

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE THREE-MONTH PERIODS ENDED  
MARCH 31, 2014 AND 2013

Notice to readers:

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

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## **REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**

### English Translation of a Report Originally Issued in Chinese

The Board of Directors and Stockholders of  
ZENG HSING INDUSTRIAL CO., LTD.

We have reviewed the accompanying consolidated balance sheets of Zeng Hsing Industrial Co., Ltd. and subsidiaries (the "Group") as of March 31, 2014 and 2013, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three-month periods ended March 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue the review report based on our reviews.

Except for as follows, we conducted our reviews in accordance with the Statements of Auditing Standards No. 36, "Review of Financial Statements" of the Republic of China (R.O.C.). A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Certain investments were accounted for under the equity method based on the financial statements of the investees, which were not reviewed by the independent accountants. The assets balances of the investments were NTD 186,619 thousand and NTD 159,435 thousand, which represented 3.68% and 4.20% of the total consolidated assets as of March 31, 2014, and 2013, respectively. The liabilities balances of the investments were NTD 24,572 thousand and NTD 20,932 thousand, which represented 2.10% and 1.98% of the total consolidated liabilities as of March 31, 2014 and 2013, respectively. The related comprehensive income of the investments amounted to NTD 4,556 thousand and NTD 3,935 thousand, which represented 3.16% and 2.38% of the consolidated comprehensive income for the three-month periods ended March 31, 2014 and 2013, respectively. The information on Note (13) to consolidated financial statements is not reviewed by the independent accountants.

Based on our reviews, except for the above mentioned subsidiaries' financial statement which may probably be adjusted if reviewed by other independent accountants, we are not aware of any material modifications or adjustments that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards No. 34, "Interim Financial Reporting" which are recognized by Financial Supervisory Commission.

Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS

Taichung, Taiwan  
Republic of China

April 30, 2014

**Notice to Readers**

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2014, December 31, 2013 and March 31, 2013

(Reviewed, Not Audited)

(Expressed in Thousand New Taiwan Dollars)

Assets	Notes	As of	
		March 31, 2014	December 31, 2013
Current Assets			
Cash and cash equivalents	4, 6(1)	\$1,821,069	\$2,164,306
Financial assets at fair value through profit or loss, current	4, 6(2)	115,344	2,423
Notes receivable, net	4, 6(3)	208	407
Accounts receivable, net	4, 6(4)	961,725	1,191,393
Other receivables		34,728	23,118
Inventories, net	4, 6(5)	518,585	546,499
Prepayment		21,766	19,851
Other current assets		56,471	44,910
Total Current Assets		3,529,896	3,992,907
Non-current assets			
Financial assets measured at cost, noncurrent	4, 6(6)	-	630
Bond investments with no active market, noncurrent	8	850	1,745
Property, plant and equipment	4, 6(7), 8	1,290,593	1,148,443
Intangible assets	4, 6(8)	23,115	19,543
Deferred tax assets	4, 6(19)	29,408	28,136
Deposits-out		3,249	3,259
Other long-term investments		2,628	2,628
Other non-current assets	4, 6(9)	185,955	173,619
Total non-current assets		1,535,798	1,378,003
Total assets		\$5,065,694	\$5,370,910
			\$3,792,632

(The accompanying notes are an integral part of the consolidated financial statements)

(continued)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
March 31, 2014, December 31, 2013 and March 31, 2013  
(Reviewed, Not Audited)  
(Expressed in Thousand New Taiwan Dollars)

Liabilities and Equity	Notes	As of	
		March 31, 2014	December 31, 2013
Current liabilities			
Short-term loans		\$ -	\$ -
Short-term notes and bills payable	4, 6(10)	-	-
Financial liabilities at fair value through profit or loss, current	4, 6(11)	2,441	304
Notes payable		83,278	93,208
Accounts payable		541,405	598,201
Other payables		193,448	223,963
Current tax liabilities		127,537	104,735
Other current liabilities	4, 6(19)	22,709	20,672
Total current liabilities		970,818	1,421,083
Non-current liabilities			
Deferred tax liabilities	4	108,708	106,119
Accrued pension liabilities		89,885	89,670
Deposits-in		-	1,947
Total non-current liabilities		198,593	197,736
Total liabilities		1,169,411	1,618,819
Equity attributable to the parent company			
Capital	4, 6(13)		
Common stock		605,526	605,526
Additional paid-in capital			
Capital Surplus-Additional Paid-In Capital		1,308,533	1,308,533
Capital Surplus-Donated Assets Received		314	314
Capital Surplus-Other		78,498	78,498
Total Additional paid-in capital		1,387,345	1,387,345
Retained earnings			
Legal reserve		405,775	405,775
Special reserve		73,367	73,367
Retained earnings		1,394,997	1,246,398
Total Retained earnings		1,874,139	1,725,540
Other components of equity			
Exchange differences on translation of foreign operations		(9,618)	(3,475)
Non-controlling interests	4, 6(14)	38,891	37,155
Total equity		3,896,283	3,752,091
Total liabilities and equity		\$5,065,694	\$5,370,910

(The accompanying notes are an integral part of the consolidated financial statements)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three-month periods ended March 31, 2014 and 2013

(Reviewed, Not Audited)

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

		For the three-month periods ended March 31,	
	Notes	2014	2013
Net Sales	6(15)	\$1,237,281	\$1,117,902
Cost of Sales	6(15)	(960,054)	(864,316)
Gross Profit		277,227	253,586
Operating Expenses	6(16)		
Selling and marketing		(35,082)	(34,361)
Management and administrative		(72,167)	(56,412)
Research and development		(27,314)	(22,692)
Total Operating Expenses		(134,563)	(113,465)
Operating Income		142,664	140,121
Non-operating income and expenses	6(17)		
Other revenue		9,951	12,099
Other gain and loss		34,832	25,790
Financial costs		(146)	(417)
Subtotal		44,637	37,472
Income from continuing operations before income tax		187,301	177,593
Income tax expense	6(19)	(36,966)	(33,850)
Income from Continuing Operations, Net of Tax		150,335	143,743
Other comprehensive income	6(18)		
Exchange differences on translation of foreign operations		(7,401)	26,355
Income tax related to components of other comprehensive income		1,258	(4,480)
Total other comprehensive income (Loss) , net of tax		(6,143)	21,875
Total comprehensive income		\$144,192	\$165,618
Net income attributable to:			
Stockholders of the parent		\$148,599	\$142,691
Non-controlling interests		1,736	1,052
		\$150,335	\$143,743
Comprehensive income attributable to:			
Stockholder of the parent		\$142,456	\$164,566
Non-controlling interests		1,736	1,052
		\$144,192	\$165,618
Earnings per share (NTD)	6(20)		
Earnings per share-basic		\$2.45	\$2.63
Earnings per share-diluted		\$2.45	\$2.63

(The accompanying notes are an integral part of the consolidated financial statements)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three-month periods ended March 31, 2014 and 2013

(Reviewed, Not Audited)

(Expressed in Thousands of New Taiwan Dollars)

	Notes	Common Stock	Additional Paid-in Capital	Legal Reserve	Special reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Total	Non- Controlling Interests	Total Equity
Balance as of January 1, 2013	6(13)	\$516,692	\$602,491	\$347,338	\$75,590	\$1,003,943	\$(4,031)	\$2,542,023	\$30,385	\$2,572,408
Net income for the three-month periods ended March 31, 2013		-	-	-	-	142,691		142,691	1,052	143,743
Other comprehensive income, net of tax for the three-month periods ended March 31, 2013		-	-	-	-	-	21,875	21,875	-	21,875
Total comprehensive income		-	-	-	-	142,691	21,875	164,566	1,052	165,618
Balance as of March 31, 2013	6(13)	\$516,692	\$602,491	\$347,338	\$75,590	\$1,146,634	\$17,844	\$2,706,589	\$31,437	\$2,738,026
Balance as of January 1, 2014	6(13)	\$605,526	\$1,387,345	\$405,775	\$73,367	\$1,246,398	\$(3,475)	\$3,714,936	\$37,155	\$3,752,091
Net income for the three-month periods ended March 31, 2014		-	-	-	-	148,599		148,599	1,736	150,335
Other comprehensive income, net of tax for the three-month periods ended March 31, 2014		-	-	-	-	-	(6,143)	(6,143)	-	(6,143)
Total comprehensive income		-	-	-	-	148,599	(6,143)	142,456	1,736	144,192
Balance as of March 31, 2014	6(13)	\$605,526	\$1,387,345	\$405,775	\$73,367	\$1,394,997	\$(9,618)	\$3,857,392	\$38,891	\$3,896,283

(The accompanying notes are an integral part of the consolidated financial statements)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the three-month periods ended March 31, 2014 and 2013  
(Reviewed, Not Audited)  
(Expressed in Thousand New Taiwan Dollars)

	For the three-month periods ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income before tax	\$187,301	\$177,593
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	35,817	38,033
Amortization	7,061	10,152
Loss on disposal of property, plant and equipment	1,031	42
Gain on disposal of investment	(2,331)	-
Net (gain) loss of financial assets at fair value through profit or loss	(2,212)	2,042
Loss (gain) from market value decline, obsolete and slow-moving of inventor	913	(294)
Interest revenue	(4,224)	(1,418)
Interest expense	146	417
Changes in operating assets and liabilities:		
Increase in financial assets at fair value through profit or loss	(108,572)	(130,942)
Decrease (Increase) in notes receivable	199	(758)
Decrease in accounts receivable	229,668	340,248
Decrease (Increase) in inventories, net	27,001	(55,498)
(Increase) Decrease in other receivables	(11,610)	6,684
Increase in prepayments	(3,286)	(2,734)
Increase in other current assets	(11,561)	(7,177)
Increase in other assets-others	(17,896)	(3,094)
Decrease in notes payable	(9,930)	(8,194)
(Decrease) Increase in accounts payable	(56,796)	30,088
Decrease in other payables	(30,515)	(45,274)
Increase (decrease) in other current liabilities	2,037	(246)
Increase in accrued pension liabilities	215	2,400
Cash generated from operations	232,456	352,070
Interest received	4,224	1,418
Income tax paid	(11,589)	(8,246)
Net cash provided by operating activities	225,091	345,242

(The accompanying notes are an integral part of the consolidated financial statements)

(continued)



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the three-month periods ended March 31, 2014 and 2013  
(Reviewed, Not Audited)  
(Expressed in Thousand New Taiwan Dollars)

	For the three-month periods ended March 31,	
	2014	2013
Cash flows from investing activities:		
Decrease (increase) bond investments with no active market, noncurrent	895	(55)
Acquisition of property, plant and equipment	(181,202)	(104,439)
Proceeds from disposal of property, plant and equipment	3,094	-
Disposal of financial assets measured at cost, noncurrent	2,961	-
Decrease in deposits-out	10	4,963
Increase in intangible assets	(6,576)	(3,929)
Net cash used in investing activities	(180,818)	(103,460)
Cash flows from financing activities:		
(Decrease) Increase in deposits-in	(1,947)	48
Decrease in short-term loans	(280,000)	(155,000)
Decrease in short-term notes	(100,000)	-
Interest paid	(146)	(417)
Net cash used in financing activities	(382,093)	(155,369)
Effect of exchange rate changes on cash and cash equivalents	(5,417)	16,518
Net (decrease) increase in cash and cash equivalents	(343,237)	102,931
Cash and cash equivalents at beginning of period	2,164,306	873,324
Cash and cash equivalents at end of period	\$1,821,069	\$976,255

(The accompanying notes are an integral part of the consolidated financial statements)

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the Three-month Periods Ended March 31, 2014 and 2013

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

### 1. ORGANIZATION AND OPERATIONS

Zeng Hsing Industrial Co., Ltd. (the Company) was incorporated in 1968 to manufacture and market household sewing machines, vacuum cleaners, and the spare parts used on these products. The Group applied to be listed on the GreTai Securities Market on April 2004, and was authorized for trading over the counter on December 28, 2007.

Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd is controlled by the Group, which was incorporated in 1998 to manufacture household sewing machines in Jiangsu Province, China.

Zeng Hsing Industrial Co., Ltd. (VN) is controlled by the Group, which was incorporated in 2004 to manufacture household sewing machines in BinhDuong Province, Vietnam.

Shinco Technologigies Limited (VN) is controlled by the Group, which was incorporated in 2007 to die-cast metal alloy of aluminum, zinc and magnesium in BinhDuong Province, Vietnam.

### 2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and subsidiaries (hereinafter referred to as “the Group”) for the three-month periods ended March 31, 2014 and 2013 were authorized for issue in accordance with the resolution of the board of directors’ meeting held on April 30, 2014.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

- (1) International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC), that are issued, revised or amended by International Accounting Standard Board (IASB) which have been endorsed by Financial Supervisory Commission (FSC) effective for annual periods beginning on or after January 1, 2015 but not yet adopted by the Company at the date of issuance of the Company's financial statements, are listed below:

(a) Improvements to IFRSs 2010

*IFRS 1 "First-time Adoption of International Financial Reporting Standards"*

Improvements to IFRSs 2010 focused on amendments to IFRS 1 as follows:

The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS.

Besides, the amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. Deemed cost also apply to property, plant and equipment or intangible assets that are subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulated activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. The above-mentioned amendment is effective for annual periods beginning on or after January 1, 2011.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

*IFRS 3 "Business Combinations"*

The amendment does not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Besides, it limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interest are measured at fair value at their acquisition date. It specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested - they are part of non-controlling interest and measured at their marked-based measure; if unvested - they are measured at market-based value as if granted at acquisition date, and allocated between non-controlling interest and post-combination expense. The above-mentioned amendment is effective for annual periods beginning on or after July 1, 2010.

*IFRS 7 "Financial Instruments: Disclosures"*

The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments so that users of financial statements will have a better understanding. The amendment became effective for annual periods beginning on or after January 1, 2011.

*IAS 1 "Presentation of Financial Statements"*

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is effective for annual periods beginning on or after January 1, 2011.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

*IAS 34 "Interim Financial Reporting"*

The amendment clarifies that if a user of an entity's interim financial report have access to the most recent annual financial report of that entity, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. Furthermore, the amendment requires additional disclosures of financial instruments and contingent liabilities/assets. The amendment is effective for annual periods beginning on or after January 1, 2011.

*IFRIC 13 "Customer Loyalty Programs"*

The amendment clarified that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. The amendment is effective for annual periods beginning on or after January 1, 2011.

(b) IFRS 1 – Exemption from comparative IFRS 7 disclosures

The intention of the amendment is to give first-time adopters the same transitional provisions that Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The above-mentioned amendment is effective for annual periods beginning on or after July 1, 2010.

(c) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment to IFRS 1 "First-time Adoption of International")

The amendment clarifies that entities whose functional currency is, or has been, subject to severe hyperinflation may be unable to comply with restatement of financial information as required by IAS 29 Financial Reporting in Hyperinflationary Economies. Therefore, the IASB has provided guidance on how to resume presenting IFRS financial statements when the functional currency ceases to be subject to severe hyperinflation. The above-mentioned amendment is effective for annual periods beginning

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

on or after July 1, 2010.

(d) IFRS 7 “Financial Instruments: Disclosures” (Amendment)

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when financial assets are derecognized in their entirety, but the entity has a continuing involvement in them, or financial assets are not derecognized in their entirety. The amendment is effective for annual periods beginning on or after July 1, 2011.

(e) Deferred Taxes: Recovery of Underlying Assets (Amendment to IAS 12 “Income Tax”)

As a result of the amendments, SIC-21 has been withdrawn and, after excluding investment property measured at fair value from its scope, incorporated into IAS 12. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. The amendment is effective for annual periods beginning on or after January 1, 2012.

(f) IFRS 10 “Consolidated Financial Statements”

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and SIC-12. The changes introduced by IFRS 10 primarily relate to the elimination of the perceived inconsistency between IAS 27 and SIC-12 by introducing a new integrated control model. That is, IFRS 10 primarily relates to whether to consolidate another entity, but does not change how an entity is consolidated. The standard is effective for annual periods beginning on or after January 1, 2013.

(g) IFRS 11 “Joint Arrangements”

IFRS 11 replaces IAS 31 and SIC-13. The changes introduced by IFRS 11 primarily relate to increasing comparability within IFRSs by removing the choice for jointly controlled entities to use proportionate consolidation, so that the structure of the arrangement is no longer the most important factor when determining the classification as a joint operation or a joint venture, which then determines the accounting. The standard is effective for annual

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

periods beginning on or after January 1, 2013.

(h) IFRS 12 “Disclosures of Interests in Other Entities”

IFRS 12 primarily integrates and makes consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and presents those requirements in a single IFRS. The standard is effective for annual periods beginning on or after January 1, 2013.

(i) IFRS 13 “Fair Value Measurement”

IFRS 13 primarily relates to defining fair value, setting out in a single IFRS a framework for measuring fair value and requiring disclosures about fair value measurements to reduce complexity and improve consistency in application when measuring fair value. However, IFRS 13 does not change existing requirements in other IFRSs as to when the fair value measurement or related disclosure is required. The standard is effective for annual periods beginning on or after January 1, 2013.

(j) Presentation of Items of Other Comprehensive Income (Amendment to IAS 1 “Presentation of Financial Statements”)

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that would be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment is effective for annual periods beginning on or after July 1, 2012.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

(k) IAS 19 “Employee Benefits” (Revised)

The revision includes: (1) For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Actuarial gains and losses are now recognized in Other Comprehensive Income as they occur. (2) Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). (3) New disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption. (4) Termination benefits will be recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The revised standard is effective for annual periods beginning on or after January 1, 2013.

(l) Government Loans (Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”)

The IASB has added an exception to the retrospective application of IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement, as applicable) and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initial accounting for those loans. The exception will give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. As a result of not applying IFRS 9 (or IAS 39, as applicable) and IAS 20 retrospectively, first-time adopters will not have to recognize the corresponding benefit of a below-market rate government loan as a government grant. The amendment is effective for annual periods beginning on or after January 1, 2013.



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(m) Disclosures-offsetting Financial Assets and Financial Liabilities  
(Amendment to IFRS 7 “Disclosures - Financial Instruments”)

These amendments require an entity to disclose information about rights of set-off and related arrangements; the above-mentioned disclosures should provide users of financial statements with information about the effect of such rights and arrangements on the entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with IAS 32. The amendment is effective for annual periods beginning on or after January 1, 2013.

(n) Offsetting of Financial Assets and Financial Liabilities (Amendment to IAS 32 “Financial Instruments – Presentation”)

The amendments clarify the related regulations of an entity currently has a legally enforceable right to set off the recognized amounts in IAS 32. The amendment is effective for annual periods beginning on or after January 1, 2014.

(o) IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”

IFRIC 20 only deals with waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). The costs of stripping activity to be accounted for inventories to the extent that the benefit from the stripping activity is realized in the form of inventory produce. The costs of stripping activity which provide a benefit in the form of improved access to ore are recognized as non-current assets (stripping activity asset) where the specific criteria are met. A stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. The interpretation is

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

effective for annual periods beginning on or after January 1, 2013.

- (p) Improvements to International Financial Reporting Standards (2009-2011 cycle)

*IFRS 1 "First-time Adoption of International Financial Reporting Standards"*

The amendments clarifies that an entity that has stopped applying IFRS may choose to either re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period or apply IFRS retrospectively in accordance with IAS 8 as if it had never stopped applying IFRS. The amendment is effective for annual periods beginning on or after January 1, 2013.

*IAS 1 "Presentation of Financial Statements"*

The revision includes: (1) It clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. (2) An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. (3) The opening statement of financial position (known as the third balance sheet) must be presented in the following circumstances: when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. The opening statement would be at the beginning of the preceding period. The revised standard is effective for annual periods beginning on or after January 1, 2013.

*IAS 16 "Property, Plant and Equipment"*

The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment is effective for annual periods beginning on or after January 1, 2013.

*IAS 32 "Financial Instruments: Presentation"*

The amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment is effective for annual periods beginning on or after

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January 1, 2013.

*IAS 34 “Interim Financial Reporting”*

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. The amendment is effective for annual periods beginning on or after January 1, 2013.

(q) IFRS 10 “Consolidated Financial Statements” (Amendment)

The Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to account for particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendment is effective for annual periods beginning on or after January 1, 2014.

The above-mentioned standards and interpretations issued by IASB have not yet been recognized by FSC at the date of issuance of the Group’s financial statements. It cannot be reasonably estimated at this point in time the impact of (a), (d), (f), (h)~(k), (m)~(n), (p)~(q). The other newly issued or amended standards and interpretations have no insignificant impact on the Group.

- (2) Standards issued by IASB but not yet endorsed by FSC (the effective dates are to be determined by FSC):

(a) International Financial Reporting Standard 9, “Financial Instruments” (IFRS 9)

IFRS 9 which is divided in three distinct phases is designed by the International Accounting Standards Board (IASB) to eventually replace International Accounting Standard 39 “Financial Instruments: Recognition and Measurement” (IAS 39) in its entirety. The first phase relates to the classification and measurement of financial assets and liabilities that must be applied for annual periods beginning on or after January 1, 2015.

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The IASB continues to work on the remaining phases relating to impairment methodology and hedge accounting. However, companies adopting IFRSs, IASs, and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC) as recognized by the FSC (collectively referred to as "TIFRS") may not early adopt IFRS 9. Adopting the first phase of IFRS 9 will have an impact on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. The impact of adopting the remaining two phases of IFRS 9 on the Group could not be determined at this stage.

(b) IAS 36 "Impairment of Assets" (Amendment)

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The amendment is effective for annual periods beginning on or after January 1, 2014.

(c) IFRIC 21 "Levies"

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government (both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain). The interpretation is effective for annual periods beginning on or after January 1, 2014.

(d) Novation of derivatives and continuation of hedge accounting

Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The interpretation is effective for annual periods beginning on or after January 1, 2014.

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(e) IFRS 9 "Financial Instruments" - hedge accounting

Released the related accounting treatment of financial instruments amendments, including: (1) completion of the International Financial Reporting Standards No. 9 "Financial Instruments" third phase project to replace the previous hedge accounting standards under IAS 39 "Financial Instruments: Recognition and measurement". This amendment will allow businesses to better reflect risk management activities in the financial statements; (2) allows an individual early adoption of IFRS 9 "Financial Instruments": fair value changes due to own credit are not recognized in profit or loss; and (3) remove the mandatory effective date of January 1, 2015 for IFRS 9 "Financial Instruments".

(f) IAS 19 "Employee Benefits" amendment - defined benefit plans: employee contribution

IASB amended the requirements in IAS 19 for contributions from employees or third parties which are independent of the number of years of service (such as a fixed percentage of employee's salary). Such contribution may be recognized by simplified accounting treatments. The amendment is effective for annual periods beginning on or after 1 July 2014.

(g) Improvements to International Financial Reporting Standards (2010-2012 cycle):

*IFRS 2 "Share-based Payment"*

Amended the definitions of "vesting conditions" and "market conditions", and added definitions of "performance conditions" and "terms of service" (the definitions of "performance conditions" and "terms of service" were included in the definition of "vesting conditions" before the amendment). These amendments apply to share-based payment transactions for which the grant dates occur on or after 1 July 2014..

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Notes to Consolidated Financial Statements (Continued)

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*IFRS 3 "Business Combinations"* .

This amendment includes (1) removal of "other applicable international financial reporting standards" with respect to contingent considerations of business combinations, (2) deletion of "International Accounting Standards No. 37: liabilities Provisions, contingent liabilities and contingent assets or other appropriate International Financial Reporting Standards ", which provides that contingent consideration of non-financial asset or liability should be measured at fair value at each reporting date, with changes in fair value recognized in profit or loss, and (3) amendment of International Financial reporting requirements Standards No. 9 "Financial Instruments" in order to clarify that the contingent consideration of financial assets or financial liabilities can only be measured at fair value, and shall be disclosed in profit or loss pursuant to International financial Reporting Standards No. 9 "Financial Instruments" . This amendment applies to business combinations of which acquisition date occurring on or after 1 July 2014..

*IFRS 8 "Operating Segments"*

The amendments require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments. The amendments also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. The amendment is effective for annual periods beginning on or after 1 July 2014.

*IFRS 13 "Fair Value Measurement"*

The amendment to the Basis for Conclusions of IFRS 13 clarifies that when deleting paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and Measurement as consequential amendments from IFRS 13 Fair Value Measurement, the IASB did not intend to change the relevant measurement requirements.

*IAS 16, "Property, Plant and Equipment"*

The amendment clarifies that when an item of property, plant and equipment is revalued, the accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

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Notes to Consolidated Financial Statements (Continued)  
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*IAS 24 "Related Party Disclosures"*

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The amendment is effective for annual periods beginning on or after 1 July 2014.

*IAS 38 "Intangible Assets"*

The amendment clarifies that when an intangible asset is revalued, the accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset. The amendment is effective for annual periods beginning on or after 1 July 2014.

- (h) Improvements to International Financial Reporting Standards (2011-2013 cycle):

*IFRS No. 1 "First-time Adoption of International Financial Reporting Standards"*

The amendment clarifies that an entity, in its first IFRS financial statements, has the choice between applying an existing and currently effective IFRS or applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application.

*IFRS 3 "Business Combinations"*

This amendment clarifies that paragraph 2(a) of IFRS 3 Business Combinations excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after 1 July 2014.

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*IFRS 13 "Fair Value Measurement"*

The amendment clarifies that paragraph 52 of IFRS 13 includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis. The objective of this amendment is to clarify that this portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The amendment is effective for annual periods beginning on or after 1 July 2014.

*IAS 40 "Investment Property"*

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property; in determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property, separate application of both standards independently of each other is required. The amendment is effective for annual periods beginning on or after 1 July 2014.

- (i) International Financial Reporting Standards No. 14, "Regulatory Deferral Accounts "

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. IFRS 14 is effective for annual periods



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beginning on or after 1 January 2016.

The above-mentioned standards and interpretations issued by IASB have been recognized by FSC at the date of issuance of the Group's financial statements. It cannot be reasonably estimated at this point in time the impact of (a), (d), (f), (h)~(k), (m)~(n), (p)~(q). The other newly issued or amended standards and interpretations have no insignificant impact on the Group.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(1) Statement of Compliance**

The Group's financial statements as of and for the three-month periods ended December 31, 2013 and 2012 were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations"), IFRSs, IASs, IFRIC and SIC, which are recognized by FSC.

**(2) Basis of Preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars ("\$\$") unless otherwise stated.

**(3) General Description of Reporting Entities**

**Principles of consolidation**

Subsidiaries are fully consolidated from the date of acquisition (the date on which the Group obtains control), and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, and unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Total comprehensive income of subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) recognizes the fair value of the consideration received;
- (d) recognizes the fair value of any investment retained;
- (e) recognizes any surplus or deficit in profit or loss; and
- (f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are as follows:

Investor	Subsidiary	Business nature	Percentage of ownership (%) as of		
			December 31, 2013	December 31, 2012	January 1, 2012
the Company	Shinco Worldwide Ltd. (BVI) [Shinco (BVI)]	Selling household sewing machines and spare parts	100.00%	100.00%	100.00%
the Company	Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Trading and holding Group	100.00%	100.00%	100.00%
the Company	Zeng Hsing Industrial Co., Ltd. (VN) [Zeng Hsing	Manufacturing household sewing machines and	100.00%	100.00%	100.00%

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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Investor	Subsidiary	Business nature	Percentage of ownership (%) as of		
			December 31, 2013	December 31, 2012	January 1, 2012
	(VN) ]	sport equipment			
the Company	Shinco Technologies Limited (VN) [Shinco (VN)]	Material die-casting of metal of aluminum, zinc and magnesium alloy	100.00%	100.00%	100.00%
the Company	Mitsumichi Industrial Co. Ltd [Mitsumichi]	Manufacturing household sewing machines	53.00%	53.00%	58.00%
the Company	Asia Bright Hometec Co., Ltd. [Asia Bright]	Manufacturing electric appliances and machinery and equipment.	43.08%	43.08%	43.08%
Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd. [Zhangjiagang]	Manufacturing household sewing machines	100.00%	100.00%	100.00%
Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. [Cheau Hsing]	Selling household sewing machines and spare parts.	100.00%	100.00%	-
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd. [Zhangjiagang]	Zhangjiagang Zenghsing Trading Co., Ltd. [Zhangjiagang trading]	Selling household sewing machines and spare parts	100.00%	100.00%	100.00%

Although the Group owns less than 50% of Asia Bright Hometec' common shares, the Group has a controlling interest over the financial and operating decisions of Asia Bright Hometec. As a result, Asia Bright Hometec is included

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as one of the consolidated entities.

(4) Foreign Currency Transactions

The Group's consolidated financial statements are presented in New Taiwan Dollars (NTD), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- a. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- b. Foreign currency items within the scope of IAS 39 are accounted for based on the accounting policy for financial instruments.
- c. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to

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Notes to Consolidated Financial Statements (Continued)

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profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(5) Translation of Foreign Currency Financial Statements

The assets and liabilities of foreign operations are translated into NTD at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average exchange rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In the partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and Non-current Distinction

An asset is classified as current when:

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Notes to Consolidated Financial Statements (Continued)

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- a. The Group expects to realized the asset, or intends to sell or consume it, in its normal operating cycle; or
- b. The Group holds the asset primarily for the purpose of trading; or
- c. The Group expects to realize the asset within twelve months after the reporting period; or
- d. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as a current when:

- a. The Group expects to settle the liability in normal operating cycle; or
- b. The Group holds the liability primarily for the purpose of trading; or
- c. The liability is due to be settled within twelve months after the reporting period; or
- d. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Term of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(7) Cash Equivalents

Cash and cash equivalents shall refer to cash, time deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, including time deposits with original maturities of three months or less.

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(8) Financial Instruments

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

Financial assets and financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial Assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

The financial assets are classified as held for trading when:

- i. The primary purpose of acquiring is to be sold in a short time; or
- ii. They are part of recognizable portfolio of financial instruments when recognized initially and there were evidences to show the portfolio is profited in a short time; or
- iii. They are derivative instruments (except for contract of financial guarantee or hedging instruments).

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Notes to Consolidated Financial Statements (Continued)

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The Group assigned the contracts that included one or more embedded derivative instruments as financial assets at fair value through profit or loss; or the financial assets are assigned as financial assets designated upon initial recognition at fair value through profit or loss when:

- i. The assignment can eliminate or strongly decrease the inconsistency in recognition and measurement; or
- ii. The Group estimates the effects of the financial assets, liabilities or both, and provide the relevant information to key managements based on the fair value.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

b. Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.



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If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

c. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

d. Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that an individual or a group of financial asset other than the financial assets at fair value through profit or loss is impaired. An individual or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

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A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- i. Significant financial difficulty of the issuer or obligor; or
- ii. A breach of contract, such as a default or delinquency in interest or principal payments; or
- iii. It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- iv. The disappearance of an active market for that financial asset because of financial difficulties.

For loans and receivables measured at amortized cost: if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

If, in a subsequent year, the account receivable amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss.

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Notes to Consolidated Financial Statements (Continued)

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Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

e. Derecognition of financial assets

A financial asset is derecognized when:

- i. The rights to receive cash flows from the asset have expired.
- ii. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- iii. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

Financial liabilities and equity

a. Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument

b. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

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Notes to Consolidated Financial Statements (Continued)

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c. Financial liabilities

Financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

d. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

The financial liabilities are classified as held for trading when:

- i. The primary purpose of acquiring is to be sold in a short time; or
- ii. They are part of recognizable portfolio of financial instruments when recognized initially and there were evidences to show the portfolio is profited in a short time; or
- iii. They are derivative instruments (except for contract of financial guarantee or hedging instruments).

The Group assigned the contracts that included one or more embedded derivative instruments as financial liabilities at fair value through profit or loss; or the financial liabilities are assigned as financial liabilities designated upon initial recognition at fair value through profit or loss when:

- i. The assignment can eliminate or strongly decrease the inconsistency in recognition and measurement; or

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Notes to Consolidated Financial Statements (Continued)

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- ii. The Group estimates the effects of the financial assets, liabilities or both, and provides the relevant information to key managements based on the fair value.

Gains or losses on the subsequent measurement of liabilities held for trading including interest paid are recognized in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

- e. Financial liabilities carried at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

- f. Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
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Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

(9) Derivative financial instruments

The Group uses derivative financial instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss (held for trading) except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges and hedges of net investments in foreign operations, which is recognized in equity.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

(10) Inventories

Inventories are stated at the lower of cost and realizable value. Cost is presented by all the essential expenditures incurred to the ready status as being sold or finished products. Materials, work in process and finished goods are calculated on the following bases:

Materials	— Weighted average of actual procurements
Work in process and finished goods	— Direct materials, labor cost and overhead are all accounted for. Finished goods and work in process are accounted under the weighted average method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(11) Investments accounted for under the equity method

The Group's investment in its associate is accounted for using the equity method. An associate is an entity over which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's related interest in the associate.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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When the change of the investment's equity was not due to the profit or loss or any items of other comprehensive income, and the change did not affect the ownership percentage of the Group, the Group recognized the corresponding change based on the ownership percentage. Therefore the capital surplus should be recognized in profit or loss base on the percentage of disposal

When the Group subscribes for additional associate or jointly controlled entity's new shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate or jointly controlled entity. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group's ownership interest is reduced due to the additional subscription of associate or joint controlled entity's new shares, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate or jointly controlled entity shall be reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases. If the recoverable amount adopts the useful value of the investment, the Group evaluates the useful values based on the estimates as follows:



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- a. The Group possessed the estimated future cash flows discounted value from the investment, included cash flows from operating activities and the final proceeds of the sale of the investment; or
- b. The Group obtained dividends from the investment and the estimated future cash flows discounted value from sale of the investment.

Because the Group didn't recognize separately the goodwill of the investment, the Group is not required to apply IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

(12) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 "Property, plant and equipment". When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Items	Useful Lives
Buildings and facilities	20~40 years
Machinery and equipment	5~17 years
Tooling equipment	2~ 4 years
Transportation equipment	5~10 years
Furniture, fixtures and equipment	3~11 years
Miscellaneous equipment	3~15 years
Leasehold improvements	Lower of leasehold years or useful lives

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate, and are treated as changes in accounting estimates.

### (13) Leases

#### The Group as a lessee

Lease assets recognize depreciation expenses base on its useful lives, if the Group can't confirm the ownerships of the lease assets at the closing date, the Group recognize depreciation expenses base on the lower of useful lives or tenancies.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

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(14) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets which fail to meet the recognition criteria are not capitalized and the expenditures are reflected in profit or loss in the period incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each fiscal year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and is treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in other operating income and expenses. Accounting policies of the Group's intangible assets is summarized as follows:

	<u>Software</u>	<u>Trademarks</u>	<u>Patents</u>	<u>Goodwill</u>	<u>Others</u>
Useful lives	1~5 years	1~5 years	1~5 years	indefinite	4 years
Method of amortization	Amortized on a straight- line basis over the estimated useful life	Amortized on a straight- line basis over the estimated useful life	Amortized on a straight- line basis over the estimated useful life	There is no amortization	Amortized on a straight- line basis over the estimated useful life
Sources	Outside	Outside	Outside	Outside	Outside

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(15) Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that an asset in the scope of IAS 36 may be impaired. If any indication exists, the Group completes impairment testing for the cash-generating unit (CGU) where the individual assets belong to. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use and is determined for an individual asset. If circumstances indicate that previously recognized impairment losses may no longer exist or may have decreased at each reporting date, the Group re-assesses the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

The cash generating unit, or groups of CGU, to which goodwill has been allocated is tested for impairment annually at the same time every year, irrespective of whether there is any indication of impairment. Where the carrying amount of an asset or CGU (including the carrying amount of goodwill) exceeds its recoverable amount, the asset is considered impaired. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods.

Impairment loss of or reversal gain of impairment is recognized in other operating income and expenses.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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(16) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. When the effect of the time value of money is material, provisions is discounted by present tax-rate of reflectable specific risks. When provisions discount, the increasing amount of liabilities due to time elapsed is recognized as a borrowing cost.

(17) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

a. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- i. the significant risks and rewards of ownership of the goods have passed to the buyer;
- ii. neither continuing managerial involvement nor effective control over the goods sold have been retained;
- iii. the amount of revenue can be measured reliably;
- iv. it is probable that the economic benefits associated with the transaction will flow to the entity; and
- v. the costs incurred in respect of the transaction can be measured reliably.

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Notes to Consolidated Financial Statements (Continued)  
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b. Interest income

For all financial assets measured at amortized cost including loans and receivables, interest income is recorded using the effective interest rate method and recognized in profit or loss.

c. Dividends

Revenue is recognized when the Group's right to receive the payment is established.

(18) Borrowing cost

It is capitalized as part of the assets when the borrowing cost is directly attributable to the acquisition, construction or production of assets. The other borrowing cost should be recognized as current expense. The borrowing cost includes the interest and other cost that relate to borrowing of funds.

(19) Post-employment benefits

The Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries make contribution to the plan based on the requirements of local regulations.

## ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

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Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The Group recognizes all actuarial gains and losses in the period in which they occur in other comprehensive income. Actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings. Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

#### (20) Income Tax

Income tax expense (profit) is the aggregate amount included in the determination of profit or loss for the period in respect of current income tax and deferred income tax.

##### Current income tax

Current income tax assets and liabilities for the current period and prior periods are measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by stockholders' meeting.

##### Deferred income tax

Deferred income tax is a temporary difference between the tax bases of assets and liabilities and their carrying amounts in financial statement at the reporting date.

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Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.



## ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Interim period income tax expense is estimated using the tax rate that would be applicable to expected total annual earnings, that is, calculated by the pre-tax income of the interim period multiplied by the estimated average annual effective income tax rate.

#### (21) Seasonal change

The Group's operation was seasonal, because the demand in the second half year was higher than the first half year, which caused the Group's revenues in the second half to be higher than the first half.

## 5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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The key assumptions concerning the future and other key sources for estimating uncertainty at the reporting date, that would have a significant risk for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

(1) The Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example the discounted cash flow model) or the market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

(2) Post-Employment Benefits

The cost of post-employment benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. The assumptions used for measuring pension cost and the present value of the pension obligation are disclosed in Note 6(13).

(3) Income Tax

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the entities of the Group.

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences.

### 6. CONTENTS OF SIGNIFICANT ACCOUNTS

#### (1) CASH AND CASH EQUIVALENTS

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Cash on hand	\$424	\$283	\$477
Checking and savings accounts	1,443,693	1,973,893	975,778
Time deposits	376,952	190,130	-
Total	<u>\$1,821,069</u>	<u>\$2,164,306</u>	<u>\$976,255</u>

#### (2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Held for trading:			
Derivative financial assets			
Funds	\$110,060	\$-	\$160,099
Forward exchange contracts	5,284	2,423	3,918
Total	<u>\$115,344</u>	<u>\$2,423</u>	<u>\$164,017</u>

Financial assets at fair value through profit or loss were not pledged.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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(3) NOTES RECEIVABLE, NET

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Notes receivable, net	\$208	\$407	\$789

All notes receivable came from operating activities.

(4) ACCOUNTS RECEIVABLE, NET

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Accounts receivable - non related parties	\$ 964,943	\$1,194,611	\$851,010
Less : Allowance for doubtful accounts	(3,218)	(3,218)	(28,481)
Accounts receivable, net	\$961,725	\$1,191,393	\$822,529

Accounts receivables are generally on 45-90 day terms. The movements in the provision for impairment of accounts receivables are as follows (please refer to Note 12 for credit risk disclosure):

	Individually impaired	Collectively impaired	Total
As of January 1, 2014	\$-	\$3,218	\$3,218
Charge for the current period	-	-	-
Write off due to uncollection	-	-	-
As of March 31, 2014	\$-	\$3,218	\$3,218
As of January 1, 2013	\$-	\$28,481	\$28,481
Charge for the current period	-	-	-
Write off due to uncollection	-	-	-
As of March 31, 2013	\$-	\$28,481	\$28,481

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Ageing analysis of trade receivables and trade receivables-related parties that are past due as of the end of the reporting period but not impaired is as follows:

	Neither past due nor impaired	Past due but not impaired				Total
		1~30 days	31-90 days	91-360 days	Upon 361 day	
March 31, 2014	\$927,897	\$20,551	\$12,248	\$1,029	\$-	\$961,725
December 31, 2013	974,961	199,031	16,382	1,019	-	1,191,393
March 31, 2013	822,213	316	-	-	-	822,529

No accounts receivables were pledged.

(5) Inventories, net

a. Details as follows

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Raw materials	\$217,740	\$230,626	\$245,113
Work in progress	28,825	8,065	19,408
Semi-manufactured goods	28,002	34,498	54,850
Finished goods	251,309	279,688	210,552
Total	525,876	552,877	529,923
Less: allowance for inventory valuation losses	(7,291)	(6,378)	(6,585)
Net	<u>\$518,585</u>	<u>\$546,499</u>	<u>\$523,338</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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- b. For the three-month periods ended March 31, 2014 and 2013, the Group recognized \$960,054 and \$864,316 for costs of inventories in expenses. The profit and loss that related to cost of goods sold are as follows:

	For the three-month periods ended March 31,	
	2014	2013
Reclassified from cost of goods sold to expense	\$10,649	\$9,461
Inventories scrapped	992	90
Gain on physical inventory	(101)	(118)
Loss(gain) from price reduction(recovery) of inventories	913	(294)
Revenue from sale of scraps	(925)	(664)
Total	<u>\$11,528</u>	<u>\$8,475</u>

No inventories were pledged.

(6) Financial assets measured at cost

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Non-publicly traded stocks			
Strong-way Co., Ltd.	\$-	\$630	\$630

Financial assets measured at cost were not pledged.

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(7) Property, plant and equipment

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportatio n equipment	Furniture, fixtures and equipment	Leasehold improvements	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of January 1, 2014	\$21,075	\$400,953	\$621,349	\$261,316	\$22,670	\$19,300	\$3,149	\$131,791	\$339,121	\$1,820,724
Additions	-	-	22,996	11,853	3,717	167	-	3,592	138,877	181,202
Disposals	-	-	(100)	(11,152)	-	(84)	-	(3,223)	-	(14,559)
Transfers	-	(109)	(1,203)	3,489	(48)	(873)	-	-	-	1,256
Exchange differences	-	(1,313)	(1,929)	(1,338)	(73)	(1)	-	(383)	-	(5,037)
As of March 31, 2014	\$21,075	\$399,531	\$641,113	\$264,168	\$26,266	\$18,509	\$3,149	\$131,777	\$477,998	\$1,983,586
As of January 1, 2013	\$21,075	\$397,703	\$603,742	\$334,058	\$22,482	\$18,162	\$2,909	\$147,416	\$46,839	\$1,594,386
Additions	-	180	6,964	6,267	96	1,071	-	2,302	87,559	104,439
Disposals	-	-	(2,100)	(1,635)	(170)	(131)	-	(742)	-	(4,778)
Transfers	-	-	23,955	372	78	519	-	7,690	(32,121)	493
Exchange differences	-	4,435	7,274	7,455	272	3	-	2,407	-	21,846
As of March 31, 2013	\$21,075	\$402,318	\$639,835	\$346,517	\$22,758	\$19,624	\$2,909	\$159,073	\$103,277	\$1,716,386

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## Notes to Consolidated Financial Statements (Continued)

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	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportatio n equipment	Furniture, fixtures and equipment	Leasehold improvements	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:										
As of January 1, 2014	\$-	\$136,190	\$263,055	\$169,778	\$10,417	\$12,726	\$898	\$79,217	\$-	\$672,281
Depreciation	-	4,229	17,100	8,670	1,019	397	161	4,241	-	35,817
Disposals	-	-	(1)	(8,370)	-	(81)	-	(1,982)	-	(10,434)
Transfers	-	(108)	(752)	-	(15)	(570)	-	-	-	(1,445)
Exchange differences	-	(585)	(1,110)	(1,222)	(49)	(1)	-	(259)	-	(3,226)
As of March 31, 2014	\$-	\$139,726	\$278,292	\$168,856	\$11,372	\$12,471	\$1,059	\$81,217	\$-	\$692,993
As of January 1, 2013	\$-	\$116,878	\$224,062	\$249,675	\$9,118	\$11,263	\$291	\$92,448	\$-	\$703,735
Depreciation	-	4,202	17,238	10,999	761	454	145	4,234	-	38,033
Disposals	-	-	(2,085)	(1,636)	(167)	(130)	-	(718)	-	(4,736)
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange differences	-	1,721	3,679	5,918	159	3	-	1,504	-	12,984
As of March 31, 2014	\$-	\$122,801	\$242,894	\$264,956	\$9,871	\$11,590	\$436	\$97,468	\$-	\$750,016
Net carrying amount as of:										
March 31, 2014	\$21,075	\$259,805	\$362,821	\$95,312	\$14,894	\$6,038	\$2,090	\$50,560	\$477,998	\$1,290,593
December 31, 2013	\$21,075	\$264,763	\$358,294	\$91,538	\$12,253	\$6,574	\$2,251	\$52,574	\$339,121	\$1,148,443
March 31, 2013	\$21,075	\$279,517	\$396,941	\$81,561	\$12,887	\$8,034	\$2,473	\$61,605	\$103,277	\$966,370

a. Please refer to Note 8 for property, plant and equipment pledged as collateral.

b. There is no capitalization of interest due to purchase property, plant and equipment for the three-month periods ended of March 31, 2014 and 2013.



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
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(8) Intangible assets

	Software	Patents	Trademarks	Goodwill	Others	Total
Cost:						
As of January 1, 2014	\$34,674	\$9,932	\$2,140	\$1,181	\$6,872	\$54,799
Addition-acquired separately	6,538	38	-	-	-	6,576
Exchange differences	(14)	-	-	-	-	(14)
As of March 31, 2014	\$41,198	\$9,970	\$2,140	\$1,181	\$6,872	\$61,361
As of January 1, 2013	\$32,255	\$7,421	\$2,140	\$1,181	\$6,872	\$49,869
Addition-acquired separately	2,217	1,712	-	-	-	3,929
Exchange differences	43	-	-	-	-	43
As of March 31, 2013	\$34,515	\$9,133	\$2,140	\$1,181	\$6,872	\$53,841

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
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	Software	Patents	Trademarks	Goodwill	Others	Total
Amortization and impairment:						
As of January 1, 2013	\$26,207	\$3,978	\$1,561	\$-	\$3,510	\$35,256
Amortization	2,270	231	59	-	438	2,998
Exchange differences	(8)	-	-	-	-	(8)
As of March 31, 2014	\$28,469	\$4,209	\$1,620	\$-	\$3,948	\$38,246
As of January 1, 2013	\$18,213	\$2,173	\$1,309	\$-	\$1,755	\$23,450
Amortization	2,112	358	66	-	438	2,974
Exchange differences	24	-	-	-	-	24
As of March 31, 2013	\$20,349	\$2,531	\$1,375	\$-	\$2,193	\$26,448
Net carrying amount as of:						
March 31, 2014	\$12,729	\$5,761	\$520	\$1,181	\$2,924	\$23,115
December 31, 2013	\$8,467	\$5,954	\$579	\$1,181	\$3,362	\$19,543
March 31, 2013	\$14,166	\$6,602	\$765	\$1,181	\$4,679	\$27,393

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Intangible asset amortization expenses are summarized as follows:

	For the three-month periods ended March 31,	
	2014	2013
Operating cost	\$1,745	\$2,177
Selling and marketing	15	15
Management and administrative	402	327
Research and development	836	455
Total	<u>\$2,998</u>	<u>\$2,974</u>

(9) Other non-current assets

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Long-term prepaid rent expenses	\$140,723	\$141,083	\$148,063
Prepayment for equipment	34,554	27,786	21,486
Others	10,678	4,750	4,166
Total	<u>\$185,955</u>	<u>\$173,619</u>	<u>\$173,715</u>

(10) Short-term borrowings

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Unsecured bank loans	<u>\$-</u>	<u>\$280,000</u>	<u>\$-</u>

The Group's unused short-term lines of credits amounted to \$766,020, \$384,900 and \$616,375 as of March 31, 2014, December 31, 2013 and March 31, 2013, respectively.

(11) Short-term notes and bills payable

Accounting title	Guarantee	As of		
		March 31, 2014	December 31, 2013	March 31, 2013
Commercial paper payable	Mega Bills Finance Corporation	\$-	\$100,000	\$-
	Ta Ching Bills Finance Corporation	-	-	-
Total		<u>\$-</u>	<u>\$100,000</u>	<u>\$-</u>

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

### (12) Post-employment benefits

#### Defined contribution plan

Pension expenses under the defined contribution plan were \$2,018 and \$1,647 for the three-month periods ended March 31, 2014 and 2013, respectively.

#### Defined benefits plan

Pension expenses under the defined benefits plan were as follows:

	For the three-month periods ended March 31,	
	2014	2013
Operating cost	\$603	\$408
Promotion	298	350
Management and administrative	556	543
Research and development	643	649
Total	<u>\$2,100</u>	<u>\$1,905</u>

The Group recognized pension cost for high-ranking officers amounting to \$350 and \$450 for the three-month periods ended March 31, 2014 and 2013, respectively.

### (13) Equities

#### a. Share capital

As of January 1, 2012, the Company's authorized capital was \$650,000, divided into 65,000,000 shares with par value of \$10 (in dollar) each. The issued and outstanding capital stocks were \$516,692, divided into 51,669,173 shares with par value of \$10 (in dollar) each.

According to the resolution of the board of the shareholders' meeting held on June 11, 2013, the Company increased its authorized capital to \$850,000 and approved of the appropriation of earnings of 2012. The Company issued new share totaling \$25,834 through capitalization of dividends, divided into 2,583,458 shares with par value of \$10 (in dollar) each. In July 29, 2013, the board of the directors approved an investment and the registration of this investment was completed on August 7, 2013.

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

According to the resolution of the board of the directors' meeting held on November 2, 2013, the Company was to solicit and issue 6,300,000 shares of new common stocks for cash at \$128 (in dollar) per share. Registrations for the changes in capital were completed as of November 22, 2013. After the registration for the changes, the Company's authorized capital was \$850,000. The issued and outstanding capital stocks were \$605,526 with a par value at \$10 divided into 60,552,631 shares.

### b. Capital surplus

According to the Company Act, the capital reserve shall not be used except when offsetting the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them. The detail of the capital surplus is as follows:

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Additional paid-in capital	\$1,308,533	\$1,308,533	\$567,149
Donated assets	314	314	314
Employee stock options	78,498	78,498	35,028
Total	<u>\$1,387,345</u>	<u>\$1,387,345</u>	<u>\$602,491</u>

### c. Retained earnings and dividend policy

As provided by the Company's Articles of Incorporation, annual net income, after offsetting prior years' accumulated deficits, if any, may be distributed in the following order:

- i. distribute at 3% to 6% as employee bonuses;
- ii. distribute at 0.5% to 4% as the directors and supervisors' remunerations;
- iii. distribute the remaining amount as dividends.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The Company operates in a traditional industry and is currently at its mature stage of business life cycle, with a relatively well established financial structure and fairly consistent earnings year-over-year. In addition to adhering to the Company Act and the Company's bylaws, the actual distribution of earnings would depend on the Company's projected capital expenditure and operational results which will be reviewed by the board of directors before voting in the annual stockholder' meetings. Cash dividend would be no less than 30% of the total dividend to be distributed.

When the Company distributed the earnings from 2012 and 2011, in accordance with the applicable laws, it should appropriate the other net deductions from shareholders' equity which occurred in current period to special reserve. When the other net deductions from shareholders' equity were reversed, the amount reversed may be distributed.

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a Company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, the special reserve equivalent to the net debit balance of the other components of shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company's special reserve resulted from first-time adoption of IFRSs was \$0 as of December 31, 2013. The Company was not required to reverse the special reserve due to the subsequent use, disposal or reclassification of the related assets for the three-month periods ended March 31, 2014.

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

The profit sharing to employees and remuneration to directors were \$5,040 and \$710 and \$4,275 and \$585 for the three months ended March 31, 2014 and 2013. They are based on the first quarterly earnings. The profit sharing to employees and directors is charged against the earnings of 2013 and 2012 respectively as the periodic cost. The number of shares distributed as stock dividends is calculated based on the closing price one day earlier than the date of shareholders' meeting, and considered the impacts of ex-right/ex-dividend. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss.

Details of the 2013 and 2012 earnings distribution and dividends per share as approved by the board of directors at a board meeting held on April 30, 2014 and the resolution of the shareholders' meeting held in June 11, 2013, are as follows:

	Appropriation of earnings		Dividend per share (NTD)	
	2013	2012	2013	2012
Legal reserve	\$70,813	\$58,437		
Special reserve	(69,892)	(2,223)		
Cash dividends-common stock	544,974	387,520	\$9.0	\$7.5
Stock dividends-common stock	-	25,834		\$0.5
Directors' and supervisors' remuneration	2,850	1,908		
Employees' bonuses-cash	22,000	16,092		
Total	<u>\$570,745</u>	<u>\$487,568</u>		

The actual appropriation is in compliance with the original estimation resolved by the board meeting. The forecast amounts subsequently resolved by the shareholders and the proposed amounts are the same.

Information about appropriation of retained earnings and bonuses paid to employees, remuneration to directors and supervisors for 2013 can be obtained from the "Market Observation Post System" on the website of Taiwan Stock Exchange Corporation.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(14) Non-controlling interests

	For the three-month periods ended March 31,	
	2014	2013
Balance as of January 1	\$37,155	\$30,385
Attributable to non-controlling interests		
Income (Loss)	1,736	1,052
Balance as of December 31	\$38,891	\$31,437

(15) Sales

	For the three-month periods ended March 31,	
	2014	2013
Sale of goods	\$1,241,190	\$1,123,759
Less: Sales returns and discounts	(3,909)	(5,857)
Net sales	\$1,237,281	\$1,117,902

(16) Operating lease

The Group as lessee

The contract terms were three to five years. The Group is not entitled to renew the contract. There were no any restrictions to the Group in the contracts.

According to the uncancellable contracts of operating lease, the minimum lease payments in the future as of March 31, 2014, December 31, 2013, and March 31, 2013 were as follows:

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Lower than 1 year	\$900	\$900	\$900
Between 1 to 5 years	2,025	2,250	2,925
Total	\$2,925	\$3,150	\$3,825



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The expenses of operating lease were as follows:

	For the three-month periods ended March 31,	
	2014	2013
Minimum lease payments	\$225	\$225

(17) The Group's personnel, depreciation and amortization expenses are summarized as follows:

Function Nature	For the three-month periods ended March 31,					
	2014			2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$80,163	\$51,966	\$132,129	\$77,746	\$42,311	\$120,057
Labor and health insurance	9,611	4,713	14,324	7,916	4,128	12,044
Pension	1,135	3,333	4,468	848	3,199	4,047
Others	4,903	2,093	6,996	5,152	1,709	6,861
Depreciation	31,160	4,657	35,817	33,783	4,250	38,033
Amortization	4,110	2,951	7,061	7,431	2,721	10,152

(18) Non-operating income and expenses

a. Other income

	For the three-month periods ended March 31,	
	2014	2013
Interest income	\$4,224	\$1,418
Others	5,727	10,681
Total	\$9,951	\$12,009

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

b. Other gains and losses

	For the three-month periods ended March 31,	
	2014	2013
Foreign exchange gains, net	\$31,392	\$27,919
Gain on disposal of investment	2,331	-
Gain (Losses) on financial assets at fair value through profit or loss	2,212	(2,042)
Losses on disposal of property, plant and equipment	(1,031)	(42)
Others	(2)	(45)
Total	<u>\$34,832</u>	<u>\$25,790</u>

c. Finance costs

	For the three-month periods ended March 31,	
	2014	2013
Interest expenses on bank loans	<u>\$(146)</u>	<u>\$(417)</u>

(19) Components of other comprehensive income

a. For the three-month periods ended March 31, 2014

	Arising during the period	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	<u>\$(7,401)</u>	<u>\$(7,401)</u>	<u>\$1,258</u>	<u>\$(6,143)</u>
Total of other comprehensive income	<u>\$(7,401)</u>	<u>\$(7,401)</u>	<u>\$1,258</u>	<u>\$(6,143)</u>

b. For the three-month periods ended March 31, 2013

	Arising during the period	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
Exchange differences resulting from translating the financial statements of a foreign operation	<u>\$26,355</u>	<u>\$26,355</u>	<u>\$(4,480)</u>	<u>\$21,875</u>
Total of other comprehensive income	<u>\$26,355</u>	<u>\$26,355</u>	<u>\$(4,480)</u>	<u>\$21,875</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
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(20) Income tax

The major components of income tax expense are as follows:

Income tax recorded in profit or loss

	For the three-month periods ended March 31,	
	2014	2013
Current income tax expense:		
Current income tax charge	\$33,391	\$36,283
Adjustments in respect of current income tax of prior periods	1,000	(1,500)
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to origination and reversal of temporary differences	2,575	(933)
Income tax expense recognized in profit or loss	<u>\$36,966</u>	<u>\$33,850</u>

Income tax relating to components of other comprehensive income

	For the three-month periods ended March 31,	
	2014	2013
Deferred income tax expense (benefit):		
Exchange differences on translation of foreign operations	<u>\$(1,258)</u>	<u>\$4,480</u>
Income tax relating to components of other comprehensive income	<u>\$(1,258)</u>	<u>\$4,480</u>

Integrated income tax information

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Balance of the imputation credit account	\$186,527	\$186,527	\$161,604

The expected creditable ratio for 2013 and the actual creditable ratio for 2012 were 20.52% and 22.55%, respectively.

The Company's earnings generated in the year ended December 31, 1997 and prior years have been fully appropriated.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The assessment of income tax returns

As of March 31, 2014, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2011
Mitsumichi	Assessed and approved up to 2011
Asia Bright	Assessed and approved up to 2012
Zhangjiagang	Assessed and approved up to 2012
Cheau Hsing	Assessed and approved up to 2012
Zhangjiagang trading	Assessed and approved up to 2012
Zeng Hsing (VN)	Assessed and approved up to 2012
Shinco (VN)	Assessed and approved up to 2012

(21) Earnings per share

a. Earnings per share-basic

	For the three-month periods ended March 31,	
	2014	2013
Net profit attributable to the parent Group	\$148,599	\$142,691
Weighted-average number of ordinary shares for basic earnings per share(thousand shares)	60,553	54,253
Earnings per share-basic (NTD)	\$2.45	\$2.63

b. Earnings per share-diluted

	For the three-month periods ended March 31,	
	2014	2013
Net profit attributable to the parent Group	\$148,599	\$142,691
Weighted-average number of ordinary shares for basic earnings per share(thousand shares)	60,553	54,253
Effect of dilution:		
Employee bonus- stock(thousand shares)	64	69
Weighted average number of common stocks after dilution (thousand shares)	60,617	54,322
Diluted earnings per share (NTD)	\$2.45	\$2.63

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
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**7. RELATED PARTY TRANSACTIONS**

Key management personnel compensation

	For the three-month periods ended March 31,	
	2014	2013
Short-term employee benefits	\$3,448	\$4,509
Post-Employment Benefits	402	494
	<u>\$3,850</u>	<u>\$5,003</u>

**8. ASSETS PLEDGED AS COLLATERAL**

The following assets were pledged:

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Property, Plant and Equipment, net	\$24,231	\$24,499	\$45,636
Land	20,660	20,660	-
Bond investments in inactive market	850	1,745	2,159
Total	<u>\$45,851</u>	<u>\$46,904</u>	<u>\$47,795</u>

**9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS**

(1) The important contracts of construction in progress

a. As of March 31, 2014

Contract parties	Subject matter	Total contract amount	Contract amount paid as of March 31, 2014
Company A	Buildings	VND 217,360,000,000	VND 185,410,362,530
Company B	Buildings	VND 36,080,000,000	VND 32,472,000,000
Company C	Buildings	VND 18,150,000,000	VND 14,520,000,000

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b. As of March 31, 2013

Contract parties	Subject matter	Total contract amount		Contract amount paid as of March 31, 2013	
Company A	Buildings	VND	217,360,000,000	VND	43,818,000,250
Company B	Buildings	VND	36,080,000,000	VND	3,280,000,000
Company C	Buildings	VND	31,350,000,000	VND	2,850,000,000

(2) As of March 31, 2014 and 2013, the Group provided guarantee notes in the amount of \$100,000 and \$587,976, respectively, as guarantees for loans, forward exchange agreements and a subsidy research project of Industrial Development Bureau Ministry of Economic Affairs.

(3) The Group entered into the financial guarantees to related parties as follows:

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
Zeng Hsing (VN)	USD 2,000,000	USD -	USD 1,000,000
SHINCO (BVI)	-	3,000,000	7,500,000
	<u>USD 2,000,000</u>	<u>USD 3,000,000</u>	<u>USD 8,500,000</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
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12. OTHERS

(1) Categories of financial instruments

	As of		
	March 31, 2014	December 31, 2013	March 31, 2013
<u>Financial Assets</u>			
Loans and receivables:			
Cash and cash equivalents (excludes cash on hand)	\$1,820,645	\$2,164,023	\$975,778
Notes and accounts receivable	961,933	1,191,800	823,318
Other receivables	34,728	23,118	24,216
Bond investments in inactive market	850	1,745	2,159
Subtotal	2,818,156	3,380,686	1,825,471
Financial assets at fair value through profit or loss:			
Held for trading	115,344	2,423	164,017
Available-for-sale financial assets			
Financial assets measured at cost	-	630	630
Total	<u>\$2,933,500</u>	<u>\$3,383,739</u>	<u>\$1,990,118</u>
<u>Financial Liabilities</u>			
Financial liabilities carried at amortized cost:			
Short-term loans	\$-	\$280,000	\$-
Short-term notes and bills payable	-	100,000	-
Notes and accounts payables	624,683	691,409	586,954
Other payables	193,448	223,963	129,407
Subtotal	818,131	1,295,372	716,361
Financial liabilities at fair value through profit or loss			
Held for trading	2,441	304	2,112
Total	<u>\$820,572</u>	<u>\$1,295,676</u>	<u>\$718,473</u>

(2) Financial risk management objectives and policies

The Group's risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks based on policy and risk appetite.

## ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements (Continued)

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

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

#### (3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there are usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

#### Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward exchange contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for USD, RMB and VND. The information of the sensitivity analysis is as follows:



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- a. When NTD strengthens/weakens against USD by 1%, the profit for the three-month periods ended March 31, 2014 and 2013 is decreased/increased by \$13,621 and \$13,500, respectively.
- b. When NTD strengthens/weakens against RMB by 1%, the profit for the three-month periods ended March 31, 2014 and 2013 is increased/decreased by \$1,237 and \$2,214, respectively.
- c. When NTD strengthens/weakens against VND by 1%, the profit for the three-month periods ended March 31, 2014 and 2013 is decreased/increased by \$240 and increased/decreased by \$200, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to Group's bank borrowings with fixed interest rates and variable interest rates.

The interest rate sensitivity analysis is performed on the borrowings with variable interest rates as of the end of the reporting period. At the reporting date, a change of 10 basis points of interest rate in a reporting period does not affect the profit for the three-month periods ended March 31, 2014 and 2013, respectively.

(4) Credit risk management

Credit risk is the risk that counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria, etc. Certain customer's credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

As of March 31, 2014, December 31, 2013 and March 31, 2013, amounts receivables from top ten customers represented 92.64%, 92.38% and 95.34% of the total trade receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank borrowings. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial  
instruments

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As of March 31, 2014					
Borrowings	\$-	\$-	\$-	\$-	\$-
Short-term notes and bills payable	-	-	-	-	-
Payables	624,683	-	-	-	624,683

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

Non-derivative financial  
instruments

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As of December 31, 2013					
Borrowings	\$280,103	\$-	\$-	\$-	\$280,103
Short-term notes and bills payable	100,000	-	-	-	100,000
Payables	691,409	-	-	-	691,409
As of March 31, 2013					
Borrowings	\$-	\$-	\$-	\$-	\$-
Short-term notes and bills payable	-	-	-	-	-
Payables	586,954	-	-	-	586,954

Derivative financial instruments

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As of March 31, 2014					
Outflow	\$2,441	\$-	\$-	\$-	\$2,441
As of December 31, 2013					
Outflow	\$304	\$-	\$-	\$-	\$304
As of March 31, 2013					
Outflow	\$2,112	\$-	\$-	\$-	\$2,112

The table above contains the undiscounted net cash flows of derivative financial instruments which will be matured in less than a year.

(6) Fair value of financial instruments

- a. The methods and assumptions applied in determining the fair value of financial instruments:

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- i. The carrying amount of cash and cash equivalents, trade receivables (including related parties), other receivables, short-term borrowings, trade payables (including related parties), other payables approximate their fair value due to their short maturities.
  - ii. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.
  - iii. The fair value of the equity instruments of transactions with no active market (including the publicly traded stocks with no active market and the non-publicly traded stocks) was estimated by the market approach. The fair value was measured based on parameters such as recent financing activities, valuation of similar companies, individual company's development, market conditions and other economic indicators.
  - iv. The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.
  - v. The fair value of other financial assets and liabilities is determined using discounted cash flow analysis, the interest rate and discount rate are selected with reference to those of similar financial instruments.
- b. Fair value of financial instruments measured at amortized cost

The carrying amount of the Group's financial assets and liabilities measured at amortized cost approximate their fair value.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

c. Fair value measurements recognized in the consolidated statement of financial position

The following table contains the fair value of financial instruments after initial recognition and the details of the three levels of fair value hierarchy:

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

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of March 31, 2014

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Funds	\$110,060	\$-	\$-	\$110,060
Forward exchange agreement	-	5,284	-	5,284
Financial liabilities:				
Financial assets at fair value through profit or loss				
Forward exchange agreement	-	2,441	-	2,441

As of December 31, 2013

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Funds	\$-	\$-	\$-	\$-
Forward exchange agreement	-	2,423	-	2,423
Financial liabilities:				
Financial assets at fair value through profit or loss				
Forward exchange agreement	-	304	-	304

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

As of March 31, 2013

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Funds	\$160,099	\$-	\$-	\$160,099
Forward exchange agreement	-	3,918	-	3,918
Financial liabilities:				
Financial assets at fair value through profit or loss				
Forward exchange agreement	-	2,112	-	2,112

(7) Investment financial instruments

The Group's derivative financial instruments held for trading are forward exchange contracts. The Group entered into forward exchange contracts to manage its exposure to financial risk, but these contracts are not designated as hedging instruments. The table below lists the information related to forward exchange contracts:

Contract	Contract amount	Maturity
As of March 31, 2014		
Forward exchange contracts	Sell USD 500,000	2014.04.14-2014.05.13
Forward exchange contracts	Sell USD 500,000	2014.05.14-2014.06.12
Forward exchange contracts	Sell USD 1,000,000	2014.06.13-2014.07.11
Forward exchange contracts	Sell USD 500,000	2014.07.21-2014.08.19
Forward exchange contracts	Sell USD 500,000	2014.08.20-2014.09.18
Forward exchange contracts	Sell USD 500,000	2014.04.17-2014.05.16
Forward exchange contracts	Sell USD 500,000	2014.05.19-2014.06.16
Forward exchange contracts	Sell USD 500,000	2014.05.20-2014.06.18
Forward exchange contracts	Sell USD 500,000	2014.06.19-2014.07.18
Forward exchange contracts	Sell USD 500,000	2014.07.21-2014.08.18
Forward exchange contracts	Sell USD 500,000	2013.04.18-2014.04.17
Forward exchange contracts	Sell USD 500,000	2014.03.12-2014.05.20
Forward exchange contracts	Sell USD 500,000	2014.03.12-2014.06.20
Forward exchange contracts	Sell USD 500,000	2014.03.12-2014.07.18
Forward exchange contracts	Sell USD 500,000	2014.02.27-2014.08.20
Forward exchange contracts	Sell USD 500,000	2014.03.05-2014.08.20

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Contract	Contract amount	Maturity
Forward exchange contracts	Sell USD 500,000	2014.02.27-2014.09.19
Forward exchange contracts	Sell USD 500,000	2014.03.05-2014.09.19
Forward exchange contracts	Sell USD 500,000	2014.02.27-2014.10.20
Forward exchange contracts	Sell USD 500,000	2014.03.05-2014.10.20
Forward exchange contracts	Sell USD 500,000	2014.02.27-2014.11.20
Forward exchange contracts	Sell USD 500,000	2014.03.05-2014.11.20
Forward exchange contracts	Sell USD 500,000	2014.02.27-2014.12.19
Forward exchange contracts	Sell USD 500,000	2014.03.05-2014.12.19
Forward exchange contracts	Sell USD 500,000	2014.03.17-2015.02.20
Forward exchange contracts	Sell USD 500,000	2014.03.17-2015.03.16
Forward exchange contracts	Sell USD1,000,000	2014.03.12-2014.08.22
Forward exchange contracts	Sell USD1,000,000	2014.03.12-2014.09.22
Forward exchange contracts	Sell USD1,000,000	2014.03.12-2014.10.22
Forward exchange contracts	Sell USD1,000,000	2014.03.12-2014.11.21
Forward exchange contracts	Sell USD1,000,000	2014.03.12-2014.12.22
Forward exchange contracts	Sell USD1,000,000	2014.03.12-2015.01.22
Forward exchange contracts	Sell USD1,000,000	2014.03.12-2015.02.13
Forward exchange contracts	Sell USD1,000,000	2014.03.12-2015.03.12

As of December 31, 2013

Forward exchange contracts	Sell USD1,000,000	2013.05.04~2014.04.24
Forward exchange contracts	Sell USD1,000,000	2013.05.04~2014.05.23
Forward exchange contracts	Sell USD1,000,000	2013.09.21~2014.08.23
Forward exchange contracts	Sell USD1,000,000	2013.09.21~2014.09.20
Forward exchange contracts	Sell USD 500,000	2013.12.05~2014.09.20
Forward exchange contracts	Sell USD1,800,000	2013.12.05~2014.10.24
Forward exchange contracts	Sell USD1,000,000	2013.12.11~2014.11.22
Forward exchange contracts	Sell USD1,000,000	2013.12.11~2014.12.20

As of March 31, 2013

Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.04.23
Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.05.23
Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.06.21
Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.07.23
Forward exchange contracts	Sell USD1,000,000	2013.02.16~2013.07.23
Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.08.23
Forward exchange contracts	Sell USD1,000,000	2013.02.16~2013.08.23
Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.09.21
Forward exchange contracts	Sell USD1,000,000	2013.02.16~2013.09.21

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Contract	Contract amount	Maturity
Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.10.23
Forward exchange contracts	Sell USD1,000,000	2013.02.16~2013.10.23
Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.11.22
Forward exchange contracts	Sell USD1,000,000	2013.02.16~2013.11.22
Forward exchange contracts	Sell USD1,000,000	2013.02.13~2013.12.21
Forward exchange contracts	Sell USD1,000,000	2013.02.16~2013.12.21

The Group entered into derivative transactions to manage exposures related to exchange rate fluctuations. Because the Group held sufficient working capital, there were not significant impacts on cash flow when the derivative transactions were completed.

(8) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

Unit: Thousands

	As of								
	March 31, 2014			December 31, 2013			March 31, 2013		
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD
Financial assets									
Monetary item:									
USD	\$54,635	30.5100	\$1,666,904	\$59,874	29.9500	\$1,793,226	\$45,189	29.8750	\$1,350,014
CNY	38,341	4.9067	188,127	49,797	4.9472	246,357	23,526	4.8103	113,166
VND	193,207,027	0.001424	275,127	180,469,562	0.001424	256,989	103,138,720	0.0015	153,208
Financial liabilities									
Monetary item:									
USD	\$848	30.5100	\$25,873	\$577	29.9500	\$17,268	\$-	-	\$-
CNY	68,722	4.9067	337,197	75,173	4.9472	371,894	69,563	4.8103	334,608
VND	172,938,350	0.001424	246,264	128,510,275	0.001424	182,999	118,185,698	0.0015	177,279



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

(9) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize the shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. ADDITIONAL DISCLOSURES

The following information is required additional disclosures for the Company and its investees:

- (1) Financing provided: Table 1 on page 84.
- (2) Endorsement/guarantee provided: Table 2 on page 85.
- (3) Marketable securities held: refer to Table 3 on page 86.
- (4) Marketable securities acquired or disposed of that cost or amounted to at least \$300 million or 20% of the paid-in capital: refer to Table 4 on page 86 to 87.
- (5) Acquisition of individual real estate that cost at least \$300 million or 20% of the paid-in capital: none.
- (6) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital: none.
- (7) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 5 on page 87 to 88.
- (8) Receivable from related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 6 on page 88.
- (9) Information about derivatives of investees over which the Group has a controlling interest: refer to Note 12. (7).
- (10) Inter-company relationships and significant intercompany transactions: refer to Table 7 on page 89.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

(11) Names, locations, and related information of investees on which the Group exercises significant influence: refer to Table 8 on pages 90 to 91.

(12) Information on investment in Mainland China

The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: refer to Table 9 on page 91 to 92.

#### 14. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on operating strategies and has three reportable segments as follows:

Taiwan segment produces computerized and electronic sewing machines.

China segment produces computerized, electronic and mechanical sewing machines.

Vietnam segment produces mechanical sewing machines.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segment are on an arm's length basis in a manner similar to transactions with third parties.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

The reportable segments' profit and loss, information are listed as follows :

(1) For the three-month periods ended March 31, 2014

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
Revenue					
External customers	\$1,166,024	\$48,538	\$22,719	\$-	\$1,237,281
Inter-segment	13,311	516,418	515,961	(1,045,690)	-
Total revenue	<u>\$1,179,335</u>	<u>\$564,956</u>	<u>\$538,680</u>	<u>\$(1,045,690)</u>	<u>\$1,237,281</u>
Segment profit	<u>\$206,330</u>	<u>\$22,548</u>	<u>\$7,002</u>	<u>\$(48,579)</u>	<u>\$187,301</u>

(2) For the three-month periods ended March 31, 2013

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
Revenue					
External customers	\$1,072,954	\$24,350	\$20,598	\$-	\$1,117,902
Inter-segment	21,509	488,755	488,991	(999,255)	-
Total revenue	<u>\$1,094,463</u>	<u>\$513,105</u>	<u>\$509,589</u>	<u>\$(999,255)</u>	<u>\$1,117,902</u>
Segment profit	<u>\$196,885</u>	<u>\$24,614</u>	<u>\$(4,837)</u>	<u>\$(39,069)</u>	<u>\$177,593</u>

The related information of operating segment asset as of March 31, 2014, December 31, 2013 and March 31, 2013 are listed as follows:

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
March 31, 2014	<u>\$5,900,135</u>	<u>\$1,227,809</u>	<u>\$1,873,533</u>	<u>\$(3,935,783)</u>	<u>\$5,065,694</u>
December 31, 2013	<u>\$6,063,754</u>	<u>\$1,350,209</u>	<u>\$1,621,195</u>	<u>\$(3,664,248)</u>	<u>\$5,370,910</u>
March 31, 2013	<u>\$4,559,585</u>	<u>\$1,207,987</u>	<u>\$1,261,546</u>	<u>\$(3,236,486)</u>	<u>\$3,792,632</u>

**ZENG HSING INDUSTRIAL CO., LTD.**  
**Notes to Financial Statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)**

**FINANCING PROVIDED**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014**

TABLE 1

No. (Note 1)	Lender	Counter-party	Financial statement account	Related Party	Maximum balance for the period	Ending balance	Actual amount provided	Interest rate	Nature of financing	Amount of sales to (purchases from) counter-party	Reason for financing	Allowance for doubtful accounts	Collateral		Limit of financing amount for individual counter-party (Note 2)	Limit of total financing amount (Note 3)
													Item	Value		
0	Zeng Hsing Industrial CO., LTD.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Other receivable	Yes	\$61,020 (USD2,000,000)	\$61,020 (USD2,000,000)	\$-	2.00%	Note 4	-	For operation needs	-	-	-	\$771,478	\$1,542,957

Note 1: The Company is coded "0".

The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Financing to individual counter-party was limited to 20% of the Company's net equity.

Note 3: Total financing was limited to 40% of the Company's net equity.

Note 4: For short-term financing.

# ZENG HSING INDUSTRIAL CO., LTD.

## Notes to Financial Statements (Continued)

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

### ENDORSEMENT/GUARANTEE PROVIDED FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

TABLE 2

Note	Endorser/ Guarantor	Company name	Relationship (Note 2)	Limit of guarantee/ endorsement amount for receiving party (Note 3)	Maximum balance for the period	Ending balance	Actual amount provided	Amount of collateral guarantee/ endorsement	Ratio of Accumulated Amount of Guarantee Provided to Net Equity of the Latest Financial Statements	Guaranty Limited Amount (Note 4)	Parent company to subsidiary	Subsidiary to parent company	To Mainland China
0	Zeng Hsing Industrial CO., LTD.	Zeng Hsing Industrial CO., Ltd. (VN)	(2)	\$1,157,218	\$91,530 (USD3,000,000)	\$91,530 (USD3,000,000)	\$32,463	\$-	2.37%	\$1,542,957	Yes	No	No

Note 1: The Company and its subsidiaries are coded as follows:

(1) The Company is coded "0".

(2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: According to the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" issued by the R.O.C. Securities and Futures Bureau, receiving parties should be disclosed as one of the following:

(1) A company that has a business relationship with ZENG HSING INDUSTRIAL CO., LTD.

(2) A subsidiary in which ZENG HSING INDUSTRIAL CO., LTD holds directly over 50% of equity interest.

(3) An investee in which ZENG HSING INDUSTRIAL CO., LTD and its subsidiaries hold over 50% of equity interest.

(4) An investee in which ZENG HSING INDUSTRIAL CO., LTD holds directly and indirectly over 50% of equity interest.

(5) A company that has provided guarantees to ZENG HSING INDUSTRIAL CO., LTD, and vice versa, due to contractual requirements.

(6) An investee in which ZENG HSING INDUSTRIAL CO., LTD conjunctly invests with other shareholders, and for which ZENG HSING INDUSTRIAL CO., LTD has provided endorsement/guarantee in proportion to its shareholding percentage.

Note 3: The amount of guarantees/endorsements shall not exceed 30% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of March 31, 2014.

Note 4: Limit of total guarantee/endorsement amount shall not exceed 40% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of March 31, 2014

ZENG HSING INDUSTRIAL CO., LTD.  
Notes to Financial Statements (Continued)  
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

MARKETABLE SECURITIES HELD  
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

TABLE 3

Securities Held By	Type and Name of Marketable Securities	Relationship with the Company	Financial Statement Account	March 31, 2014		
				Shares/Units	Carrying Value	Ownership Percentage
Zeng Hsing Industrial CO., LTD.	Beneficiary certificates					
	Capital Money Market Fund	non-relationship	Financial assets at fair value through profit or loss, current	633,918.40	\$10,000	\$10,006
Zeng Hsing Industrial CO., LTD.	Yuanta De-Li Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	627,171.60	10,000	10,005
Zeng Hsing Industrial CO., LTD.	Yuanta De-Bao Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	850,528.20	10,000	10,005
Zeng Hsing Industrial CO., LTD.	Fuh Hwa You Li Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	757,799.70	10,000	10,006
Zeng Hsing Industrial CO., LTD.	Fuh Hwa Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	706,693.80	10,000	10,005
Zeng Hsing Industrial CO., LTD.	Jih Sun Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	1,382,213.00	20,000	20,011
Zeng Hsing Industrial CO., LTD.	SinoPac TWD Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	734,15.00	10,000	10,006
Zeng Hsing Industrial CO., LTD.	Prudential Financial Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	646,893.30	10,000	10,004
Zeng Hsing Industrial CO., LTD.	Yuanta Wan Tai Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	674,763.80	10,000	10,006
Zeng Hsing Industrial CO., LTD.	UPAMC James Bond Money Market Fund.	non-relationship	Financial assets at fair value through profit or loss, current	611,777.95	10,000	10,006
			Adjustments for change in value of investment in trading securities	60		
			Subtotal		110,060	\$110,060
			Total		\$110,060	

Note: The stocks held that have no fair value or are not in the active market are not required to be disclosed.

# ZENG HSING INDUSTRIAL CO., LTD.

## Notes to Financial Statements (Continued)

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

### MARKETABLE SECURITIES ACQUIRED OR DISPOSED FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

TABLE 4

Type of securities	Company Name	Type and Name of Marketable Securities	Financial Statement Account	Relationship with the Company	January 1, 2014			Purchase			Sale				March 31, 2014	
					Units	Amount		Units	Amount		Units	Amount	Carrying cost	Gain (loss) From disposal	Units	Amount
Stock	Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	Investments accounted for under the equity method	Subsidiary	-	\$944,673		-	\$171,256		-	-	-	-	-	\$1,115,929

Note: The ending balance includes share of other comprehensive income of associates and joint ventures of \$5,393 and exchange differences on translation of foreign operations adjustment under equity method of \$(957).

### RELATED PARTY TRANSACTIONS FOR PURCHASES AND SALES AMOUNTS EXCEEDING THE LOWER OF \$100 MILLION OR 20 PERCENT OF CAPITAL STOCK FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

TABLE 5

Company Name	Counter Party	Nature of Relationship (Note 1)	Transactions			Details of non-arm's length transaction			Notes and accounts receivable (payable)		Note
			Purchases (Sales)	Amount	% to Total	Term	Unit price	Term	Balance	% to Total	
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	1	Purchases	\$406,266	32.84%	There is no difference with other clients	Regular	Regular	Account payable \$(321,582)	(6.35%)	-
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Purchases	\$457,361	36.97%	There is no difference with other clients	Regular	Regular	Account payable \$(192,314)	(3.80%)	-

# ZENG HSING INDUSTRIAL CO., LTD.

## Notes to Financial Statements (Continued)

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

Company Name	Counter Party	Nature of Relationship (Note 1)	Transactions			Details of non-arm's length transaction		Notes and accounts receivable (payable)		Note
			Purchases (Sales)	Amount	% to Total	Term	Unit price	Balance	% to Total	
Zhangjiagang Zenghsing & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$406,266	32.84%	There is no difference with other clients	Regular	Account receivable \$321,582 (RMB64,398,173)	6.35%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$457,361	36.97%	There is no difference with other clients	Regular	Account receivable \$192,314 (VND132,596,492,691)	3.80%	-

Note 1: No. 1 represents the transactions from the parent company to a subsidiary.  
No. 2 represents the transactions from a subsidiary to the parent company.  
No. 3 represents the transaction between subsidiaries.

## RECEIVABLES FROM RELATED PARTIES AMOUNTING TO OVER NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

TABLE 6

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts	Note
					Amounts	Action Taken			
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	Subsidiary	Accounts Receivable \$192,314 (VND 132,596,492,691)	13.75	\$-	\$-	\$192,314 (VND 132,596,492,691)	\$-	accounts receivable-customers
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	Subsidiary	Accounts Receivable \$321,582 (RMB 64,398,173)	4.86	\$-	\$-	\$120,580 (RMB 24,574,685)	\$-	accounts receivable-customers



**ZENG HSING INDUSTRIAL CO., LTD.**  
**Notes to Financial Statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)**

**INTER-COMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014**

TABLE 7

Note 1	Company Name	Counter Party	Nature of Relationship (Note 2)	Transactions		
				Subject	Amount	Term
1	Shinco Technologies Limited (VN)	Zeng Hsing Industrial CO., Ltd. (VN)	(3)	Sales	\$60,830 (VND 42,717,472,413)	There is no difference with other clients
2	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics CO., Ltd.	(3)	Sales	\$39,775 (RMB 7,995,386)	There is no difference with other clients
						4.92%
						3.21%

Note 1: The Company and its subsidiaries are coded as follows:

(1) The Company is coded "0".

(2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: (1) represents the transactions from the parent company to a subsidiary.

(2) represents the transactions from a subsidiary to the parent company.

(3) represents the transaction between subsidiaries.

Note 3: When calculating the ratio of total transaction to consolidated total revenues or total assets, in the case of balance sheet items the ratio shall be the ending balance to total assets; in the case of profit and loss items, the ratio shall be the interim accumulated amount to total consolidated revenue.

**ZENG HSING INDUSTRIAL CO., LTD.**  
**Notes to Financial Statements (Continued)**  
**(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)**

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

TABLE 8										
Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2014			Equity in the Earnings (Losses)	Note
				March 31, 2014	December 31, 2013	Shares	Percentage of Ownership	Carrying Value		
Zeng Hsing Industrial CO., Ltd.	Shinco Worldwide Limited (BVI)	P.O. Box 957,Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Selling household sewing machines and spare parts	\$3,086 (USD100,000)	\$3,086 (USD100,000)	10,000	100%	\$84,955	\$773	
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (BVI)	P.O. Box 957,Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Trading and holding company	428,654 (USD12,873,452)	428,654 (USD12,873,452)	12,873	100%	779,006	16,729	Note 1
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	Bing Doung, Vietnam	Manufacturing household sewing machines and sport equipment	1,049,554 (USD35,000,000)	878,298 (USD29,320,000)	-	100%	1,192,544	VND3,786,983,243	5,393
Zeng Hsing Industrial CO., Ltd.	Shinco Technologies Limited (VN)	Bing Doung, Vietnam	Material die-casting of metal of aluminum, zinc and magnesium alloy.	302,293 (USD9,673,331)	302,293 (USD9,673,331)	-	100%	314,223	VND849,052,462	1,209
Zeng Hsing Industrial CO., Ltd.	Taiwan Carbon Technology CO., Ltd.	Taichung, Taiwan	Manufacturing carbon fiber, fire resistant fiber and related products.	24,105	24,105	2,500,000	19.53%	-	-	-

# ZENG HSING INDUSTRIAL CO., LTD.

## Notes to Financial Statements (Continued)

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount			Balance as of March 31, 2014		Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				March 31, 2014	December 31, 2013	Shares	Percentage of Ownership	Carrying Value			
Zeng Hsing Industrial CO., Ltd.	Asia Bright Hometec CO., Ltd.	Taichung, Taiwan	Manufacturing electric appliances, machinery and equipment.	17,233	17,233	1,723,334	43.08%	2,590	(424)	(183)	
Zeng Hsing Industrial CO., Ltd.	Mitsumichi industrial CO. Ltd	Taichung, Taiwan	Manufacturing household sewing machines	31,330	31,330	1,378,000	53.00%	44,224	4,207	1,791	

Note 1: The long-term investment losses under equity method incurred by Zeng Hsing Industrial CO., Ltd (BVI) included the gains from investees.

## INFORMATION OF INVESTMENT IN MAINLAND CHINA FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014

TABLE 9

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2013	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 31, 2013	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as of June 31, 2013	Accumulated Inward Remittance of Earnings as of June 31, 2013
					Outflow	Inflow					
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Manufacturing and selling household sewing machines, vacuum cleaners and spare parts	USD13,000,000	Indirect investments through Zeng Hsing (BVI)	\$304,199 (USD9,103,039)	-	-	\$304,199 (USD9,103,039)	100%	\$11,097	\$732,345	\$37,112 (USD1,073,700)

# ZENG HSING INDUSTRIAL CO., LTD.

## Notes to Financial Statements (Continued)

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2013	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2013	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as of June 30, 2013	Accumulated Inward Remittance of Earnings as of June 30, 2013
					Outflow	Inflow					
Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd.	Manufacturing and selling household sewing machines, vacuum cleaners and spare parts	USD500,000	direct investments through Zeng Hsing (BVI)	\$14,931 (USD500,000)	-	-	\$14,931 (USD500,000)	100%	\$5,443	\$37,245	\$-
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics CO., Ltd.	Selling household sewing machines and spare parts.	RMB1,000,000	Indirect investments through Zeng Hsing (BVI)	\$4,692 (RMB1,000,000)	-	-	\$4,692 (RMB1,000,000)	100%	RMB431,374	RMB\$5,116,249	\$-

Accumulated investment in Mainland China as of September 30, 2013	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$319,130 (USD9,603,039)	\$459,409 (Note2) (USD13,848,355)	\$2,314,435

Note 1: The financial statement was reviewed by independent accountants.

Note 2: Investment amount authorized by the Investment Commission, MOEA was \$459,409 (USD 13,848,355); the capitalization of retained earnings in China in the amount of US\$ 4,245,316 were excluded from the Company's investment limit.