

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE THREE-MONTH PERIODS ENDED
MARCH 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015. 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 of the investments amounted to NTD 207,285 thousand and NTD 181,977 thousand, which represented 3.41% and 3.35% of the total consolidated assets as of March 31, 2016, and 2015, respectively. The liabilities of the investments amounted to NTD 16,826 thousand and NTD 19,454 thousand, which represented 1.03% and 1.57% of the total consolidated liabilities as of March 31, 2016 and 2015, respectively. The related comprehensive income of the investments amounted to NTD 2,365 thousand and NTD 2,746 thousand, which represented 3.11% and 2.33% of the consolidated comprehensive income for the three-month periods ended March 31, 2016 and 2015, 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 is endorsed by the Financial Supervisory Commission of the Republic of China.

Ernst & Young
Certified Public Accountants
May 3, 2016
Taichung, Taiwan
Republic of China

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, 2016, December 31, 2015 and March 31, 2015 (March 31, 2016 and 2015 are unaudited)
(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	As of		
		March 31, 2016	December 31, 2015	March 31, 2015
Current Assets				
Cash and cash equivalents	4, 6(1)	\$2,604,439	\$2,297,958	\$1,603,665
Financial assets at fair value through profit or loss, current	4, 6(2)	-	-	1,941
Accounts receivable, net	4, 6(3)	1,020,343	1,252,482	1,254,950
Other receivables		23,150	29,652	44,691
Inventories, net	4, 6(4)	615,491	469,037	660,701
Prepayment		24,361	24,994	32,587
Other current assets		50,345	83,023	53,850
Total Current Assets		4,338,129	4,157,146	3,652,385
Non-current assets				
Financial assets measured at cost, noncurrent	6(5)	19,096	19,096	-
Bond investments with no active market, noncurrent	8	200	200	1,654
Property, plant and equipment	4, 6(6), 8	1,416,557	1,420,644	1,500,627
Intangible assets	4, 6(7)	41,614	37,461	35,932
Deferred tax assets	4	43,561	31,504	29,879
Deposits-out		9,495	9,388	5,254
Other long-term investments		4,485	4,485	4,485
Other non-current assets	4, 6(8)	204,471	207,248	201,454
Total non-current assets		1,739,479	1,730,026	1,779,285
Total assets		\$6,077,608	\$5,887,172	\$5,431,670

(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, 2016, December 31, 2015 and March 31, 2015 (March 31, 2016 and 2015 are unaudited)
(Expressed in Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	As of		
		March 31, 2016	December 31, 2015	March 31, 2015
Current liabilities				
Short-term loans	6(9)	\$270,000	\$230,000	\$ -
Short-term payable	6(10)	80,000	-	-
Financial liabilities at fair value through profit or loss, current		-	55	-
Notes payable		25,545	28,380	89,416
Accounts payable		644,624	622,940	592,978
Other payables		179,608	228,142	179,203
Current tax liabilities	4	176,417	150,252	174,675
Other current liabilities		27,760	27,694	25,233
Total current liabilities		<u>1,403,954</u>	<u>1,287,463</u>	<u>1,061,505</u>
Non-current liabilities				
Deferred tax liabilities	4	151,885	150,274	116,245
Accrued pension liabilities	4	70,641	74,254	63,336
Total non-current liabilities		<u>222,526</u>	<u>224,528</u>	<u>179,581</u>
Total liabilities		<u>1,626,480</u>	<u>1,511,991</u>	<u>1,241,086</u>
Equity attributable to the parent company	4, 6(12)			
Capital				
Common stock		<u>605,526</u>	<u>605,526</u>	<u>605,526</u>
Additional paid-in capital				
Capital Surplus-Additional Paid-In Capital		1,308,533	1,308,533	1,308,533
Capital Surplus-Donated Assets Received		314	314	314
Capital Surplus-Other		78,498	78,498	78,498
Total Additional paid-in capital		<u>1,387,345</u>	<u>1,387,345</u>	<u>1,387,345</u>
Retained earnings				
Legal reserve		559,523	559,523	476,588
Special reserve		-	-	3,475
Retained earnings		1,861,102	1,772,596	1,664,833
Total Retained earnings		<u>2,420,625</u>	<u>2,332,119</u>	<u>2,144,896</u>
Other components of equity				
Exchange differences on translation of foreign operations		3,795	18,954	15,374
Treasury stock		(2,163)	(2,163)	-
Non-controlling interests	6(13)	36,000	33,400	37,443
Total equity		<u>4,451,128</u>	<u>4,375,181</u>	<u>4,190,584</u>
Total liabilities and equity		<u>\$6,077,608</u>	<u>\$5,887,172</u>	<u>\$5,431,670</u>

(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, 2016 and 2015

(Reviewed, Not Audited)

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

	Notes	For the three-month periods ended March 31,	
		2016	2015
Net Sales	6(14)	\$1,225,525	\$1,283,866
Cost of Sales	6(16)	(897,414)	(985,171)
Gross Profit		328,111	298,695
Operating Expenses	6(16)		
Selling and marketing		(36,243)	(32,191)
Management and administrative		(91,817)	(84,719)
Research and development		(28,651)	(25,650)
Total Operating Expenses		(156,711)	(142,560)
Operating Income		171,400	156,135
Non-operating income and expenses	6(17)		
Other revenue		13,159	13,273
Other gain and loss		(60,206)	(15,912)
Financial costs		(719)	-
Subtotal		(47,766)	(2,639)
Income from continuing operations before income tax		123,634	153,496
Income tax expense	6(19)	(32,528)	(35,505)
Income from Continuing Operations, Net of Tax		91,106	117,991
Other comprehensive income	6(18)		
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(18,264)	(6,286)
Income tax related to components of other comprehensive income		3,105	1,069
Total other comprehensive income (Loss) , net of tax		(15,159)	(5,217)
Total comprehensive income		\$75,947	\$112,774
Net income attributable to:			
Stockholders of the parent		\$88,506	\$115,891
Non-controlling interests		2,600	2,100
		\$91,106	\$117,991
Comprehensive income attributable to:			
Stockholder of the parent		\$73,347	\$110,674
Non-controlling interests		2,600	2,100
		\$75,947	\$112,774
Earnings per share (NTD)	6(20)		
Earnings per share-basic		\$1.46	\$1.91
Earnings per share-diluted		\$1.46	\$1.91

(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, 2016 and 2015

(Reviewed, Not Audited)

(Expressed in Thousands of New Taiwan Dollars)

	Notes	Common Stock	Additional Paid-in Capital	Legal Reserve	Special reserve	Unappropriate d Earnings	Exchange Differences on Translation of Foreign Operations	Treasury stock	Total	Non- Controlling Interests	Total Equity
Balance as of January 1, 2015	6(12)	\$605,526	\$1,387,345	\$476,588	\$3,475	\$1,548,942	\$20,591	\$ -	\$4,042,467	\$35,343	\$4,077,810
Net income for the three-month periods ended March 31,						115,891			115,891	2,100	117,991
Other comprehensive income, net of tax for the three-month periods ended March 31,2015							(5,217)		(5,217)		(5,217)
Total comprehensive income		-	-	-	-	115,891	(5,217)		110,674	2,100	112,774
Balance as of March 31, 2015	6(12)	\$605,526	\$1,387,345	\$476,588	\$3,475	\$1,664,833	\$15,374	\$ -	\$4,153,141	\$37,443	\$4,190,584
Balance as of January 1, 2016	6(12)	\$605,526	\$1,387,345	\$559,523	\$ -	\$1,772,596	\$18,954	\$(2,163)	\$4,341,781	\$33,400	\$4,375,181
Net income for the three-month periods ended March 31,						88,506			88,506	2,600	91,106
Other comprehensive income, net of tax for the three-month periods ended March 31,2016							(15,159)		(15,159)		(15,159)
Total comprehensive income		-	-	-	-	88,506	(15,159)	-	73,347	2,600	75,947
Balance as of March 31, 2016	6(12)	\$605,526	\$1,387,345	\$559,523	\$ -	\$1,861,102	\$3,795	\$(2,163)	\$4,415,128	\$36,000	\$4,451,128

(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, 2016 and 2015
(Reviewed, Not Audited)
(Expressed in Thousand New Taiwan Dollars)

	For the three-month periods ended March 31	
	2016	2015
Cash flows from operating activities:		
Net income before tax	\$123,634	\$153,496
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	48,601	46,630
Amortization	12,368	16,382
Loss on disposal of property, plant and equipment	1,851	252
Net loss of financial assets at fair value through profit or loss	196	2,382
Loss from market value decline, obsolete and slow-moving of inventories	3,480	2,555
Loss provision for doubtful accounts	-	344
Interest revenue	(2,662)	(1,856)
Interest expense	719	-
Changes in operating assets and liabilities:		
(Increase) Decrease in financial assets at fair value through profit or loss	(251)	62,199
Decrease in accounts receivable	232,139	167,948
Increase in inventories, net	(149,934)	(136,727)
Decrease in other receivables	6,502	13,774
Decrease in prepayments	178	2,592
Decrease in other current assets	32,678	28,535
Increase in other assets-others	(9,517)	(23,768)
Decrease in notes payable	(2,835)	(3,182)
Increase (Decrease) in accounts payable	21,684	(89,331)
Decrease in other payables	(48,534)	(71,032)
Increase (Decrease) in other current liabilities	66	(3,884)
Decrease in accrued pension liabilities	(3,613)	(2,068)
Cash generated from operations	<u>266,750</u>	<u>165,241</u>
Interest received	2,662	1,856
Income tax paid	(13,704)	(28,463)
Net cash provided by operating activities	<u>255,708</u>	<u>138,634</u>

(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, 2016 and 2015
(Reviewed, Not Audited)
(Expressed in Thousand New Taiwan Dollars)

	For the three-month periods ended March 31	
	2016	2015
Cash flows from investing activities:		
Disposal of bond investments with no active market, noncurrent	-	14
Acquisition of property, plant and equipment	(56,604)	(110,585)
Proceeds from disposal of property, plant and equipment	9,986	1,318
(Increase) Decrease in deposits-out	(107)	12
Increase in intangible assets	(7,611)	(9,072)
Net cash used in investing activities	<u>(54,336)</u>	<u>(118,313)</u>
Cash flows from financing activities:		
Increase in short-term loans	710,000	-
Decrease in short-term loans	(670,000)	-
Increase in short-term notes	220,000	-
Decrease in short-term notes	(140,000)	-
Interest paid	(719)	-
Net cash provided by financing activities	<u>119,281</u>	<u>-</u>
Effect of exchange rate changes on cash and cash equivalents	(14,172)	(3,923)
Net increase in cash and cash equivalents	<u>306,481</u>	<u>16,398</u>
Cash and cash equivalents at beginning of period	<u>2,297,958</u>	<u>1,587,267</u>
Cash and cash equivalents at end of period	<u><u>\$2,604,439</u></u>	<u><u>\$1,603,665</u></u>

(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, 2016 and 2015
(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. On December 23, 2014, the Company was authorized to be listed on Taiwan Stock Exchange.

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 Technologies 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, 2016 and 2015 were authorized for issue in accordance with the resolution of the board of directors’ meeting held on May 3, 2016.

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) Standards or interpretations issued by IASB but not yet recognized by FSC at the date of issuance of the Group's financial statements are listed below.

(a) *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 1 January 2014.

(b) *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 1 January 2014.

(c) *IAS 39 "Financial Instruments: Recognition and Measurement" (Amendment)*

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 1 January 2014.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(d) *IAS 19 “Employee Benefits” (Defined benefit plans: employee contributions)*

The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to provide a policy choice for a simplified accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment is effective for annual periods beginning on or after 1 July 2014.

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

IFRS 2 “Share-based Payment”

The annual improvements amend the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendment prospectively applies to share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 “Business Combinations”

The amendments include: (1) deleting the reference to "other applicable IFRSs" in the classification requirements; (2) deleting the reference to "IAS 37 Provisions, Contingent Liabilities and Contingent Assets or other IFRSs as appropriate", other contingent consideration that is not within the scope of IFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in profit or loss; (3) amending the classification requirements of IFRS 9 *Financial Instruments* to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in profit or loss depending on the requirements of IFRS 9. The amendments apply prospectively to business combinations for which the acquisition date is on or after 1 July 2014.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

IFRS 8 “Operating Segments”

The amendments require an entity to disclose the judgements 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 measurement requirements for short-term receivables and payables.

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.

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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

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

IFRS 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.

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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

(g) *IFRS 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 beginning on or after 1 January 2016.

(h) *IFRS 11 “Joint Arrangements” (Accounting for Acquisitions of Interests in Joint Operations)*

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments require the entity to apply all of the principles on business combinations accounting in IFRS 3 “Business Combinations”, and other IFRS (that do not conflict with the guidance in IFRS 11), to the extent of its share in a joint operation acquired. The amendment also requires certain disclosure. The amendment is effective for annual periods beginning on or after 1 January 2016.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (i) *IAS 16 “Property, Plant and Equipment and IAS 38 “Intangible Assets” — Clarification of Acceptable Methods of Depreciation and Amortization*

The amendment clarified that the use of revenue-based methods to calculate depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, such as selling activities and change in sales volumes or prices. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment is effective for annual periods beginning on or after 1 January 2016.

- (j) *IFRS 15 “Revenue from Contracts with Customers”*

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with the core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after 1 January 2018.

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 16 “Property, Plant and Equipment and IAS 41 “Agriculture” — Agriculture: Bearer Plants*

The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment*, because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, and the produce growing on bearer plants will remain within the scope of IAS 41. The amendment is effective for annual periods beginning on or after 1 January 2016.

- (l) *IFRS 9 “Financial Instruments”*

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9 *Financial Instruments* (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that ‘own credit risk’ adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after 1 January 2018.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(m) *IAS 27 “Separate Financial Statements” — Equity Method in Separate Financial Statements*

The IASB restored the option to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements. In 2003, the equity method was removed from the options. This amendment removes the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with the local regulations in certain jurisdictions.

The amendment is effective for annual periods beginning on or after 1 January 2016.

(n) *IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

The effective date of this amendment has been postponed indefinitely, but early adoption is allowed.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (o) *Improvements to International Financial Reporting Standards (2012-2014 cycle):*

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners. The amendment is effective for annual periods beginning on or after 1 January 2016.

IFRS 7 “Financial Instruments: Disclosures”

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and therefore the disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety under IFRS 7 *Financial Instruments: Disclosures* is required. The amendment also clarifies that whether the IFRS 7 disclosure related to the offsetting of financial assets and financial liabilities are required to be included in the condensed interim financial report would depend on the requirements under IAS 34 *Interim Financial Reporting*. The amendment is effective for annual periods beginning on or after 1 January 2016.

IAS 19 “Employee Benefits”

The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. The amendment is effective for annual periods beginning on or after 1 January 2016.

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 what is meant by “elsewhere in the interim financial report” under IAS 34; the amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is effective for annual periods beginning on or after 1 January 2016.

(p) *IAS 1 “Presentation of Financial Statements” (Amendment):*

The amendments contain (1) clarifying that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments reemphasize that, when a standard requires a specific disclosure, the information must be assessed to determine whether it is material and, consequently, whether presentation or disclosure of that information is warranted, (2) clarifying that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, and how an entity shall present additional subtotals, (3) clarifying that entities have flexibility as to the order in which they present the notes to financial statements, but also emphasize that understandability and comparability should be considered by an entity when deciding on that order, (4) removing the examples of the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what significant accounting policies could be, and (5) clarifying that the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2016.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (q) *IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities”, and IAS 28 “Investments in Associates and Joint Ventures” — Investment Entities: Applying the Consolidation Exception*

The amendments contain (1) clarifying that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity when the investment entity measures all of its subsidiary at fair value, (2) clarifying that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated when all other subsidiaries of an investment entity are measured at fair value, and (3) allowing the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendment is effective for annual periods beginning on or after 1 January 2016.

- (r) *IFRS 16 “Leases”*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after January 1, 2019.

- (s) *IAS 12 “Income Taxes” — Recognition of Deferred Tax Assets for Unrealized Losses*

The amendment clarifies how to account for deferred tax assets for unrealized losses. The amendment is effective for annual periods beginning on or after January 1, 2017.

- (t) *Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”:*

The amendment relates to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendment is effective for annual periods beginning on or after January 1, 2017.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(u) IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15

The amendment clarifies how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a license should be recognized at a point in time or over time. The amendment is effective for annual periods beginning on or after January 1, 2018.

The abovementioned standards and interpretations issued by IASB have not yet been recognized by FSC at the date of issuance of the Group’s financial statements. The local effective dates are to be determined by FSC. The Group is currently evaluating (1) the potential impact of the newly announced or amended standards or interpretations. The aforementioned standards or interpretation’s impact to the Group cannot be reasonably assessed at this point. The other newly announced or amended standards and interpretations have no material 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 March 31, 2016 and 2015 were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 Interim Financial Reporting as recognized by the 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(3) General Description of Reporting Entities

Preparation principle of consolidated financial statement

(a) Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being 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 uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Total comprehensive income of the 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 Group 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		
			March 31, 2016	December 31, 2015	March 31, 2015
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 (VN)]	Manufacturing household sewing machines and sport equipment	100.00%	100.00%	100.00%
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%

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Investor	Subsidiary	Business nature	Percentage of ownership (%) as of		
			March 31, 2016	December 31, 2015	March 31, 2015
the Company	Mitsumichi Industrial Co. Ltd [Mitsumichi]	Manufacturing household sewing machines	53.00%	53.00%	53.00%
the Company	Asia Bright Hometec Co., Ltd. [Asia Bright]	Manufacturing electric appliances and machinery and equipment.	-%	-%	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%	100.00%
Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	ARCORIS PTE LTD.	Holding Company	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%

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 of the investments amounted to \$207,285 and \$181,977 of the total consolidated assets as of March 31, 2016, and 2015, respectively. The liabilities of the investments amounted to \$16,826 and \$19,454 of the total consolidated liabilities as of March 31, 2016 and 2015, respectively. The related comprehensive income of the investments amounted to \$2,365 and \$2,746 of the consolidated comprehensive income for the three-month periods ended March 31, 2016 and 2015, respectively.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(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 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(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:

- 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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- 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.

(8) Financial Instruments

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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).

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:

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

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:

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Notes to Consolidated Financial Statements (Continued)

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- 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 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)

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

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.

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Notes to Consolidated Financial Statements (Continued)

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

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) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (a) In the principal market for the asset or liability, or
- (b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(11) 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.

(12) 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.

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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:

- 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

(13) 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.

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

(14) 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.

(15) 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

(16) 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

(17) 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 reflectible specific risks. When provisions discount, the increasing amount of liabilities due to time elapsed is recognized as a borrowing cost.

(18) Treasury Stock

Reacquired issued shares of the Company are recorded as treasury stock at cost and shown as a deduction in equity.

(19) 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:

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

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.

(20) 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(21) 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.

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.

(22) 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

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:

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- 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.

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.

(23) 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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 accompanying disclosures, 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.

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 and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases. Please refer to Note 6 for more details.

(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, 2016	December 31, 2015	March 31, 2015
Cash on hand	\$473	\$754	\$505
Checking and savings accounts	2,485,439	2,163,997	1,481,610
Time deposits	118,527	133,207	121,550
Total	<u>\$2,604,439</u>	<u>\$2,297,958</u>	<u>\$1,603,665</u>

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

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Held for trading:			
Derivatives not designated as hedging instruments			
Forward exchange contracts	\$-	\$-	\$1,941
Non-derivative financial assets			
Funds	-	-	-
Total	<u>\$-</u>	<u>\$-</u>	<u>\$1,941</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)

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

(3) ACCOUNTS RECEIVABLE, NET

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Accounts receivable - non related parties	\$1,036,884	\$1,269,023	\$ 1,259,021
Less: Allowance for doubtful accounts	(16,541)	(16,541)	(4,071)
Accounts receivable, net	<u>\$1,020,343</u>	<u>\$1,252,482</u>	<u>\$1,254,950</u>

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, 2016	\$-	\$16,541	\$16,541
Charge for the current period	-	-	-
Write off as uncollectible	-	-	-
As of March 31, 2016	<u>\$-</u>	<u>\$16,541</u>	<u>\$16,541</u>
As of January 1, 2015	\$-	\$3,727	\$3,727
Charge for the current period	-	344	344
Write off as uncollectible	-	-	-
As of March 31, 2015	<u>\$-</u>	<u>\$4,071</u>	<u>\$4,071</u>

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, 2016	\$931,874	\$52,351	\$31,009	\$5,051	\$58	\$1,020,343
December 31, 2015	\$1,150,875	\$88,898	\$12,651	\$-	\$58	\$1,252,482
March 31, 2015	\$1,000,665	\$228,577	\$24,652	\$998	\$58	\$1,254,950

No accounts receivables were pledged.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(4) Inventories, net

a. Details as follows

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Raw materials	\$198,958	\$237,706	\$205,244
Work in progress	86,295	14,794	58,675
Semi-manufactured goods	25,854	23,446	25,843
Finished goods	304,384	193,091	370,939
Total	<u>\$615,491</u>	<u>\$469,037</u>	<u>\$660,701</u>

b. For the three-month periods ended March 31, 2016 and 2015, the Group recognized \$897,414 and \$985,171 for costs of inventories in expenses, included recognizing \$3,480 and \$2,555 for the inventory valuation losses.

c. No inventories were pledged.

(5) Financial assets measured at cost

	As of		
	March 31, 2016	December 31, 2015	March 31, 2014
HEYDAY INTERNATIONAL LIMITED	\$19,096	\$19,096	\$-

The fair value of the above investments in unlisted entities are not reliably measurable as the variability in the range of reasonable fair value measurements is significant for the instrument and the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value. Therefore these investments are measured at cost.

Financial assets measured at cost were not pledged.

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

(6) Property, plant and equipment

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Leasehold improvements	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of January 1, 2016	\$21,075	\$758,621	\$786,142	\$326,124	\$48,569	\$23,988	\$3,280	\$341,006	\$24,722	\$2,333,527
Additions	-	-	2,163	8,088	558	81	-	7,305	38,409	56,604
Disposals	-	-	(18,624)	(18,232)	-	(15)	-	(227)	-	(37,098)
Transfers	-	-	67,167	(6,365)	(17,103)	143	-	(22,265)	(18,176)	3,401
Exchange differences	-	(3,245)	(3,929)	(3,362)	(179)	(2)	-	(1,154)	-	(11,871)
As of March 31, 2016	<u>\$21,075</u>	<u>\$755,376</u>	<u>\$832,919</u>	<u>\$306,253</u>	<u>\$31,845</u>	<u>\$24,195</u>	<u>\$3,280</u>	<u>\$324,665</u>	<u>\$44,955</u>	<u>\$2,344,563</u>
As of January 1, 2015	\$21,075	\$406,504	\$691,912	\$274,219	\$43,157	\$17,697	\$3,280	\$183,688	\$522,912	\$2,164,444
Additions	-	2,178	65,283	17,803	984	965	-	9,749	13,623	110,585
Disposals	-	-	(8,995)	(608)	-	(385)	-	(2,887)	-	(12,875)
Transfers	-	310,600	17,313	3,868	3,664	2,580	-	125,217	(454,349)	8,893
Exchange differences	-	(1,540)	(1,878)	(1,775)	(85)	(2)	-	(403)	-	(5,683)
As of March 31, 2015	<u>\$21,075</u>	<u>\$717,742</u>	<u>\$763,635</u>	<u>\$293,507</u>	<u>\$47,720</u>	<u>\$20,855</u>	<u>\$3,280</u>	<u>\$315,364</u>	<u>\$82,186</u>	<u>\$2,265,364</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Leasehold improvements	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:										
As of January 1, 2016	\$-	\$179,069	\$356,346	\$243,308	\$17,123	\$11,226	\$2,250	\$103,561	\$-	\$912,883
Depreciation	-	6,621	19,498	14,669	719	797	172	6,125	-	48,601
Disposals	-	-	(8,597)	(16,447)	-	(13)	-	(204)	-	(25,261)
Transfers	-	131	464	(5,813)	(1,313)	1	-	6,530	-	-
Exchange differences	-	(1,715)	(2,750)	(2,721)	(153)	(2)	-	(876)	-	(8,217)
As of March 31, 2016	\$-	\$184,106	\$364,961	\$232,996	\$16,376	\$12,009	\$2,422	\$115,136	\$-	\$928,006
As of January 1, 2015	\$-	\$155,057	\$290,741	\$181,544	\$13,950	\$8,937	\$1,563	\$81,182	\$-	\$732,974
Depreciation	-	5,074	17,669	14,962	1,938	653	172	6,162	-	46,630
Disposals	-	-	(8,289)	(219)	-	(385)	-	(2,412)	-	(11,305)
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange differences	-	(729)	(1,186)	(1,284)	(62)	(1)	-	(300)	-	(3,562)
As of March 31, 2015	\$-	\$159,402	\$298,935	\$195,003	\$15,826	\$9,204	\$1,735	\$84,632	\$-	\$764,737
Net carrying amount as of:										
March 31, 2016	\$21,075	\$571,270	\$467,958	\$73,257	\$15,469	\$12,186	\$858	\$209,529	\$44,955	\$1,416,557
December 31, 2015	\$21,075	\$579,552	\$429,796	\$82,816	\$31,446	\$12,762	\$1,030	\$237,445	\$24,722	\$1,420,644
March 31, 2015	\$21,075	\$558,340	\$464,700	\$98,504	\$31,894	\$11,651	\$1,545	\$230,732	\$82,186	\$1,500,627

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, 2016 and 2015.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(7) Intangible assets

	Software	Patents	Trademarks	Goodwill	Others	Total
Cost:						
As of January 1, 2016	\$80,186	\$8,099	\$2,004	\$1,181	\$6,872	\$98,342
Addition-acquired separately	7,573	38	-	-	-	7,611
Exchange differences	(33)	-	-	-	-	(33)
As of March 31, 2016	<u>\$87,726</u>	<u>\$8,137</u>	<u>\$2,004</u>	<u>\$1,181</u>	<u>\$6,872</u>	<u>\$105,920</u>
As of January 1, 2015	\$57,469	\$10,007	\$2,106	\$1,181	\$6,872	\$77,635
Addition-acquired separately	8,802	256	14	-	-	9,072
Exchange differences	(16)	-	-	-	-	(16)
As of March 31, 2015	<u>\$66,255</u>	<u>\$10,263</u>	<u>\$2,120</u>	<u>\$1,181</u>	<u>\$6,872</u>	<u>\$86,691</u>
	Software	Patents	Trademarks	Goodwill	Others	Total
Amortization and impairment:						
As of January 1, 2016	\$46,343	\$5,777	\$1,889	\$-	\$6,872	\$60,881
Amortization	3,391	48	13	-	-	3,452
Exchange differences	(27)	-	-	-	-	(27)
As of March 31, 2016	<u>\$49,707</u>	<u>\$5,825</u>	<u>\$1,902</u>	<u>\$-</u>	<u>\$6,872</u>	<u>\$64,306</u>
As of January 1, 2015	\$35,399	\$5,216	\$1,780	\$-	\$5,264	\$47,659
Amortization	2,300	324	47	-	439	3,110
Exchange differences	(11)	-	1	-	-	(10)
As of March 31, 2015	<u>\$37,688</u>	<u>\$5,540</u>	<u>\$1,828</u>	<u>\$-</u>	<u>\$5,703</u>	<u>\$50,759</u>
Net carrying amount as of:						
March 31, 2016	<u>\$38,019</u>	<u>\$2,312</u>	<u>\$102</u>	<u>\$1,181</u>	<u>\$-</u>	<u>\$41,614</u>
December 31, 2015	<u>\$33,843</u>	<u>\$2,322</u>	<u>\$115</u>	<u>\$1,181</u>	<u>\$-</u>	<u>\$37,461</u>
March 31, 2015	<u>\$28,567</u>	<u>\$4,723</u>	<u>\$292</u>	<u>\$1,181</u>	<u>\$1,169</u>	<u>\$35,932</u>

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,	
	2016	2015
Operating cost	\$1,315	\$1,647
Selling and marketing	39	8
Management and administrative	1,692	1,128
Research and development	406	327
Total	\$3,452	\$3,110

(8) Other non-current assets

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Long-term prepaid rent expenses	\$155,110	\$160,676	\$135,777
Prepayment for equipment	20,347	16,177	25,268
Others	29,014	30,395	40,409
Total	\$204,471	\$207,248	\$201,454

As of March 31, 2016, December 31, 2015 and March 31, 2015 all of long-term prepaid rent expenses were land use rights.

(9) Short-term borrowings

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Unsecured bank loans	\$270,000	\$230,000	\$-

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Interest rates	0.95%-0.98%	0.97%-1.00%	-

The Group's unused short-term lines of credits amounted to \$424,564, \$546,132 and \$789,807 as of March 31, 2016, December 31, 2015 and March 31, 2015, respectively.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(10) Shore-term notes and bills payable

Accounting title	Guarantee	As of		
		March 31, 2016	December 31, 2015	March 31, 2015
Commercial paper payable	Ta Ching Bills Finance Corporation	\$30,000	\$-	\$-
	Mega Bills Finance Corporation	50,000	-	-
Less: discount on Shore-term notes and bills payable		-	-	-
Net commercial paper payable		<u>\$80,000</u>	<u>\$-</u>	<u>\$-</u>

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Interest rates	0.58%-0.66%	-	-

(11) Post-employment benefits

Defined contribution plan

Pension expenses under the defined contribution plan were \$2,506 and \$2,143 for the three-month periods ended March 31, 2016 and 2015, respectively.

Defined benefits plan

Pension expenses under the defined benefits plan were \$703 and \$839 for the three-month periods ended March 31, 2016 and 2015, respectively.

The Group recognized pension cost for high-ranking officers amounting to \$300 and \$300 for the three-month periods ended March 31, 2016 and 2015, respectively.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(12) Equities

a. Share capital

As of March 31, 2016, the Company's authorized capital was \$850,000, divided into 85,000,000 shares with par value of \$10 (in dollar) each. The issued and outstanding capital stocks were \$605,526, divided into 60,552,631 shares with par value of \$10 (in dollar) each.

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, 2016	December 31, 2015	March 31, 2015
Additional paid-in capital	\$1,308,533	\$1,308,533	\$1,308,533
Donated assets	314	314	314
Employee stock options	78,498	78,498	78,498
Total	<u>\$1,387,345</u>	<u>\$1,387,345</u>	<u>\$1,387,345</u>

c. Treasury Stock

(a) As of March 31, 2016, the Company's treasury stocks amounted to \$2,163, divided into 17,000 shares.

(b) The board meeting held on August 28, 2015 approved to repurchase 1,200,000 shares, which would be transferred to employees to motivate them. The expected period to execute the decision will take place between August 29, 2015 and October 28, 2015; the repurchase price will be between \$100 to \$150.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(c) No treasury stock has been transferred to employees as of March 31, 2016.

(d) According to the Securities and Exchange Act of R.O.C., the total shares of treasury stock shall not exceed 10% of issued stock, and the total purchase amount shall not exceed the sum of retained earnings, additional paid-in capital in excess of par and realized additional paid-in capital.

(e) In compliance with Securities and Exchange Act of R.O.C., treasury stocks shall not be pledged, nor should they be entitled to voting rights or receiving dividends.

d. Retained earnings and dividend policy

Pursuant to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order: payment of all taxes and dues; offset prior years' operation losses; set aside 10% of the remaining amount; set aside or reverse special reserve in accordance with relevant rules and regulations. However, when accumulated legal reserve reach to the capital stock, it is not required to set aside legal reserve. The distribution of the remaining portion, if any, will be proposed by the Board of Directors to the shareholders' meeting for approval.

Current year's earnings of the Company, if any, shall be distribute at 2% to 6% as employee bonuses; distribute not higher than 4% as the directors and supervisors' remunerations; in the event of accumulated losses, the same amount shall be held as reserves. The aforementioned employees' compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. The employees' compensation could be distributed to employees of affiliated enterprises meeting certain criteria.

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.

Following the adoption of IFRS, the FSC on April 6, 2012 issued Order No Jin-Guan-Cheng-Fa-Zi-1010012865, 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 the Company's adoption of the IFRS 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 IFRS on January 1, 2012 (adoption date) was \$0.

However, according to the amended Article 235-1 of the Company Act announced on 20 May, 2015, the Company shall provide a fixed amount or percentage of the actual profit for a year to be distributed as "employees' compensation", after deducting and setting aside an amount equal to the cumulative losses (if any). The aforementioned employees' compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors meeting attended by two-thirds or more of the directors and be reported at a shareholders' meeting. Furthermore the Articles of Incorporation may stipulate that the employees' compensation could be distributed to employees of affiliated enterprises meeting certain criteria. The Articles of Incorporation are to be amended in accordance with the aforementioned recent amendment to the Company Act in the shareholders' meeting in 2016.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Details of the 2015 and 2014 earnings distribution and dividends per share as approved by the board of directors at a board meeting held on March 3, 2016 and the resolution of the shareholders' meeting held in June 18, 2015, are as follows:

	Appropriation of earnings		Dividend per share (NTD)	
	2015	2014	2015	2014
Legal reserve	\$85,898	\$82,935		
Special reserve	-	(3,475)		
Cash dividends-common stock	575,088	544,974	\$9.5	\$9.0
Total	<u>\$660,986</u>	<u>\$624,434</u>		

The Company estimated the amounts of the employee bonuses and remuneration to directors and supervisors, please refer to Note 6 (16) for more details.

(13) Non-controlling interests

	For the three-month periods ended March 31,	
	2016	2015
Balance as of January 1	\$33,400	\$35,343
Attributable to non-controlling interests		
Income	2,600	2,100
Balance as of March 31	<u>\$36,000</u>	<u>\$37,443</u>

(14) Sales

	For the three-month periods ended March 31,	
	2016	2015
Sale of goods	\$1,226,018	\$1,285,604
Less: Sales returns and discounts	(493)	(1,738)
Net sales	<u>\$1,225,525</u>	<u>\$1,283,866</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(15) 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, 2016, December 31, 2015, and March 31, 2015 were as follows:

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Lower than 1 year	\$900	\$900	\$900
Between 1 to 5 years	225	450	1,125
Total	<u>\$1,125</u>	<u>\$1,350</u>	<u>\$2,025</u>

The expenses of operating lease were as follows:

	For the three-month periods ended March 31,	
	2016	2015
Minimum lease payments	<u>\$225</u>	<u>\$225</u>

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

Nature \ Function	For the three-month periods ended March 31,					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$105,072	\$59,312	\$164,384	\$99,395	\$54,875	\$154,270
Labor and health insurance	13,681	6,105	19,786	12,301	4,034	16,335
Pension	801	2,708	3,509	1,066	2,216	3,282
Others	7,983	5,047	13,030	7,493	2,196	9,689
Depreciation	40,546	8,055	48,601	38,666	7,964	46,630
Amortization	4,712	7,656	12,368	8,676	7,706	16,382

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

A resolution was passed at a Board of Directors meeting of the Company held on December 24, 2015 to amend the Articles of Incorporation of the Company. According to the resolution, 2% to 6% of profit of the current year is distributable as employees' compensation and no higher than 4% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Furthermore the employees' compensation could be distributed to employees of affiliated enterprises meeting certain criteria. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current year, the Company recognized the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended March 31, 2016 to be \$6,288 and \$828 as employee benefits expense. If the Board of Directors resolved to distribute employees' compensation in the form of stocks, the number of stocks distributed was calculated based on the closing price one day prior to the date of resolution. The difference between the estimates and the figures resolved at shareholders' meeting will be recognized in profit or loss of the subsequent year.

The estimated employee bonuses and remuneration to directors and supervisors for the year ended March 31, 2015 were based on post-tax net income of the period and the Company's Articles of Incorporation, and considered factors such as appropriation to legal reserve etc. The estimated employee bonuses and remuneration to directors and supervisors for the year ended March 31, 2015 are recognized as employee benefits expense for the period. If the Board modified the estimates significantly in the subsequent periods, the Company will recognize the change as an adjustment to current income. The difference between the estimation and the resolution of shareholders' meeting will be recognized in profit or loss of the subsequent year. The number of stocks distributed as employee bonuses was 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 Company estimated the amounts of the employee bonuses and remuneration to directors and supervisors for the year ended March 31, 2015 to be \$6,000 and \$725, respectively.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

A resolution was passed at a Board of Directors meeting held on March 3, 2016 to distribute \$28,000 and \$3,050 in cash as the employee bonuses and remuneration to directors and supervisors, respectively. No material differences exist between the estimated amount and the actual amount distributed.

The actual distribution of the employee bonuses and remuneration to directors and supervisors for the year ended December 31, 2014 were \$25,150 and \$3,050, respectively. No material differences exist between the estimated amount and the actual amount distributed.

(17) Non-operating income and expenses

a. Other income

	<u>For the three-month periods ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Interest income	\$2,662	\$1,856
Rental income	286	-
Others	10,211	11,417
Total	<u>\$13,159</u>	<u>\$13,273</u>

b. Other gains and losses

	<u>For the three-month periods ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Foreign exchange losses, net	\$(58,088)	\$(13,174)
Losses on financial assets at fair value through profit or loss	(196)	(2,382)
Losses on disposal of property, plant and equipment	(1,851)	(252)
Others	(71)	(104)
Total	<u>\$(60,206)</u>	<u>\$(15,912)</u>

c. Finance costs

	<u>For the three-month periods ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Interest expenses on bank loans	<u>\$719</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)

(18) Components of other comprehensive income

a. For the three-month periods ended March 31, 2016

	Arising during the period	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:				
Exchange differences resulting from translating the financial statements of a foreign operation	\$(18,264)	\$(18,264)	\$3,105	\$(15,159)
Total of other comprehensive income	<u>\$(18,264)</u>	<u>\$(18,264)</u>	<u>\$3,105</u>	<u>\$(15,159)</u>

b. For the three-month periods ended March 31, 2015

	Arising during the period	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:				
Exchange differences resulting from translating the financial statements of a foreign operation	\$(6,286)	\$(6,286)	\$1,069	\$(5,217)
Total of other comprehensive income	<u>\$(6,286)</u>	<u>\$(6,286)</u>	<u>\$1,069</u>	<u>\$(5,217)</u>

(19) Income tax

The major components of income tax expense are as follows:

a. Income tax recorded in profit or loss

	For the three-month periods ended March 31,	
	2016	2015
Current income tax expense:		
Current income tax charge	\$39,868	\$66,286
Deferred income tax benefit:		
Deferred income tax benefit related to origination and reversal of temporary differences	(7,340)	(30,781)
Income tax expense recognized in profit or loss	<u>\$32,528</u>	<u>\$35,505</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

b. Income tax relating to components of other comprehensive income

	For the three-month periods ended March 31,	
	2016	2015
Deferred income tax benefit:		
Exchange differences on translation of foreign operations	\$(3,105)	\$(1,069)
Income tax relating to components of other comprehensive income	<u>\$(3,105)</u>	<u>\$(1,069)</u>

c. Integrated income tax information

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Balance of the imputation credit account	<u>\$252,397</u>	<u>\$252,397</u>	<u>\$202,059</u>

The expected creditable ratio for 2015 and the actual creditable ratio for 2014 were 20.31% and 19.63%, respectively.

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

The assessment of income tax returns

As of March 31, 2016, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2014
Mitsumichi Industrial Co., Ltd	Assessed and approved up to 2013
Zhangjiagang Zengshing Trading CO., Ltd.	Assessed and approved up to 2014
Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd.	Assessed and approved up to 2014
Zhangjiagang Zengshing Trading CO., Ltd.	Assessed and approved up to 2014
Zeng Hsing Industrial CO., Ltd. (VN)	Assessed and approved up to 2014
Shinco Technologies Limited (VN)	Assessed and approved up to 2014

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

(20) Earnings per share

a. Earnings per share-basic

	For the three-month periods ended March 31,	
	2016	2015
Net profit attributable to the parent Group	\$88,506	\$115,891
Weighted-average number of ordinary shares for basic earnings per share(thousand shares)	60,536	60,553
Earnings per share-basic (NTD)	\$1.46	\$1.91

b. Earnings per share-diluted

	For the three-month periods ended March 31,	
	2016	2015
Net profit attributable to the parent Group	\$88,506	\$115,891
Weighted-average number of ordinary shares for basic earnings per share(thousand shares)	60,536	60,553
Effect of dilution:		
Employee bonus- stock(thousand shares)	46	64
Weighted average number of common stocks after dilution (thousand shares)	60,582	60,617
Diluted earnings per share (NTD)	\$1.46	\$1.91

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issue.

7. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	For the three-month periods ended March 31,	
	2016	2015
Short-term employee benefits	\$5,091	\$4,864
Post-Employment Benefits	353	369
	\$5,444	\$5,233

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

8. ASSETS PLEDGED AS COLLATERAL

The following assets were pledged:

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
Property, Plant and Equipment, net	\$23,071	\$23,229	\$23,706
Land	20,660	20,660	20,660
Bond investments in inactive market	200	200	200
Total	\$43,931	\$44,089	\$44,566

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The important contracts of construction in progress or services providing

a. As of March 31, 2016

None.

b. As of March 31, 2015

Contract parties	Subject matter	Total contract amount	Contract amount paid as of March 31, 2015
Company A	Buildings	\$118,017	\$108,790

(2) As of March 31, 2016 and 2015, the Group provided guarantee notes in the amount were \$100,000, 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: refer to Table 2 on pages 83.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Categories of financial instruments

	As of		
	March 31, 2016	December 31, 2015	March 31, 2015
<u>Financial Assets</u>			
Loans and receivables:			
Cash and cash equivalents (excludes cash on hand)	\$2,603,966	\$2,297,204	\$1,603,230
Notes and accounts receivable	1,020,343	1,252,482	1,254,950
Other receivables	23,150	29,652	44,691
Bond investments in inactive market	200	200	1,654
Subtotal	<u>3,647,659</u>	<u>3,579,538</u>	<u>2,904,525</u>
Financial assets at fair value through profit or loss:			
Held for trading	-	-	1,941
Financial assets in available for sale:			
Financial assets at cost-noncurrent	19,096	19,096	-
Total	<u>\$3,666,755</u>	<u>\$3,598,634</u>	<u>\$2,906,466</u>
<u>Financial Liabilities</u>			
Financial liabilities carried at amortized cost:			
Short-term loans	\$270,000	\$230,000	\$-
Short-term notes payables	80,000	-	-
Notes and accounts payables	670,169	651,320	682,394
Other payables	179,608	228,142	179,203
Subtotal	<u>1,199,777</u>	<u>1,109,462</u>	<u>861,597</u>
Financial liabilities at fair value through profit or loss			
Held for trading	-	55	-
Total	<u>\$1,199,777</u>	<u>\$1,109,517</u>	<u>\$861,597</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(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.

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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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:

- a. When NTD strengthens/weakens against USD by 1%, the profit for the three-month periods ended March 31, 2016 and 2015 is decreased by \$25,040 and \$19,309, respectively; and no impact on the equity.
- b. When NTD strengthens/weakens against RMB by 1%, the profit for the three-month periods ended March 31, 2016 and 2015 is increased by \$197 and \$597, respectively; and no impact on the equity.
- c. When NTD strengthens/weakens against VND by 1%, the profit for the three-month periods ended March 31, 2016 and 2015 is decreased by \$712 and \$277, respectively; and no impact on the equity.

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, 2016 and 2015, 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

As of March 31, 2016, December 31, 2015 and March 31, 2015, amounts receivables from top ten customers represented 87.93%, 87.33% and 92.28% 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, 2016					
Short-term loans	\$270,000	\$-	\$-	\$-	\$270,000
Short-term notes payables	80,000	-	-	-	80,000
Payables	670,169	-	-	-	670,169

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

	<u>< 1 year</u>	<u>2 ~ 3 years</u>	<u>4 ~ 5 years</u>	<u>> 5 years</u>	<u>Total</u>
As of December 31, 2015					
Short-term loans	\$230,000	\$-	\$-	\$-	\$230,000
Payables	651,320	-	-	-	651,320
As of March 31, 2015					
Payables	\$682,394	\$-	\$-	\$-	\$682,394

Derivative financial instruments

	<u>< 1 year</u>	<u>2 ~ 3 years</u>	<u>4 ~ 5 years</u>	<u>> 5 years</u>	<u>Total</u>
As of March 31, 2016					
Outflow	\$-	\$-	\$-	\$-	\$-
As of December 31, 2015					
Outflow	\$55	\$-	\$-	\$-	\$55
As of March 31, 2015					
Outflow	\$-	\$-	\$-	\$-	\$-

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:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Group to measure or disclose the fair values of financial assets and financial liabilities:

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- i. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities 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, beneficiary certificates, bonds and futures, etc.) at the reporting date.
- iii. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- iv. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)
- v. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

c. Fair value measurements recognized in the consolidated statement of financial position: Please refer to note 12 (8).

(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, 2016		
None.		
As of December 31, 2015		
Zeng Hsing Industrial Co., Ltd.		
Forward exchange contracts	Sell USD 1,000,000	2015.09.25-2016.03.28
As of March 31, 2015		
Zeng Hsing Industrial Co., Ltd.		
Forward exchange contracts	Sell USD 1,000,000	2014.08.12-2015.08.12
Forward exchange contracts	Sell USD 500,000	2014.04.11-2015.05.21

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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(8) Fair value of financial instruments

(a) Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(b) Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

As of March 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange agreement	\$-	\$-	\$-	\$-
Financial liabilities:				
Financial assets at fair value through profit or loss				
Forward exchange agreement	-	-	-	-

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 December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Funds	\$-	\$-	\$-	\$-
Forward exchange agreement	-	-	-	-
Financial liabilities:				
Financial assets at fair value through profit or loss				
Forward exchange agreement	-	55	-	55

As of March 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Funds	\$-	\$1,941	\$-	\$1,941
Forward exchange agreement	-	-	-	-
Financial liabilities:				
Financial assets at fair value through profit or loss				
Forward exchange agreement	-	-	-	-

(c) Fair value measurement hierarchy of the Company's assets and liabilities not measured at fair value but for which the fair value is disclosed.

None.

(9) Significant assets and liabilities denominated in foreign currencies

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Unit: Thousands

	As of								
	March 31, 2016			December 31, 2015			March 31, 2015		
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD
<u>Financial assets</u>									
<u>Monetary item:</u>									
USD	\$94,360	32.2820	\$3,046,145	\$87,813	33.0660	\$2,903,623	\$74,337	31.4010	\$2,334,254
CNY	50,441	4.9913	251,765	49,010	5.0921	249,565	36,423	5.0650	184,480
VND	126,701,855	0.001424	180,423	147,827,828	0.001424	210,507	163,150,356	0.001424	232,326
<u>Financial liabilities</u>									
<u>Monetary item:</u>									
USD	906	32.2820	29,236	635	33.066	21,004	252	31.4010	156,358
CNY	55,186	4.9913	275,448	55,460	5.0921	282,408	50,625	5.0650	275,203
VND	186,912,612	0.001424	266,164	161,995,843	0.001424	230,682	139,711,365	0.001424	198,949

The Group is unable to disclose foreign exchange gains or losses on significant assets and liabilities denominated in foreign currencies because the Group entities have too many functional currencies. The exchange losses for the three-month periods ended March 31, 2016 and 2015 were \$58,088 and \$13,173, respectively.

(10) 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.

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

13. ADDITIONAL DISCLOSURES

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

- (1) Financing provided: Table 1 on page 82.
- (2) Endorsement/guarantee provided: Table 2 on page 83.
- (3) Marketable securities held: Table 3 on page 84.
- (4) Marketable securities acquired or disposed of that cost or amounted to at least \$300 million or 20% of the paid-in capital: none.
- (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) Related party transactions for purchases and sales amounts exceeding the lower of \$100 million or 20% of capital stock: refer to Table 4 on page 85.
- (8) Receivable from related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 5 on page 86.
- (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: none.
- (11) Names, locations, and related information of investees on which the Group exercises significant influence: refer to Table 6 on pages 87 to 88.
- (12) Information about transactions of financial derivatives: none.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(13) 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 7 on page 89.

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)

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

a. For the three-month periods ended March 31, 2016

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
Revenue					
External customers	\$1,150,933	\$45,843	\$28,749	\$-	\$1,225,525
Inter-segment	15,104	477,722	485,554	(978,380)	-
Total revenue	<u>\$1,166,037</u>	<u>\$523,565</u>	<u>\$514,303</u>	<u>\$978,380</u>	<u>\$1,225,525</u>
Segment profit	<u>\$157,078</u>	<u>\$63,165</u>	<u>\$9,890</u>	<u>\$(106,499)</u>	<u>\$123,634</u>

b. For the three-month periods ended March 31, 2015

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
Revenue					
External customers	\$1,169,848	\$84,608	\$29,410	\$-	\$1,283,866
Inter-segment	21,901	513,094	517,453	(1,502,448)	-
Total revenue	<u>\$1,191,749</u>	<u>\$597,702</u>	<u>\$546,863</u>	<u>\$(1,502,448)</u>	<u>\$1,283,866</u>
Segment profit	<u>\$170,947</u>	<u>\$40,916</u>	<u>\$1,342</u>	<u>\$(59,709)</u>	<u>\$153,496</u>

The related information of operating segment asset as of March 31, 2016, December 31, 2015 and March 31, 2015 are listed as follows:

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
March 31, 2016	<u>\$6,992,825</u>	<u>\$1,354,978</u>	<u>\$2,107,390</u>	<u>\$(4,377,585)</u>	<u>\$6,077,608</u>
December 31, 2015	<u>\$6,813,059</u>	<u>\$1,364,503</u>	<u>\$2,007,077</u>	<u>\$(4,297,467)</u>	<u>\$5,887,172</u>
March 31, 2015	<u>\$6,138,310</u>	<u>\$1,266,938</u>	<u>\$2,134,913</u>	<u>\$(4,108,491)</u>	<u>\$5,431,670</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The related information of operating segment liabilities as of March 31, 2016, December 31, 2015 and March 31, 2015 are listed as follows:

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
March 31, 2016	\$1,450,445	\$395,251	\$425,831	\$(645,047)	\$1,626,480
December 31, 2015	\$1,375,934	\$435,971	\$333,965	\$(633,879)	\$1,511,991
March 31, 2015	\$1,044,862	\$461,739	\$546,956	\$(812,471)	\$1,241,086

(2) Information on reconciliations of revenue, profit or loss, assets, liabilities and other material items of reportable segments:

There's no segment revenue, profit, assets, liabilities or significant items that needed to be reconciled for the three-month periods ended March 31, 2016 and 2015.

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

FINANCING PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2016

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.	Zeng Hsing Industrial CO., Ltd. (VN)	Other receivable	Yes	\$322,820 (USD10,000,000)	\$322,820 (USD10,000,000)	\$-	1.5%	Note 4	-	For operation needs	-	-	-	\$883,026	\$1,766,051

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 as of March 31, 2016.

Note 3: Total financing was limited to 40% of the Company's net equity as of March 31, 2016.

Note 4: For short-term financing.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2016

TABLE 2

No. (Note 1)	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	Subsidiar y to parent company	To Mainland China
0	Zeng Hsing Industrial CO., LTD.	Zeng Hsing Industrial CO., Ltd. (VN)	(2)	\$1,324,538	\$920,037 (USD28,500,000)	\$920,037 (USD28,500,000)	\$-	\$-	20.84%	\$1,766,051	Yes	No	No
0	Zeng Hsing Industrial CO., LTD.	Zhangjiagan g Zenghsing Machinery & Electronics CO., Ltd.	(4)	\$1,324,538	\$16,141 (USD500,000)	\$16,141 (USD500,000)	\$-	\$-	0.37%	\$1,766,051	Yes	No	Yes

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 invests jointly 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, 2016.

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, 2016.

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

MARKETABLE SECURITIES HELD

FOR THE THREE MONTHS ENDED MARCH 31, 2016

TABLE 3

Securities Held By	Type and name of securities	Relationship with the Company	Financial Statement Account	March 31, 2016			
				Shares/Units	Carrying Value	Ownership Percentage	Market Value or Net Asset
ARCORIS PTE LTD	HEYDAY INTERNATIONAL LIMITED	non-relationship	Financial assets measured at cost	604,800 shares	\$19,096	15%	Note 1

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. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

RELATED PARTY TRANSACTIONS FOR PURCHASES AND SALES AMOUNTS EXCEEDING THE LOWER OF \$100 MILLION OR 20% OF CAPITAL STOCK FOR THE THREE MONTHS ENDED MARCH 31, 2016

TABLE 4

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	\$377,057	30.77%	There is no difference with other clients	Regular	Regular	Account payable \$(312,003)	(5.13%)	-
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$377,057	30.77%	There is no difference with other clients	Regular	Regular	Account receivable \$312,003 (RMB2,445,930)	5.13%	-
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Purchases	\$461,957	37.69%	There is no difference with other clients	Regular	Regular	Account payable \$(138,746)	(2.28%)	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$461,957	37.69%	There is no difference with other clients	Regular	Regular	Account receivable \$138,746 (VND95,545,896,082)	2.28%	-

Note 1: "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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO OVER NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2016

TABLE 5

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 \$138,746 (VND 95,545,896,082)	13.29	\$-	\$-	\$138,746 (VND 95,545,896,082)	\$-	accounts receivable-customers
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	Subsidiary	Accounts Receivable \$312,003 (RMB 62,445,930)	4.87	\$-	\$-	\$121,400 (RMB 24,322,320)	\$-	accounts receivable-customers

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to Consolidated 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 MONTHS ENDED MARCH 31, 2016

TABLE 6

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2016			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				March 31, 2016	December 31, 2015	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%	\$86,102	\$(2,955)	\$(2,955)	
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	453,423 (USD13,673,452)	453,423 (USD13,673,452)	13,673	100%	939,234	47,691	47,691	Note 1
Zeng Hsing Industrial CO., Ltd (BVI)	ARCORIS PTE LTD	30 CECIL STREET #10-05 PRUDENTIAL TOWER SINGAPORE (049712)	Holding company	24,769 (USD800,000)	24,769 (USD800,000)	800,000	100%	25,101	(212)	(212)	

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated 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, 2016			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				March 31, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	Bing Doung, Vietnam	Manufacturing household sewing machines.	1,049,544 (USD35,000,000)	1,049,554 (USD35,000,000)	-	100%	1,296,417	VND5,842,577,846	8,320	
Zeng Hsing Industrial CO., Ltd.	Shinco Technologies Limited (VN)	Bing Doung, Vietnam	Material die-casting of metal of aluminum, zinc and magnesium alloy.	347,158 (USD11,173,331)	347,158 (USD11,173,331)	-	100%	382,493	VND89,782,408	128	
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.	Mitsumichi industrial CO. Ltd	Taichung, Taiwan	Manufacturing household sewing machines	31,330	31,330	1,378,000	53.00%	41,777	5,532	2,932	

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2016

TABLE 7

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, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2016	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as of March 31, 2016	Accumulated Inward Remittance of Earnings as of March 31, 2016
					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%	\$40,061	\$810,306	\$177,691 (USD5,525,351)
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	Selling household sewing machines and spare parts.	USD500,000	Indirect investments through Zeng Hsing (BVI)	\$14,931 (USD500,000)	-	-	\$14,931 (USD500,000)	100%	\$7,628	\$93,138	\$-
Zhangjiagang Zenghsing Trading Co., Ltd.	Selling household sewing machines and spare parts	RMB1,000,000	Indirect investments through Zeng Hsing (BVI)	\$-	-	-	\$-	100%	RMB570,695	RMB11,268,255	\$-

Accumulated investment in Mainland China as of March 31, 2016	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on Investment
\$319,130 (USD9,603,039)	\$459,409(Note2) (USD13,848,355)	\$2,649,077

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

Note 2: Investment amounts authorized by the Investment Commission, MOEA were \$459,409 (USD 13,848,355). The capitalization of retained earnings in China in the amount of USD 4,245,316 were exempted to be included in the upper limit on investment.