. It holds the liability primarily for the purpose of trading;

3. The liability is due to be settled within twelve months after the reporting period; or

4. 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 the issue of equity instruments do not impact its classification.

An entity shall classify all other liabilities as non-current.

(Continued)

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

The time deposits with maturities within one year or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used for the purpose of meeting short-term commitments, and therefore are reclassified as cash equivalents.

(g) Financial instruments

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

1. Financial assets

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

(i) Financial assets at fair value through profit or loss

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

A. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;

B. Performance of the financial asset is evaluated on a fair value basis

C. A hybrid instrument contains one or more embedded derivatives.

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

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(ii) 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 measured 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.

(iii) 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.

(iv) 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.

(Continued)

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 measured 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.

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.

(Continued)

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.

(v) 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.

2. Financial liabilities and equity instruments

(i) 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.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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

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

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

(ii) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and 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 are included in non-operating income or expenses.

(iii) 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.

(Continued)

(iv) 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.

(v) 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.

3. 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.
Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(Continued)

(i) Property, plant and equipment

1. 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.

2. 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.

3. 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.

(Continued)

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

(i) Buildings: 59~60 years

(ii) Transportation equipment: 5~11 years

(iii) Machinery equipment: 2~6 years

(iv) Office and other equipment: 1~6 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

1. 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.

2. 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

1. Goodwill

(i) Initial recognition

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

(Continued)

(ii) 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.

2. Other intangible assets

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

3. 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.

4. 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 1~5 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.

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

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.

(Continued)

(n) Employee benefits

1. 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.

2. 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 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. Any unrecognized past service costs, the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid.

   The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of 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 settlement of the plan liabilities.

   When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

   All actuarial gains and losses at January 1, 2012, the date of transition to IFRSs endorsed by the FSC, were recognized in retained earnings. The Group recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in profit or loss.

   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, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

3. Termination benefits

   Termination benefits are recognised 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.

4. Short term employee benefits

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

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

(o) 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 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:

1. 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.

2. Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

3. Initial recognition of goodwill.

(Continued)

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

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

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and

2. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

   i) levied by the same taxing authority; or

   ii) 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 10% 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.

(p) 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.

(Continued)

(q) 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) Major sources of accounting assumptions, judgments and estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRSs 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.

Management continued to monitor the accounting assumptions, estimates and judgments. Management recognized the changes in the accounting estimates during the period and the impact of the changes in the 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 included in the following notes:

(a) Note 6(c), valuation of accounts receivable

(b) Note 6(d), measurement of inventory

(6) Description of significant accounts

(a) Cash and cash equivalents

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	$ 950	999	1,122
Checking accounts and demand deposits	2,065,093	1,763,062	2,426,018
Time deposits	-	2,323	2,422
Commercial paper	-	-	30,134
	$ 2,066,043	1,766,384	2,459,696

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(b) Financial instruments

1. Financial assets and liabilities measured at fair value through profit or loss:

		December 31, 2013	December 31, 2012	January 1, 2012
Financial assets measured at fair value through profit or loss:				
Financial assets designated as at fair value through profit or loss:				
Listed convertible bonds	$	-	10,190	-
Financial assets held-for-trading				
Derivative instruments not used for hedging		1,041	-	6,854
Non-derivative financial instruments		115,250	52,432	61,572
		116,291	62,622	68,426
Available-for-sale financial instruments		2,046	1,920	71,132
Financial assets measured at cost		70,579	88,930	113,334
Total	**$**	**188,916**	**153,472**	**252,892**
Financial liabilities measured at fair value through profit or loss:				
Non-derivative financial instruments (recorded in accrued expense and other current liabilities)	$	116,291	62,622	68,246
Convertible bonds embedded options		72,625	90,850	184,466
	$	**188,916**	**153,472**	**252,892**
Current	$	39	958	188
Non-current		9,140	24,326	33,322
Total	**$**	**9,179**	**25,284**	**33,510**

2. Listed convertible bonds are hybrid instruments. Even though it is required to record the host contract and embedded derivative separately, they are recognized as financial assets designated as at fair value through profit or loss because those investments cannot be reliably measured at fair value as of the acquisition date.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Derivative instruments not used for hedging

   The Group uses derivative instruments to hedge certain currency and interest risk the Group is exposed to arising from its operating, financing and investing activities. The Group held the following derivative instruments presented as held-for-trading financial assets as of December 31, 2013, and December 31 and January 1, 2012:

Forward foreign currency exchange contract (expressed in thousands of US dollars):

	December 31, 2013			December 31, 2012			January 31, 2012		
	Amount	**Currency**	**Maturity date**	**Amount**	**Currency**	**Maturity date**	**Amount**	**Currency**	**Maturity date**
Financial assets									
Forward foreign currency exchange contracts bought	$USD5,000	USD/NTD	2014.1~ 2014.2	-	-	-	USD8,000	USD/NTD	2012.1~ 2012.4
Financial liabilities									
Forward currency exchange contracts bought	$USD1,000	USD/NTD	2014.6	USD1,000	USD/NTD	2013.1	USD4,000	USD/NTD	2012.1~ 2012.4

4. Based on the resolution at the board of directors' meeting held on March 20, 2012, the Company decided to dispose of its entire investment in Aries classified as available-for-sale financial assets – noncurrent. The proceeds from the disposal amounted to $88,634, and the related cost was $42,707. The related gain thereon amounted to $45,927. The proceeds had been collected.

5. Since the value of some financial assets carried at cost had declined materially and permanently, the Company recognized impairment losses thereon for the years ended December 31, 2013 and 2012, amounting to $15,000 and $19,871.

6. The investee company InnoBridge, classified as financial assets carried at cost, distributed cash dividends amounted to $4,095 in 2012. The accumulated cash dividends received outweighed the accumulated investment income, thus the Company recorded the cash dividends as a deduction from the Financial assets carried at cost.

7. The investee companies, Paradigm Venture Capital Corporation (PVC Corp.) and Technology Partners Venture ca (TPVC), decreased their common stock in 2013, and the Company recorded the receivable of $3,351 classified as financial assets carried at cost accordingly. As of December 31, 2013, the Company has received the capital refund.

8. The aforementioned equity investments held by the Company are measured at cost, less, impairment loss at the reporting date. Given the wide range of fair value estimates and the probability for each estimate that cannot be reasonably determined, the Company thus concludes that the fair value cannot be measured reliably.

(Continued)

9. For convertible bonds payable – debt components include an embedded derivative, please see note6(g).

10. Sensitivity analysis in equity market price risk:

    If the price of convertible bonds and open-end mutual funds change at the reporting date, it would have resulted in the change in comprehensive income as illustrated below.

Prices of securities at the reporting date	Year ended December 31, 2013 Other comprehensive income after tax	Year ended December 31, 2013 Net income	Year ended December 31, 2012 Other comprehensive income after tax	Year ended December 31, 2012 Net income
Increasing 5%	$ 102	476	96	860
Decreasing 5%	$ (102)	(476)	(96)	(860)

    The analysis is performed on the same basis for both periods.

11. On the reporting date, the significant foreign currency equity investment risk was as follows:

	December 31, 2013			December 31, 2012			December 31, 2011		
	Foreign Currency	Exchange Rate	TWD	Foreign Currency	Exchange Rate	TWD	Foreign Currency	Exchange Rate	TWD
USD	$ 950	29.9	28,405	1,049	29.04	30,463	1,557	30.275	47,138

12. As of December 31, 2013, and December 31 and January 1, 2012, the financial assets were not pledged.

(c) Notes and accounts receivable and other receivables

	December 31, 2013	December 31, 2012	January 1, 2012
Notes receivable	$ 383,969	209,284	53,169
Accounts receivable	5,924,292	4,448,774	4,855,307
Other receivables	175,923	148,279	149,521
	6,484,184	4,806,337	5,057,997
Less: Allowance for uncollectible accounts and allowance for sales returns and discounts	(183,367)	(96,094)	(99,868)
	$ 6,300,817	4,710,243	4,958,129
Notes receivable and account receivable	$ 6,163,092	4,598,065	4,870,813
Other receivable-current	$ 137,725	112,178	87,316
Other receivable-non-current	$ -	-	-

(Continued)

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

	December 31, 2013	December 31, 2012	January 1, 2012
Overdue period less than 90 days	$ 459,236	383,540	310,671
Overdue period for 90 ~ 180 days	2,196	1,216	9,150
Overdue period more than 180 days	-	1,451	-
	$ 461,432	**386,207**	**319,821**

The change of allowance for receivable and other receivable for the years ended December 31, 2013 and 2012 were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2013	$ 36,101	59,993	96,094
Impairment loss recognized	2,097	18,664	20,761
Amounts written off	-	(34)	(34)
Impairment loss reversed	-	(6,047)	(6,047)
Foreign exchange gains (loss)	-	603	603
Balance at December 31, 2013	**$ 38,198**	**73,179**	**111,377**

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2012	$ 62,205	37,663	99,868
Impairment loss recognized	1,334	23,111	24,445
Amounts written off	(27,438)	-	(27,438)
Foreign exchange gains (loss)	-	(781)	(781)
Balance at December 31, 2012	**$ 36,101**	**59,993**	**96,094**

As of December 31, 2013, and December 31, and January 1, 2012, the Group does not hold any collateral for the collectible amounts.

The Group has entered into accounts receivable factoring agreements with banks. Based on the agreements, the banks have no right of recourse on the discounted accounts receivable which were sold. 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

(Continued)

December 31, 2013, and December 31, and January 1, 2012, the unreceived balances of discounted accounts receivable were $132,574, $97,047 and $85,312, respectively, and were recognized as other current financial assets.

As of December 31, 2013, and December 31, and January 1, 2012, the details of the factored of accounts receivable were as follows (expressed in thousands of US dollars):

	December 31, 2013				
Bank	Accounts receivable factored (gross)	Factoring amount	Cash received	Collateral (note)	Deducted amount
First bank	$ 19,894	92,690	17,905	Promissory note US$3,100	19,894
Taishin International Bank	31,534	1,000,000	28,380	Promissory note $1,000,000	31,534
Bank of Taiwan	442	105,000	397	Promissory note US$3,500	442
E. SUN Bank	944	164,450	849	Promissory note US$5,500	944
Mega International Commercial Bank	629,289	1,345,500	566,360	Promissory note US$45,000	629,289
DBS Bank	641,626	926,900	577,463	Promissory note US$31,000	641,626
Far Eastern International Bank	1,997	538,200	1,798	Promissory note US$18,000	1,997
	$ 1,325,726		1,193,152		1,325,726

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012

Bank		Accounts receivable factored (gross)	Factoring amount	Cash received	Collateral (note)	Deducted amount
Mega International Commercial Bank	$	404,360	1,161,600	363,924	Promissory note US$40,000	404,360
Taishin International Bank		49,148	1,000,000	44,231	Promissory note $1,000,000	49,148
Taiwan Cooperative Bank		15,570	43,560	12,456	Promissory note US$1,500	15,570
Jihsun Bank		1,668	23,232	1,501	Promissory note $23,600	1,668
Ta Chong Bank		10,707	145,200	9,636	Promissory note US$4,500	10,707
Bank of Taiwan		32,231	101,640	29,008	Promissory note $105,000	32,231
Yuanta Commercial Bank		146	57,000	131	Promissory note $57,000	146
DBS Bank		299,657	522,720	269,691	Promissory note US$31,000	299,657
Standard Charter Bank		161,383	232,320	145,245	-	161,383
	$	**974,870**		**875,823**		**974,870**

January 1, 2012

Bank		Accounts receivable factored (gross)	Factoring amount	Cash received	Collateral (note)	Deducted amount
Mega International Commercial Bank	$	260,553	1,211,000	234,497	Promissory note US$40,000	260,553
Taishin International Bank		97,828	1,000,000	88,045	Promissory note $1,000,000	97,828
Taiwan Cooperative Bank		150	45,412	120	Promissory note US$1,500	150
DBS Bank		494,430	938,525	444,987	Promissory note US$31,000	494,430
	$	**852,961**		**767,649**		**852,961**

note: collateral is only for sales returns and allowances pledged.

Annual interest rates on accounts receivable factoring agreements for the year ended December 31, 2013, and December 31, and January 1, 2012 ranged from 0.6% to 1.27%, 0.8% to 2.07%, and 0.78% to 2.07%, respectively.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Inventories

	December 31, 2013	December 31, 2012	January 1, 2012
Merchandise inventories	$ 4,698,513	3,712,400	4,874,416
Goods in transit	777,699	573,507	220,224
	$ 5,476,212	4,285,907	5,094,640

The details of inventory-related losses and expenses for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Inventory valuation loss and obsolescence	$ 16,738	15,136
Loss on scrapping of inventory and others	4,024	1,309
	$ 20,762	16,445

As of December 31, 2013, and December 31 and January 1, 2012, the inventory of the Group has not been pledged as collateral or restricted in any way.

(e) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2013 and 2012 were as follows:

	Land	Buildings and Structures	Transportation equipment	Machinery equipment	Office and other facilities equipment	Total
Cost or deemed cost:						
Balance on January 1, 2013	$ 77,377	51,836	11,834	11,921	138,703	291,671
Additions	-	-	3,145	481	16,573	20,199
Transferred in (out)	-	-	(2,173)	(67)	(13,004)	(15,244)
Disposals	-	-	375	97	3,295	3,767
Effects of changes in exchange rates	-	-	-	111	(1,294)	(1,183)
Balance on December 31, 2013	$ 77,377	51,836	13,181	12,543	144,273	299,210
Balance on January 1, 2012	$ 77,377	51,836	14,866	11,155	131,376	286,610
Additions	-	-	-	679	31,818	32,497
Transferred in (out)	-	-	(2,339)	(509)	(20,192)	(23,040)
Disposals	-	-	(693)	(104)	(3,841)	(4,638)
Effects of changes in exchange rates	-	-	-	700	(458)	242
Balance on December 31, 2012	$ 77,377	51,836	11,834	11,921	138,703	291,671

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		Land	Buildings and Structures	Transportation equipment	Machinery equipment	Office and other facilities equipment	Total
Depreciation and impairment loss:							
Balance on January 1, 2013	$	-	14,869	5,437	9,462	94,927	124,695
Depreciation for the year		-	863	1,125	779	17,142	19,909
Disposals		-	-	(1,688)	(61)	(12,909)	(14,658)
Effects of changes in exchange rates		-	-	87	82	1,605	1,774
Balance on December 31, 2013	**$**	**-**	**15,732**	**4,961**	**10,262**	**100,765**	**131,720**
Balance on January 1, 2012	$	-	14,004	5,827	8,520	106,565	134,916
Depreciation for the year		-	865	1,407	694	11,866	14,832
Transferred in (out)		-	-	(1,473)	(217)	(19,947)	(21,637)
Disposals		-	-	(324)	(116)	(2,976)	(3,416)
Effects of changes in exchange rates		-	-	-	581	(581)	-
Balance on December 31, 2012	**$**	**-**	**14,869**	**5,437**	**9,462**	**94,927**	**124,695**
Book value:							
Balance on December 31, 2013	**$**	**77,377**	**36,104**	**8,220**	**2,281**	**43,508**	**167,490**
Balance on December 31, 2012	**$**	**77,377**	**37,832**	**9,039**	**2,635**	**24,811**	**151,694**
Balance on January 1, 2012	**$**	**77,377**	**36,967**	**6,397**	**2,459**	**43,776**	**166,976**

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

(f) Short-term borrowings

	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured loans	$ 5,004,598	3,042,370	3,815,680
Commercial paper, net	339,677	339,711	179,694
	$ 5,344,275	**3,382,081**	**3,995,374**
Unused short-term credit lines	**$ 5,171,601**	**7,044,708**	**7,269,000**
Annual interest rates	**0.84%~6%**	**0.82%~6.75%**	**0.76%~7.02%**

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

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g) Convertible bonds payable

1. Non-guaranteed convertible bonds were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Aggregate principal amount	$ 800,000	800,000	800,000
Bond discount	(29,117)	(40,644)	(51,959)
Cumulative converted amount	(1,000)	-	-
Cumulative redeemed amount	(17,800)	(17,800)	(17,800)
	752,083	741,556	730,241
Less: Convertible bonds payable – could be repaid within one year	(752,083)	-	-
	$ -	741,556	730,241
Embedded derivative – call and put options, reclassified from financial liabilities at fair value through profit or loss to other payables on June 20, 2013	$ 9,140	24,326	33,322
Equity component – conversion options, included in paid-in capital – stock options	$ 36,013	36,060	36,060

The effective interest rate of the third domestic unsecured convertible bonds was 1.55%. The annual interest expenses on convertible bonds payable for the years ended December 31, 2013 and 2012, were $11,490 and $11,315, respectively. In accordance with the issuance and transfer rules of convertible bonds, the Company redeemed $17,800 of convertible bonds in the fourth quarter of 2011 and recorded the other revenues amounting to $587, then deducted the paid-in capital –redemption rights amounting to $820.

2. The Group issued the redeemable domestic unsecured bonds with a face value of $800,000 on June 20, 2011. In accordance with SFAS No. 36, the Company separated the equity and debt components as follows:

	The third
The compound interest present value of the convertible bonds' face value at issuance	$ 740,800
The embedded derivative debt at issuance – put option	22,320
The equity components at issuance	36,880
The total amount of the convertible bonds at issuance	**$ 800,000**

(Continued)

The equity components were accounted for as paid-in capital – redemption rights. At year-end, the Group revaluated the embedded derivative debt to its fair value and accounted it as financial liabilities measured at fair value through profit or loss – noncurrent. The gain (loss) resulting from changes in fair value of the embedded derivative liabilities has a gain of $15,161 and a loss of $8,996 for the years ended December 31, 2013 and 2012, respectively.

3. The significant terms of the domestic unsecured convertible bonds were as follows:

(i) Duration: five years (June 20, 2011 to June 20, 2016)

(ii) Interest rate: 0%

(iii) Redemption at the option of the Company: The Company may redeem the bonds under the following circumstances:

1) 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.

2) If at least 90% of the principal amount of the bonds has been converted, redeemed, 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.

(iv) Redemption at the option of 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 with the period from June 20, 2013 to June 19, 2015. The annual interest rate for redemption with the period from June 20, 2013 to June 19, 2015 is 1.50%.

(v) Terms of conversion:

1) Bondholders may opt to have the bonds converted into the common stock of the Company from July 21, 2011 to June 11, 2016.

2) Conversion price: After the adjustment for distributions of retained earnings on July 31, 2013, the conversion price of common stock was NT$20.9 (dollars) per share.

4. To be conservative, the Company classified the third convertible bonds and the related financial liabilities as items under current liabilities beginning from June 20, 2013 because the bondholders could opt to request the Company to redeem the convertible bonds with a given from June 20, 2013 to June 19, 2015. However, it does not mean that the Company will redeem all convertible bonds within one year.

5. In 2013, domestic unsecured convertible bonds with a face value of $1,000 were converted into 47 thousand shares of the Company's common stock, and the related reducing paid-in capital was $47.

(h) Operating lease

1. The Group as lessee

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

		December 31, 2013	December 31, 2012	January 1, 2012
Less than one year	$	116,548	126,965	99,135
Between one and five years		79,327	168,905	159,335
	$	**195,875**	**295,870**	**258,470**

The Group leases a number of offices under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in a local price index. The rentals recognized in loss amounted to $142,615 and 121,806 in 2013 and 2012.

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.

2. The Group as lessor

The Group leased out a few office buildings to third parties under operating lease with lease terms of 3 to 5 years. The future minimum lease receivables under non-cancellable leases are as follows:

(Continued)

	December 31, 2013	December 31, 2012	January 1, 2012
Less than one year	$ 9,049	5,700	5,600
Between one and five years	8,121	12,733	3,661
	$ 17,170	**18,433**	**9,261**

For the years ended December 31, 2013 and 2012, expenses recognized in profit or loss under operating leases amounted to $4,258 and $4,199, respectively.

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

(i) Employee benefits

1. Defined benefit plans

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

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligations	$ (219,373)	(221,211)	(201,259)
Fair value of plan assets	74,631	67,574	60,936
	$ (144,742)	**(153,637)**	**(140,323)**
Prepaid pension cost	**94**	**90**	**-**
Accrued pension liability	**$ (144,836)**	**(153,727)**	**-**

The Company and WTC 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.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Composition of plan assets

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

The Company's and WTC's Bank of Taiwan labor pension reserve account balance amounted to $74,631 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.

(ii) Movements in present value of the defined benefit obligations

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

	2013	2012
Balance at January 1	$ 221,211	201,259
Benefit paid by the plan	6,565	6,733
Actuarial gains (losses)	(8,403)	13,450
Impact of curtailment	-	(231)
Balance at December 31	**$ 219,373**	**221,211**

(iii) Movements of defined benefit plan assets

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

	2013	2012
Fair value of plan assets at 1 January	$ 67,574	60,936
Contributions made	6,168	6,020
Expected return on plan assets	1,224	1,279
Actuarial gains (losses)	(335)	(661)
Fair value of plan assets at 31 December	**$ 74,631**	**67,574**

(Continued)

(iv) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years ended December 31, 2013 and 2012 were as follows:

		2013	2012
Service cost	$	2,707	2,708
Interest cost		3,858	4,025
Expected return on plan assets		(1,220)	(1,279)
Impact of curtailment		-	(230)
	$	**5,345**	**5,224**
Selling expenses	$	3,621	3,684
Administrative expenses		1,724	1,540
	$	**5,345**	**5,224**
Actual return on assets	**$**	**885**	**618**

(v) Actuarial gains and losses recognized in other comprehensive income

The Company's and WTC's actuarial gains and losses recognized in other comprehensive income, before tax for the years ended December 31, 2013 and 2012, were as follows:

		2013	2012
Cumulative amount at 1 January	$	14,111	-
Recognized during the period		(8,068)	14,111
Cumulative amount at 31 December	**$**	**6,043**	**14,111**

(vi) Actuarial assumptions

The following are the Company's and WTC's principal actuarial assumptions at the reporting date:

	2013	2012
Discount rate at December 31	2%	1.75%
Expected return on plan assets	2%	1.75%
Future salary increases	3%	3%

The expected return rate of long-term assets was based on the whole investment portfolio rather than the aggregating return of single asset. The return rate was based on the historical return trends without adjustment.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(vii) Experience adjustments on historical information

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit plans	$ 219,373	221,211	201,259
Fair value of plan assets	74,631	67,574	60,936
Liabilities of defined benefit obligations	144,836	153,727	140,323
Assets of defined benefit obligations	94	90	-
	$ 144,742	153,637	140,323
Experience adjustments arising on the present value of defined benefit plans	$ 476	1,653	-
Experience adjustments arising on the fair value of the plan assets	$ 335	665	-

(viii) When calculating the present value of the defined benefit obligations, the Company and WTC uses judgments and estimations to determine the actuarial assumptions, including employee turnover rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2013, the accrued pension liabilities of Company's and WTC amounted to $144,836. If the discount rate had increased or decreased by 0.25%, the Group's accrued pension liabilities would have decreased by $7,583 or increased by $7,927, respectively.

2. Defined contribution plans

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

The Company and WTC recognized the pension costs under the defined contribution method amounting to $17,119 and $16,745 for the years ended December 31, 2013 and 2012, 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 $37,107 and $29,538 for the years ended December 31, 2013 and 2012, respectively.

(Continued)

(j) Income taxes

1. Income tax expenses

(i) The amount of income tax for the years ended December 31, 2013 and 2012 was as follows:

		2013	2012
Current tax expense			
Recognized during the period	$	123,855	108,660
10% surtax on unappropriated earnings		-	8,162
Adjustment for prior periods		(5,072)	(29)
		118,783	116,793
Deferred tax expense			
Origination and reversal of temporary differences		12,588	6,698
Recognition of previously unrecognised tax losses		(823)	-
		11,765	6,698
Income tax expense	**$**	**130,548**	**123,491**

(ii) The amount of income tax recognized in other comprehensive income for the years ended December 31, 2013 and 2012 was as follows:

		2013	2012
Foreign currency translation differences of foreign operations	$	12,265	(12,895)
Actuarial gains (losses)		1,371	(2,399)
	$	**13,636**	**(15,294)**

(Continued)

(iii) The income tax that was reconciled with the actual income tax expense for the years ended December 31, 2013 and 2012 was as follows:

	2013	2012
Profit before tax	$ 658,621	558,322
Income tax using the Company's domestic tax rate	$ 136,817	90,001
Change in unrecognised temporary differences	(3,222)	2,914
Non-deductible expenses	3,359	1,976
Tax-exempt income	(190)	(7,128)
Recognition of previously unrecognised tax losses	(823)	-
Current-year losses for which no deferred tax asset was recognised	-	3,970
Under (Over) provision in prior periods	(2)	784
10% surtax on unappropriated earnings	-	8,162
Other	(5,391)	22,812
	$ 130,548	123,491

2. Deferred tax assets and liabilities

(i) Unrecognized deferred tax assets

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

	December 31, 2013	December 31, 2012	January 1, 2012
Tax effect of deductible temporary differences	$ 25,243	28,465	25,551
Tax effect of loss carryforward	3,147	3,970	-
	$ 28,390	32,435	25,551

Deferred tax assets were not recognized because the future taxable profit will not be available against which the unused tax credits and deductible temporary differences can be utilized.

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. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(ii) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2013 and 2012 were as follows:

		Defined Benefit Plans	Exchange differences on translation	Bad debt expense over the tax limitation	Loss on valuation of inventory	Others	Total
Deferred tax assets:							
Balance on January 1, 2013	$	2,399	28,853	8,467	8,301	16,568	64,588
Recognized in profit or loss		-	-	564	276	10,450	11,290
Recognized in other comprehensive income		(1,371)	(12,265)	-	-	-	(13,636)
Balance on December 31, 2013	**$**	**1,028**	**16,588**	**9,031**	**8,577**	**27,018**	**62,242**
Balance on January 1, 2012	$	-	15,958	11,625	8,503	16,022	52,108
Recognized in profit or loss		-	-	(3,158)	(202)	546	(2,814)
Recognized in other comprehensive income		2,399	12,895	-	-	-	15,294
Balance on December 31, 2012	**$**	**2,399**	**28,853**	**8,467**	**8,301**	**16,568**	**64,588**

		Investment income recognized under the equity method (overseas)	Others	Total
Deferred tax liabilities:				
Balance on January 1, 2013	$	113,032	8,135	121,167
Recognized in profit or loss		22,689	366	23,055
Recognized in other comprehensive income		-	22	22
Balance on December 31, 2013	**$**	**135,721**	**8,523**	**144,244**
Balance on January 1, 2012	$	111,329	5,923	117,252
Recognized in profit or loss		1,703	2,181	3,884
Recognized in other comprehensive income		-	31	31
Balance on December 31, 2012	**$**	**113,032**	**8,135**	**121,167**

(Continued)

(a) 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:

Year of loss	Amount of loss	Deductible amount	Expiry year	Note
2010	$ 885	885	2020	Assessed
2011	1,902	1,902	2021	Assessed
2012	931	931	2022	Estimated
2013	559	559	2023	Estimated
	$ 4,277	4,277		

3. The tax authority has examined the income tax returns of the Company and WTC through 2011.

4. Information related to the unappropriated earnings and tax deduction ratio was summarized below:

	December 31, 2013	December 31, 2012	January 1, 2012
Unappropriated earnings retained of 1998 and after	$ 464,889	431,244	593,364
Balance of imputation credit account	$ 41,352	60,762	37,185

	2013	2012
Creditable ratio for earnings distribution to R.O.C residents	20.63% (expected)	18.65% (actual)

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

(k) Capital and other equities

As of December 31, 2013, and December 31 and January 1, 2012, the total value of nominal ordinary shares amounted to $3,500,000; face value of each share is $10, which means in total there were 350,000 thousand ordinary shares, of which 243,986, 243,939 and 243,939 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

A portion of the convertible bonds were converted into $478 of common stock, and the capital surplus – redemption rights amounted to $556 for the years ended December 31, 2013. The registration procedures were unfinished.

(Continued)

1. Capital surplus

Balance on additional paid-in capitals of the Group were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Additional paid in capital	$ 315,582	315,026	315,026
Treasury share transactions	37,617	37,617	37,617
Donation from shareholders	712	712	712
Convertible bonds–redemption rights	36,013	36,060	36,060
	$ 389,924	**389,415**	**389,415**

In accordance with the ROC Company Act amended in 2012, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount. Capital increase by transferring paid-in capital in excess of par value can only commence in the following year.

2. Retain earnings

Based on the Company’s articles of incorporation amended on June 20, 2013, 10% of annual net income after tax is to be set aside as legal reserve, then a special reserve is set aside or reversed in accordance with the laws or regulations after offsetting prior years’ deficits, if any. The remaining balance plus the amount of effect recorded directly in the retained earnings is the distributable retained earnings; 10% to 15% as bonus to employees, and 2% to 4% as remuneration to the directors and supervisors. The remaining balance, if any, and the accumulated retained earnings in prior years together is the distributable dividends for shareholders. The aforementioned distribution is proposed by the board of directors and approved at the shareholders’ meeting.

According to the Company’s articles of incorporation before amendment, 10% of annual net income after tax is to be set aside as legal reserve and special reserve, 10% to 15% as bonus to employees, and 2% to 4% as remuneration to the directors and supervisors after offsetting prior years’ deficits, if any. The remaining balance, if any, can be distributed as dividends to stockholders based on the appropriation proposed by the directors’ meeting and a resolution by the annual stockholders’ meeting.

(Continued)

The dividends to stockholders cannot be lower than 50% of the accumulated unappropriated retained earnings in the current year, and the cash dividends cannot be lower than 20% of the total stockholders' dividends.

(i) Legal reverse

In accordance with the amended Company Act in 2012, 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.

(ii) 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.

(iii) Earnings distribution

The employee bonuses and directors' and supervisors' remuneration were recognized as operating expenses on a specific percentage of net income after deducting the legal reserve for the years ended December 31, 2013 and 2012. The Company recognized the employee bonuses of $54,880 and $35,855, and directors' and supervisors' remuneration of $13,720 and $8,964 for the years ended December 31, 2013 and 2012, respectively. Differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and are recognized as profit or loss in the distribution year.

Earnings distribution for 2012 and 2011 were approved by the shareholders during their annual meeting held on June 20, 2013 and June 22, 2012, respectively. The relevant information was as follows:

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	2012		2011	
	Amount per share	**Total amount**	**Amount per share**	**Total amount**
Cash dividends distributed to common shareholders	$ 1.50	365,908	2.50	609,847

	2012	2011
Employee bonuses – cash	$ 35,855	82,976
Directors' and supervisors' remuneration	8,964	20,744
	$ 44,819	103,720

The above earnings distribution for the fiscal years 2012 and 2011 had no difference from the estimated distribution in the financial reporting for 2012 and 2011.

The related information about the distribution of employee bonuses and directors' and supervisors' remuneration appropriated from the distributable retained earnings can be accessed from the Market Observation Post System after the shareholders' meeting.

(l) Earnings per share

1. Basic earnings per share

The calculation of basic earnings per share at 31 December, 2013 and 2012 was based on the profit attributable to ordinary shareholders of the Company of $528,073 and $434,831, respectively, and the weighted average number of ordinary shares outstanding of $243,943 and $243,939 shares, respectively, calculated as follows:

(i) Profit attributable to ordinary shareholders of the Company

	2013	2012
Profit attributable to ordinary shareholders of the Company	$ 528,073	434,831

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		2013	2012
Issued ordinary shares at January 1	$	243,939	243,939
Convertible Bonds payable convert into common stock		4	-
Weighted-average number of ordinary share at December 31	**$**	**243,943**	**243,939**

2. Diluted earnings per share

The calculation of diluted earnings per share at 31 December, 2013 and 2012 was based on profit attributable to ordinary shareholders of the Company of $524,402 and $437,150, respectively, and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of $282,958 and $279,589 shares, respectively, calculated as follows.

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

		2013	2012
Profit attributable to ordinary shareholders of the Company (basic)	$	528,073	434,831
Convertible bonds payable		(3,671)	2,319
Profit attributable to ordinary shareholders of the Company (diluted)	**$**	**524,402**	**437,150**

(ii) Weighted-average number of ordinary shares (diluted)

		2013	2012
Weighted-average number of ordinary shares (basic)	$	243,943	243,939
Effect of employee stock bonuses		35,869	32,364
Effect of conversion of convertible notes		3,146	3,286
Weighted-average number of ordinary shares (diluted) at December 31	**$**	**282,958**	**279,589**

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(m) Related Information about Financial instruments

1. Categories of financial instruments

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets measured at fair value through profit or loss:			
Financial assets held for trading	$ 116,291	52,432	68,426
Financial assets designated as at fair value through profit or loss	-	10,190	-
	116,291	62,622	68,426
Non-current available-for-sale financial assets	2,046	1,920	71,132
Non-current financial assets at cost	70,579	88,930	113,334
Loans and receivables:			
Cash and cash equivalents	2,066,043	1,766,384	2,459,696
Notes and accounts receivable, net	6,163,092	4,598,065	4,870,813
Other receivables	137,725	112,178	87,316
Guarantee deposits	69,270	66,912	75,295
	8,436,130	6,543,539	7,493,120
Total	**$ 8,625,046**	**6,697,011**	**7,746,012**

	December 31, 2013	December 31, 2012	January 1, 2012
Financial liabilities at fair through profit or loss:			
Financial liabilities held for trading	$ 39	958	188
Financial liabilities designated as at fair value through profit or loss	9,140	24,326	33,322
	9,179	25,284	33,510
Financial liabilities at amortized cost:			
Short-term borrowings	$ 5,344,275	3,382,081	3,995,374
Notes and accounts payable	3,869,386	3,003,382	3,725,074
Convertible bonds payable – current	752,083	-	-
Convertible bonds payable	-	741,556	730,241
Other payables	111,972	176,368	243,823
	$ 10,086,895	**7,328,671**	**8,728,022**

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2013, and December 31 and January 1, 2012, the maximum amount exposed to credit risk amounted to $8,625,046, $6,697,011 and $7,746,012, respectively.

(ii) Disclosures of the concentration of credit risk

Because the Group caters to a wide variety of customers and has a diverse market distribution, therefore, it is difficult for the Group to concentrate its transaction individually with every customer. In order to reduce the credit risk, the Group monitors the financial conditions of customers regularly. However, the Group does not require customers to provide any collateral.

3. Liquidity risk

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

	Carrying Amount	Contractual cash flows	Within a year	1 ~ 2 years	2 ~ 5 years	Over 5 years
December 31, 2013						
Non-derivative financial liabilities						
Unsecured loans	$ 5,004,598	(5,004,598)	(5,004,598)	-	-	-
Commercial paper	339,677	(339,677)	(339,677)	-	-	-
Accounts payable	3,869,386	(3,869,386)	(3,869,386)	-	-	-
Other payables	111,972	(111,972)	(111,972)	-	-	-
Convertible bonds payable-current portion	752,083	(781,200)	-	-	(781,200)	-
Derivative financial liabilities						
Financial liabilities at fair value through profit or loss:						
Convertible bonds payable embedded derivatives	9,140	-	-	-	-	-
Forward exchange contracts:	39	-	-	-	-	-
Outflow	-	29,670	29,670	-	-	-
Inflow	-	(29,631)	(29,631)	-	-	-
	$ 10,086,895	(10,106,794)	(9,325,594)	-	(781,200)	-

(Continued)

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	Carrying Amount	Contractual cash flows	Within a year	1 ~ 2 years	2 ~ 5 years	Over 5 years
December 31, 2012						
Non-derivative financial liabilities						
Unsecured loans	$ 3,042,370	(3,042,370)	(3,042,370)	-	-	-
Commercial paper	339,711	(339,711)	(339,711)	-	-	-
Accounts payable	3,003,382	(3,003,382)	(3,003,382)	-	-	-
Other payables	176,368	(176,368)	(176,368)	-	-	-
Convertible bonds payable	741,556	(741,556)	-	-	(782,200)	-
Derivative financial liabilities						
Financial liabilities at fair value through profit or loss:						
Convertible bonds payable embedded derivatives	24,326	-	-	-	-	-
Forward exchange contracts:	958	-	-	-	-	-
Outflow	-	29,992	29,992	-	-	-
Inflow	-	(29,034)	(29,034)	-	-	-
	$ 7,328,671	**(7,302,429)**	**(6,560,873)**	**-**	**(782,200)**	**-**
January 1, 2012						
Non-derivative financial liabilities						
Secured loans	$ 3,815,680	(3,815,680)	(3,815,680)	-	-	-
Commercial paper	179,694	(179,694)	(179,694)	-	-	-
Accounts payable	3,725,074	(3,725,074)	(3,725,074)	-	-	-
Other payables	243,823	(243,823)	(243,823)	-	-	-
Convertible bonds payable	730,241	(782,200)	-	-	(782,200)	-
Derivative financial liabilities						
Financial liabilities at fair value through profit or loss:						
Convertible bonds payable embedded derivatives	33,322	-	-	-	-	-
Forward exchange contracts:	188	-	-	-	-	-
Outflow	-	121,037	121,037	-	-	-
Inflow	-	(121,225)	(121,225)	-	-	-
	$ 8,728,022	**(8,746,659)**	**(7,964,459)**	**-**	**(782,200)**	**-**

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

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4. Currency risk

(i) Exposure to foreign currency risk

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

	December 31, 2013			December 31, 2012			January 1, 2012		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets									
Monetary items									
USD	$ 158,451	29.9	4,737,673	126,521	29.040	3,674,162	129,125	30.275	3,909,253
Financial liabilities									
Monetary items									
USD	162,191	29.9	4,849,506	118,615	29.040	3,444,570	107,232	30.275	3,246,439

(ii) Currency risk sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and account receivables, other receivables, loans and borrowings, notes and accounts payables and other payables that are denominated in foreign currency. A change of 5% in the exchange rate of NTD against USD as of December 31, 2013 and 2012 would have increased (decreased) the net profit before tax as follows. The analysis is performed on the same basis for both periods.

USD (against the TWD)

	December 31, 2013	December 31, 2012
Strengthening 5%	$ (5,592)	11,480
Weakening 5%	5,592	(11,480)

5. Interest rate analysis

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

	Carrying amount		
	December 31, 2013	December 31, 2012	January 1, 2012
Variable rate instruments:			
Financial assets	$ 2,065,093	1,763,062	2,426,018
Financial liabilities	(5,344,275)	(3,382,081)	(3,995,374)

(Continued)

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

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have decreased or increased by $8,198 and $4,078 for the years ended December 31, 2013 and 2012, respectively.

6. Fair value

(i) Fair value and carrying amount

Other than those listed below, the management of the Group considers the carrying amounts of its financial assets and financial liabilities measured at amortized cost in the consolidated financial statements to be a reasonable approximation of the fair value:

	December 31,2013		December 31, 2012		January 1, 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial liabilities						
Measured at amortized cost convertible bonds payable	$ 752,083	759,405	741,556	738,240	730,241	736,285

(ii) Fair value hierarchy

The table below analyzes financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

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		Level 1	Level 2	Level 3	Total
December 31, 2013					
Financial assets measured at fair value through profit or loss					
Open-end mutual funds	$	115,250	-	-	115,250
Forward foreign currency exchange contracts			1,041		1,041
Available- for-sale financial assets					
Emerging stocks in domestic markets		2,046	-	-	2,046
Financial liabilities measured at fair value through profit or loss					
Forward foreign currency exchange contracts		-	39	-	39
Convertible bonds payable-debt components		-	9,140	-	9,140
	$	**117,296**	**10,220**	**-**	**127,516**

		Level 1	Level 2	Level 3	Total
December 31, 2012					
Financial assets measured at fair value through profit or loss					
Open-end mutual funds	$	52,432	-	-	52,432
Stocks of listed and OTC companies		10,190	-	-	10,190
Available-for-sale financial assets					
Emerging stocks in domestic markets		1,920	-	-	1,920
Financial liabilities measured at fair value through profit or loss					
Forward foreign currency exchange contracts		-	958	-	958
Convertible bonds payable-debt components		-	24,326	-	24,326
	$	**64,542**	**25,284**	**-**	**89,826**

		Level 1	Level 2	Level 3	Total
January 1, 2012					
Financial assets measured at fair value through profit or loss					
Open-end mutual funds	$	51,762	-	-	51,762
Forward foreign currency exchange contracts			6,854		6,854
Stocks of listed and OTC companies		9,810	-	-	9,810
Available-for-sale financial assets					
Stocks of listed and OTC companies in domestic markets		68,157	-	-	68,157
Emerging stocks in domestic markets		2,975	-	-	2,975
Financial liabilities measured at fair value through profit or loss					
Forward foreign currency exchange contracts		-	188	-	188
Convertible bonds payable-debt components		-	33,322	-	33,322
	$	**132,704**	**40,364**	**-**	**173,068**

(Continued)

There were no transfers from level 2 to level 1 in the years ended December 31, 2013 and 2012.

(iii) Valuation techniques and assumptions used in fair value determination

The Group uses the following methods in determining the fair value of its financial assets and liabilities:

A. The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value is estimated on the basis of the result of a valuation technique. The estimations, hypotheses and discount rate refer to those used by financial instruments as a reference.

B. The fair value of convertible bonds and stock of listed and OTC companies and emerging stocks in domestic markets is based on the financial assets traded in active markets. The fair value is determined based on quoted market prices.

(n) Financial risk management

1. Briefings

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

(i) Credit risk

(ii) Liquidity risk

(iii) 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.

2. 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.

(Continued)

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.

3. 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.

(i) Accounts receivable and other receivables

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

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

Because the Group caters to a wide variety of customers and has a diverse market distribution, therefore, it is difficult for the Group to concentrate its transaction individually with every customer. In order to reduce the credit risk, the Group monitors the financial conditions of customers regularly. However, the Group does not require customers to provide any collateral.

(ii) 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.

(Continued)

4. 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.

The loans and borrowings from the bank form an important source of liquidity for the Group. Please refer to note 6(f) for unused short-term bank facilities as of December 31, 2013, and December 31 and January 1, 2012.

5. Market risk

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

(i) 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 TWD and the USD.

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

(ii) Interest rate risk

Due to the poor U.S. economy, the Group will continue to assess The Federal Reserve system to quantitative easing to keep low interest rates lead to easing; interest rate changes and the Group's debt-based instruments are based on USD, the Fed's policy of low interest rate will reduce the interest costs of the Group. Therefore, it will depend on the operating strategy considering the cost of capital borrowing to adjust the proportion of TWD and to reduce the average cost of capital borrowings in the future.

(Continued)

(iii) Other price risk

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

(o) 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, retained earnings and non-controlling interests.

The Group monitors the capital structure by way of periodical review on the liability ratio. As of December 31, 2013, and December 31 and January 1, 2012, the liability ratios were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	$ 10,842,137	7,934,374	9,418,374
Total assets	14,745,834	11,608,217	13,368,584
Liability ratio	74%	68%	71%

As of December 31, 2013, there were no changes in the Group's approach to capital management.

(7) Related-party transactions

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Other related party transactions

1. Sale of goods to related parties

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

	Year ended December 31, 2013	Year ended December 31, 2012
Other related parties	**$ 36,564**	**30,338**

(Continued)

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

2. Purchase of goods from related parties

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

	Year ended December 31, 2013	Year ended December 31, 2012
Other related parties	$ 2,337	4,347

There were no significant differences in purchase prices for related parties and other suppliers. The payment period was approximately 30 days after the date of purchase.

3. Processing fee and consultancy fees from Related Parties

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

	Year ended December 31, 2013	Year ended December 31, 2012
Other related parties	$ 13,104	17,739

4. Leased

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

	Year ended December 31, 2013	Year ended December 31, 2012
Other related parties	$ 4,749	4,619

(Continued)

5. Receivable due from relate parties

Account	Related party categories	December 31, 2013	December 31, 2012	January 1, 2012
Notes and accounts receivable	Other related parties	$ 5,032	8,402	8,145

6. Payable to related parties

Account	Related party categories	December 31, 2013	December 31, 2012	January 1, 2012
Notes and accounts payable	Other related parties	$ -	765	-
Other payable	Other related parties	552	1,107	1,069
		$ 552	1,872	1,069

(c) Key management personnel compensation

Key management personnel compensation comprised:

	2013	2012
Short-term employee benefits	$ 122,176	103,936
Post-employment benefits	868	855
	$ 123,044	104,791

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2013	December 31, 2012	January 1, 2012
Other-non current-assets	Guarantee for court	$ 1,200	-	-

(9) Significant commitments and contingencies

As of December 31, 2013, and December 31, and January 1, 2012, the balance of L/Cs for customs and the purchase of merchandise were as follows:

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	December 31, 2013	December 31, 2012	January 1, 2012
	$ 470,500	326,920	317,888

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

(10) Losses due to major disasters: None

(11) Significant subsequent events: None

(12) Other

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

By function / By item	Year ended December 31, 2013	Year ended December 31, 2012
Employee benefits		
Salary	$830,719	741,401
Labor and health insurance	62,740	41,206
Pension	59,571	51,507
Others	29,941	25,218
Depreciation	19,909	14,832
Amortization	12,046	9,619

(13) Operating segments information

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

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

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

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

The details and reconciliations of operating segments were as follows:

	Year ended December 31, 2013			
	Electronic components segment	**Peripheral equipment segment**	**Adjustment & elimination**	**Total**
Revenue				
Revenue from external customers	$ 29,730,935	3,568,424	-	33,299,359
Intersegment revenues	-	-	-	-
Total revenue	$ 29,730,935	3,568,424	-	33,299,359
Reportable segment profit	$ 1,027,485	22,604	-	1,050,089
Generally administrative expense				(407,521)
Operating income				$ 642,568
Reportable segement assets	$ -	-	-	-

	Year ended December 31, 2012			
	Electronic components segment	**Peripheral equipment segment**	**Adjustment & elimination**	**Total**
Revenue				
Revenue from external customers	$ 24,426,129	4,882,310	-	29,308,439
Intersegment revenues	-	-	-	-
Total revenue	$ 24,426,129	4,882,310	-	29,308,439
Reportable segment profit	$ 791,460	101,812	-	893,272
Generally administrative expense				(336,409)
Operating income				$ 556,863
Reportable segement assets	$ -	-	-	-

(c) Product and service information

The Company operates in a single industry ,which is trading of electronic components and computer peripheral products.

(Continued)

(d) Geographic information

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

a. Sales to Other than Consolidated Entities:

Country	2012	2011
Taiwan	$ 4,878,840	4,340,544
China	27,574,497	24,015,411
Others	846,022	952,484
	$ 33,299,359	**29,308,439**

b. Non-current Assets:

Country	2012	2011
Taiwan	$ 156,659	161,532
China	93,594	88,075
Singapore	8,843	6,848
	$ 259,096	**256,455**

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

(e) Information about major customers

There were no individual customers who accounted for over 10% of consolidated net sales in 2013 and 2012.

(14) First-time adoption of Taiwan -International Financial Reporting Standards

The consolidated financial statements for the year ended December 31, 2012 were originally prepared in accordance with the ROC GAAP. As stated in note 4(a), the consolidated financial statements are prepared for the period covered by the first annual consolidated financial statements prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs 1 endorsed by the FSC have been adopted.

The accounting policies stated in note 4 have been adopted when preparing the comparative consolidated financial statements for the year ended December 31, 2012, the consolidated balance sheet as of December 31, 2012 and the first IFRSs consolidated balance sheet as of January 1, 2012 (the conversion date of the Group).

(Continued)

When preparing financial statements for fiscal year 2012, the Group set the amounts in the financial statements prepared in accordance with the ROC GAAP as the beginning point for adjustments. The impact on and explanations for the financial status, financial performances and cash flows for each point or period of time arising from the conversion from the ROC GAAP to the IFRSs endorsed by the FSC were as the following table and notes.

(a) Reconciliation of consolidated balance sheet

	December 31, 2012			January 1, 2012		
	ROC GAAP	Effect of conversion to IFRSs	IFRSs	ROC GAAP	Effect of conversion to IFRSs	IFRSs
Assets						
Cash and cash equivalent	$ 1,766,384	-	1,766,384	2,459,696	-	2,459,696
Current financial assets measured at fair value through profit or loss	62,622	-	62,622	68,426	-	68,426
Notes and accounts receivables, net	4,598,065	-	4,598,065	4,870,813	-	4,870,813
Other current assets	112,178	-	112,178	87,316	-	87,316
Inventories	4,285,907	-	4,285,907	5,094,640	-	5,094,640
Prepayments expense and other current assets	383,951	(9,225)	374,726	306,307	(14,178)	292,129
	11,209,107	(9,225)	11,199,882	12,887,198	(14,178)	12,873,020
Other investments, including derivatives:						
Available-for-sale financial assets-noncurrent	-	1,920	1,920	68,157	2,975	71,132
Financial assets carried at cost-non current	96,330	(7,400)	88,930	120,734	(7,400)	113,334
Property, plant and equipment	52,630	114,346	166,976	40,695	110,999	151,694
Deferred tax assets	629	63,959	64,588	604	51,504	52,108
Intangible assets	-	18,170	18,170	-	27,880	27,880
Refundable deposits and other	203,915	(136,164)	67,751	218,295	(138,879)	79,416
	353,504	54,831	408,335	448,485	47,079	495,564
Total assets	$ **11,562,611**	**45,606**	**11,608,217**	**13,335,683**	**32,901**	**13,368,584**

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2012			January 1, 2012		
	ROC GAAP	**Effect of conversion to IFRSs**	**IFRSs**	**ROC GAAP**	**Effect of conversion to IFRSs**	**IFRSs**
Liabilities						
Short-term borrowings and commercial paper, net	$ 3,382,081	-	3,382,081	3,995,374	-	3,995,374
Notes and accounts payables	3,003,382	-	3,003,382	3,725,074	-	3,725,074
Current tax liabilities	43,185	-	43,185	81,648	-	81,648
Accrued expenses and other current liabilities	446,667	17,090	463,757	573,496	15,861	589,357
	6,875,315	17,090	6,892,405	8,375,592	15,861	8,391,453
Financial liabilities measured at fair value through profit or loss non-current	24,326	-	24,326	33,322	-	33,322
Corporate bonds payables	741,556	-	741,556	730,241	-	730,241
Accrued pension liability	75,592	78,135	153,727	67,195	73,128	140,323
Deferred tax liabilities	83,791	37,376	121,167	95,054	22,198	117,252
Other liabilities	1,193	-	1,193	5,783	-	5,783
	926,458	115,511	1,041,969	931,595	95,326	1,026,921
Total liabilities	7,801,773	132,601	7,934,374	9,307,187	111,187	9,418,374
Common stock	2,439,386	-	2,439,386	2,439,386	-	2,439,386
Capital surplus	389,780	(365)	389,415	389,780	(365)	389,415
Legal reserves	507,863	-	507,863	441,177	-	441,177
Special reserves	52,285	-	52,285	143,579	-	143,579
Unappropriated Retained earnings	515,625	(84,381)	431,244	666,860	(73,496)	593,364
Other equity	(144,101)	(2,249)	(146,350)	(52,286)	(4,425)	(56,711)
Total equity	3,760,838	(86,995)	3,673,843	4,028,496	(78,286)	3,950,210
Total liabilities and equity	$ 11,562,611	45,606	11,608,217	13,335,683	32,901	13,368,584

(b) Reconciliation of consolidated statement of comprehensive income

	2012		
	ROC GAAP	**Effect of conversion to IFRSs**	**IFRSs**
Net sales revenues	$ 29,308,439	-	29,308,439
Cost of sales	(27,340,819)	-	(27,340,819)
Gross profit	1,967,620	-	1,967,620
Operating expenses:			
Selling expenses	(1,053,462)	677	(1,053,785)
Administrative expenses	(358,291)	349	(357,972)
Total operating expenses	(1,411,753)	996	(1,410,757)
Net operating income	555,867	996	556,863

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		2012	
	ROC GAAP	**Effect of conversion to IFRSs**	**IFRSs**
Non-operating income and expenses:			
Other income	17,227	-	17,227
Gain on disposal of investments	45,927	-	45,927
Foreign exchange gain, net	51,250	-	51,250
Gain on financial assets (liabilities) measured at fair value through profit or loss	3,088	-	3,088
Impairment loss	(19,871)	-	(19,871)
Financial cost	(78,574)	-	(78,574)
Miscellaneous disbursements	(17,588)	-	(17,588)
	1,459	-	1,459
Profit before tax	557,326	996	558,322
Tax expense	(123,322)	(169)	(123,491)
Profit	$ 434,004	827	434,831
Other comprehensive income:			
Exchange differences on translation of foreign financial statements			(76,029)
Unrealized gain (loss) on available-for-sale financial assets (5)			(26,505)
Actuarial losses on defined benefit plan			(14,111)
Less: income tax relating to components of other comprehensive income			(15,294)
Other comprehensive income, net of tax			(101,351)
Comprehensive income			333,480
Earnings per share:			
Basic earnings per share (dollars)	$ 1.78	-	1.78
Diluted earnings per share (dollars)	$ 1.56	-	1.56

(c) Significant reconciliation differences in consolidated statements of cash flows

As of December 31 and January 1, 2012, there were no significant differences between the statement of cash flows prepared in accordance with the ROC GAAP and with the IFRSs endorsed by the FSC.

(d) Explanations of reconciliations

1. When the Group estimates the income tax, it should consider the investment tax credits, temporary differences, and other factors for estimating the deferred income tax assets and liabilities. According to provisions of IFRSs, the deferred income tax assets and liabilities should be classified as non-current assets and liabilities and should be considered the right to statutory tax offsets and the expected year of realization of deferred income tax assets and liabilities for reclassifying. Therefore, the deferred income tax assets amounting to $14,178 and $9,225, respectively, were reclassified from current assets to non-current as of December 31 and January 1, 2012. As of December 31 and January 1, 2012, the deferred income tax assets and liabilities which were originally expressed in net amount were reclassified as deferred income tax assets and liabilities-noncurrent, both amounting to $22,198 and $37,376,

(Continued)

respectively, based on the expected realization table.

2. The Group has a present legal or constructive obligation if the obligation relates to the accumulated compensated absences arising from the employees' past services. Therefore, the expected cost of accumulated compensated absences should be recognized as accrued liabilities (recorded as current liabilities).

   The effects of this change are summarized as follows:

		2012
Consolidated statement of comprehensive income		
Selling expenses	$	(836)
Administrative expenses		(393)
Adjustment before income tax	**$**	**(1,229)**

		December 31,2012	January 1,2012
Consolidated balance sheets			
Accrued expenses	$	17,090	15,861
Related tax effects		(2,905)	(2,696)
Adjustments to retained earnings	**$**	**14,185**	**13,165**

3. The Group provides a defined benefit pension plan in which the postretirement benefit obligations are measured using actuarial techniques. Under ROC SFAS, the actuarial gains or losses arising from the adjustment made based on experience and changes in actuarial assumptions are recognized as profit or loss and are amortized over the remaining employees' service period. In accordance with IFRS 1, the Group elected the exemption from the IFRS provisions, and immediately recognized the actuarial gains and losses and the transitional net assets in stockholders' equity as of January 1, 2012, which was the conversion date.

   The details are as follows:

		2012
Consolidated statement of comprehensive income		
Selling expenses	$	1,513
Administrative expenses		712
Actuarial losses on defined benefit plan		14,111
Adjustment before income tax	**$**	**16,336**

(Continued)

WEIKENG INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31,2012	January 1,2012
Consolidated balance sheets		
Employee benefits	$ 78,135	73,128
Related tax effects	(14,453)	(12,432)
Intangible assets-deferred pension cost	3,648	-
Net loss not recognized as pension cost	3,231	-
Adjustments to retained earnings	$ 70,561	60,696

4. The capital surplus arising from the changes in percentage of ownership of investees is $365, and it should be converted to retained earnings on the conversion date.

5. Equity investments are held by the Group, but are not influenced significantly by the Group. Because no publicly quoted prices are available for these investments, these investments are reclassified as financial assets carried at cost in accordance with the R.O.C. GAAP. As of December 31 and January 1, 2012, the Group reclassified the above investments to the available-for-sale financial assets - noncurrent that amounted to $7,400 are in accordance with the IFRSs and the unrealized loss on available-for-sale financial assets amounting to $4,425 and $5,480, respectively, was recorded as a separate component of stockholders' equity. Due to changes in fair value adjustments for changes in the unrealized loss on available-for-sale financial assets amounting to $1,055 as of year ended December 31, 2012 was recorded as another comprehensive income.

6. The Group's classifications of goodwill and computer software costs were classified as deferred charges under ROC GAAP. Under IFRSs, the items amounting to $27,880 and $18,170, respectively, which were originally recognized in deferred charges were classified as intangible assets as of December 31 and January 1, 2012.

7. 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 or appreciation, so it is reclassified as property, plant, and equipment, and it amounted to $110,999 and $114,346, respectively, on the December 31 and January 1, 2012.