

ZENG HSING INDUSTRIAL CO., LTD.

PARENT COMPANY ONLY FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 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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Independent Auditors' Report

To ZENG HSING INDUSTRIAL CO., LTD

Opinion

We have audited the accompanying parent company only balance sheets of Zeng Hsing Industrial Co., Ltd. (the "Company") as of December 31, 2016 and 2015, and the parent company only statements of comprehensive income, the parent company only changes in equity and the parent company only cash flows for the years ended December 31, 2016 and 2015, and notes to the parent company only financial statements, including the summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements referred to above present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2016 and 2015, and their parent company only financial performance and parent company only cash flows for the years ended December 31, 2016 and 2015, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements* section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2016 parent company only financial statements. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of accounts receivable

As of December 31, 2106, the Company's accounts receivable and allowance for doubtful accounts amounted to NTD 1,501,889 thousand and NTD 10,078 thousand, respectively. Net accounts receivable represented 25% of the parent company only total assets and have significant impacts on the Company. Accounts receivables form important customers accounted for a higher proportion of the Company's total accounts receivable, so the collection of accounts receivable is the key factor to the working capital management of the Company and the provision for allowance for doubtful accounts would reflect the credit risk of the Company. As the adequacy of provision policy requires significant management judgement, we therefore determined the issue as a key audit mater.

Our audit procedures included, but not limited to, evaluating the design and operating effectiveness of customer credit risk assessment and internal controls about the management of collection of accounts receivable; assessing the appropriateness of provision policy for doubtful accounts; sampling appropriate customers and recalculating the aging according to transaction terms; evaluating the reasonableness for the collection of individual customers with significant overdue accounts receivable or longer aging; evaluating the total provision for doubtful accounts based on policy; sampling customers to perform confirmation and checking the collection in subsequent period to evaluate recoverability.

In addition, we also considered the adequacy of the disclosures related to accounts receivable and related risks in Notes 5 and 6 of the financial statements.

Valuation for inventories (including investments accounted for under the equity method-inventory of subsidiaries)

Inventories of the Company and the investees accounted for under the equity method were significant to the financial statements. The Company starts manufacturing after receiving orders from customers, so we mainly assessed the allowance for inventory valuation losses for raw materials. Due to diversity of products and uncertainty arising from rapid changes in products, obsolete and slow-moving inventory valuation requires significant management judgement, we therefore determined the issue as a key audit mater.

Our audit procedures included, but not limited to, evaluating the adequacy of policy about obsolete and slow-moving inventories; evaluating the policy of inventory valuation; sampling important storage locations to observe inventory counts; testing the correctness of the inventory aging schedule to make sure whether the inventory aging schedule was appropriate. In addition, we also obtained the current year's reports on inventory movement and sample tested to check whether purchases and sales were supported by appropriate vouchers and to re-calculate the unit cost of inventories to evaluate the reasonableness of the net realizable value of inventory.

In addition, we also considered the adequacy of the disclosures related to inventory and related risks in Notes 5 and 6 of the financial statements.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young
Certified Public Accountants
March 22, 2017
Taichung, Taiwan
Republic of China

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
December 31, 2016 and 2015
(Expressed in Thousand New Taiwan Dollars)

Assets	Notes	As at	
		December 31, 2016	December 31, 2015
Current Assets			
Cash and cash equivalents	4, 6(1)	\$1,505,937	\$1,402,536
Financial assets at fair value through profit or loss, current	4, 12	22,308	-
Accounts receivable, net	4, 6(2)	1,341,053	1,204,268
Accounts receivable, net - Related parties	4, 6(2), 7	150,758	106,593
Other receivables		9,334	2,815
Other receivables - Related parties	7	127,883	161
Inventories, net	4, 6(3)	51,142	47,463
Prepayment		10,018	8,718
Other current assets		4,946	2,467
Total Current Assets		3,223,379	2,775,021
Non-current assets			
Bond investments with no active market, noncurrent	8	200	200
Investments accounted for under the equity method	4, 6(4)	2,706,588	2,710,085
Property, plant and equipment	4, 6(5), 8	129,316	124,600
Investment property	4, 6(6)	71,052	-
Intangible assets	4, 6(7)	37,551	35,860
Deferred tax assets	4, 6(17)	37,287	30,909
Deposits-out		3,782	2,592
Other long-term investments		4,485	4,485
Other non-current assets	4, 6(8)	23,475	7,116
Total non-current assets		3,013,736	2,915,847
Total assets		\$6,237,115	\$5,690,868

(The accompanying notes are an integral part of the parent company only financial statements)
(continued)

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
December 31, 2016 and 2015
(Expressed in Thousand New Taiwan Dollars)

Liabilities and Equity	Notes	As at	
		December 31, 2016	December 31, 2015
Current liabilities			
Short-term loans	4, 6(9)	\$311,395	\$230,000
Short-term notes and bills payable	4, 6(10)	80,000	-
Financial liabilities at fair value through profit or loss, current	4, 12	5,722	55
Notes payable		20,577	22,439
Accounts payable		141,909	101,039
Accounts payable - Related parties	7	643,563	479,123
Other payables		154,190	158,264
Current tax liabilities	4, 6(17)	98,321	118,999
Other current liabilities		17,979	14,661
Total current liabilities		<u>1,473,656</u>	<u>1,124,580</u>
Non-current liabilities			
Deferred tax liabilities	4, 6(17)	143,843	150,253
Accrued pension liabilities	4, 6(11)	66,437	74,254
Deposits-in		360	-
Total non-current liabilities		<u>210,640</u>	<u>224,507</u>
Total liabilities		<u>1,684,296</u>	<u>1,349,087</u>
Equity attributable to the parent company	4, 6(12)		
Capital			
Common stock		<u>605,526</u>	<u>605,526</u>
Additional paid-in capital			
Capital Surplus-Additional Paid-In Capital		1,308,533	1,308,533
Capital Surplus-Donated Assets Received		314	314
Capital Surplus-Other		78,498	78,498
Total Additional paid-in capital		<u>1,387,345</u>	<u>1,387,345</u>
Retained earnings			
Legal reserve		645,420	559,523
Retained earnings		1,961,977	1,772,596
Total Retained earnings		<u>2,607,397</u>	<u>2,332,119</u>
Other components of equity			
Exchange differences on translation of foreign operations		(45,286)	18,954
Treasury stock		(2,163)	(2,163)
Total equity		<u>4,552,819</u>	<u>4,341,781</u>
Total liabilities and equity		<u>\$6,237,115</u>	<u>\$5,690,868</u>

(The accompanying notes are an integral part of the parent company only financial statements)

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

		For the Years Ended December 31,	
	Notes	2016	2015
Net Sales	6(13), 7	\$5,611,726	\$5,587,174
Cost of Sales	6(14), 7	(4,436,424)	(4,492,238)
Gross Profit		1,175,302	1,094,936
Unrealized Intercompany Profit		(1,627)	(1,913)
Realized Intercompany Profit		1,913	4,846
Gross Profit		1,175,588	1,097,869
Operating Expenses	6(14)		
Selling and marketing		(83,749)	(87,528)
Management and administrative		(216,303)	(210,749)
Research and development		(122,187)	(117,807)
Total Operating Expenses		(422,239)	(416,084)
Operating Income		753,349	681,785
Non-operating income and expenses	6(15)		
Other revenue		61,029	47,644
Other gain and loss		(46,341)	102,508
Financial costs		(4,104)	(1,200)
Share of profit or loss of associates and joint ventures		275,487	228,090
Subtotal		286,071	377,042
Income from continuing operations before income tax		1,039,420	1,058,827
Income tax expense	6(17)	(187,989)	(199,852)
Income from Continuing Operations, Net of Tax		851,431	858,975
Other comprehensive income	6(16)		
Items not reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans		(1,283)	(17,829)
Income tax related to items not reclassified subsequently to profit or loss		218	6,942
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(77,398)	(1,972)
Income tax related to items that may be reclassified subsequently to profit or loss		13,158	335
Total other comprehensive loss , net of tax		(65,305)	(12,524)
Total comprehensive income		<u>\$786,126</u>	<u>\$846,451</u>
Earnings per share (NTD)	6(18)		
Earnings per share-basic		<u>\$14.06</u>	<u>\$14.19</u>
Earnings per share-diluted		<u>\$14.00</u>	<u>\$14.10</u>

(The accompanying notes are an integral part of the parent company only financial statements)

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	Notes	Common Stock	Additional Paid-in Capital	Legal Reserve	Special reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Treasury stock	Total
Balance as at January 1, 2015	6(12)	\$605,526	\$1,387,345	\$476,588	\$3,475	\$1,548,942	\$20,591	\$ -	\$4,042,467
Appropriations of earnings, 2014:									
Legal reserve				82,935		(82,935)			-
Special reserve					(3,475)	3,475			-
Cash dividends						(544,974)			(544,974)
Net income for the year ended December 31, 2015						858,975			858,975
Other comprehensive income, net of tax for the year ended December 31, 2015						(10,887)	(1,637)		(12,524)
Total comprehensive income		-	-	-	-	848,088	(1,637)	-	846,451
Treasury stock acquired								(2,163)	(2,163)
Balance as at December 31, 2015	6(12)	<u>\$605,526</u>	<u>\$1,387,345</u>	<u>\$559,523</u>	<u>\$ -</u>	<u>\$1,772,596</u>	<u>\$18,954</u>	<u>\$(2,163)</u>	<u>\$4,341,781</u>
Balance as at January 1, 2016	6(12)	\$605,526	\$1,387,345	\$559,523	\$ -	\$1,772,596	\$18,954	\$(2,163)	\$4,341,781
Appropriations of earnings, 2015:									
Legal reserve				85,897		(85,897)			-
Cash Dividends						(575,088)			(575,088)
Net income for the year ended December 31, 2016						851,431			851,431
Other comprehensive income, net of tax for the years ended December 31, 2016						(1,065)	(64,240)		(65,305)
Total comprehensive income		-	-	-	-	850,366	(64,240)	-	786,126
Balance as at December 31, 2016	6(12)	<u>\$605,526</u>	<u>\$1,387,345</u>	<u>\$645,420</u>	<u>\$ -</u>	<u>\$1,961,977</u>	<u>\$(45,286)</u>	<u>\$(2,163)</u>	<u>\$4,552,819</u>

(The accompanying notes are an integral part of the parent company only financial statements)

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(Expressed in Thousand New Taiwan Dollars)

	For the Years Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income before tax	\$1,039,420	\$1,058,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	18,238	17,547
Amortization	15,978	11,037
Loss on disposal of property, plant and equipment	185	338
Gain on disposal of investments	-	(2,870)
Net gain of financial assets at fair value through profit or loss	(5,872)	(551)
(Gain) loss from price (recovery) deduction of inventories	(1,349)	1,504
Share of gain of subsidiaries, associates and joint ventures	(275,487)	(228,090)
Gain reversal (loss provision) for doubtful accounts	(6,463)	12,814
Unrealized Intercompany Profit	1,627	1,913
Realized Intercompany Profit	(1,913)	(4,846)
Interest revenue	(5,922)	(3,366)
Interest expense	4,104	1,200
Changes in operating assets and liabilities:		
(Increase) decrease in financial assets at fair value through profit or loss	(10,769)	59,137
(Increase) decrease in accounts receivable	(130,599)	142,253
(Increase) decrease in accounts receivable - Related parties	(43,888)	24,708
(Increase) decrease in inventories, net	(2,330)	2,966
(Increase) decrease in other receivables	(6,519)	9,668
(Increase) decrease in other receivables - Related parties	(2,107)	8,124
(Increase) decrease in prepayments	(1,300)	2,365
Increase in other current assets	(2,479)	(23)
Increase in other non-current assets	(22,566)	(7,305)
Decrease in notes payable	(1,862)	(64,745)
Increase in accounts payable	40,870	45,264
Increase (decrease) in accounts payable - Related parties	164,440	(85,295)
(Decrease) increase in other payables	(4,074)	15,438
Increase (decrease) in other current liabilities	3,318	(1,918)
Decrease in accrued pension liabilities	(9,100)	(8,979)
Cash generated from operations	753,581	1,007,115
Interest received	5,922	3,366
Income tax paid	(194,122)	(184,764)
Net cash provided by operating activities	565,381	825,717

(The accompanying notes are an integral part of the parent company only financial statements)

(Continued)

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(Expressed in Thousand New Taiwan Dollars)

	For the Years Ended December 31,	
	2016	2015
(Continued)		
Cash flows from investing activities:		
Increase in investments accounted for under the equity method	(93,893)	(24,767)
Decrease in investments accounted for under the equity method	-	5,154
Acquisition of property, plant and equipment	(18,383)	(13,352)
Acquisition of Investment property	(71,871)	-
Proceeds from disposal of property, plant and equipment	375	-
(Increase) decrease in deposits-out	(1,190)	550
Increase in intangible assets	(15,774)	(22,988)
Dividends received	156,193	163,657
Net cash (used) provided in investing activities	(44,543)	108,254
Cash flows from financing activities:		
Increase increase in deposits-in	360	-
Increase in short-term loans	2,595,646	1,670,000
Decrease in short-term loans	(2,514,251)	(1,440,000)
Increase in short-term notes and bills payable	1,895,000	90,000
Decrease in short-term notes and bills payable	(1,815,000)	(90,000)
Treasury stock acquired	-	(2,163)
Interest paid	(4,104)	(1,200)
Cash dividends	(575,088)	(544,974)
Net cash used in financing activities	(417,437)	(318,337)
Net increase in cash and cash equivalents	103,401	615,634
Cash and cash equivalents at beginning of period	1,402,536	786,902
Cash and cash equivalents at end of period	\$1,505,937	\$1,402,536

(The accompanying notes are an integral part of the parent company only financial statements)

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements

For the Years Ended December 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 Company 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 Company, which was incorporated in 1998 to manufacture household sewing machines in Jiangsu Province, China.

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

Shinco Technologies Limited (VN) is controlled by the Company, 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 financial statements of the Company for the years ended December 31, 2016 and 2015 were authorized for issue in accordance with the resolution of the board of directors' meeting held on March 22, 2017.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

- (1) Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission ("FSC"), but not yet adopted by the Company at the date of issuance of the Company's financial statements are listed below.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(a) *IAS 36 “Impairment of Assets” (Amendment)*

This amendments relate to the amendments issued in May 2011 and require 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 amendments also require 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 amendments are 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 amendments, 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.

(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 amendments are effective for annual periods beginning on or after 1 July 2014.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- (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 add definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition'). The amendments prospectively apply 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.

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 amendments are effective for annual periods beginning on or after 1 July 2014.

IFRS 13 “Fair Value Measurement”

The amendments to the Basis for Conclusions of IFRS 13 clarify 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

IAS 16 “Property, Plant and Equipment”

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 24 “Related Party Disclosures”

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 38 “Intangible Assets”

The amendments clarify 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 amendments are 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 amendments clarify 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 amendments clarify 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 amendments are effective for annual periods beginning on or after 1 July 2014.

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Notes to Financial Statements (Continued)

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

IFRS 13 “Fair Value Measurement”

The amendments clarify 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 the amendments 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 amendments are effective for annual periods beginning on or after 1 July 2014.

IAS 40 “Investment Property”

The amendments clarify 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 amendments are 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 amendments also require certain disclosure. The amendments are effective for annual periods beginning on or after 1 January 2016.

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Notes to 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 amendments clarify 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 amendments also clarify 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 amendments are effective for annual periods beginning on or after 1 January 2016.

(j) *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 amendments are effective for annual periods beginning on or after 1 January 2016.

(k) *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 amendments remove 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 amendments are effective for annual periods beginning on or after 1 January 2016.

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Notes to Financial Statements (Continued)

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

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

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

The amendments clarify 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 amendments also require 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 amendments are effective for annual periods beginning on or after 1 January 2016.

IFRS 7 “Financial Instruments: Disclosures”

The amendments clarify 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 amendments also clarify 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 amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 19 “Employee Benefits”

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 34 “Interim Financial Reporting”

The amendments clarify what is meant by “elsewhere in the interim financial report” under IAS 34; the amendments state 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 amendments are effective for annual periods beginning on or after 1 January 2016.

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Notes to Financial Statements (Continued)

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

(m) *Disclosure Initiative — Amendment to IAS 1 “Presentation of Financial Statements”*:

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 amendments are effective for annual periods beginning on or after 1 January 2016.

(n) *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 amendments are effective for annual periods beginning on or after 1 January 2016.

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Notes to Financial Statements (Continued)

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

The abovementioned standards and interpretations issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2017, the remaining standards and interpretations have no material impact on the Company.

(2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Company's financial statements are listed below.

(a) *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 that 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.

(b) *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).

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Notes to Financial Statements (Continued)

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

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.

(c) *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 the amendments has been postponed indefinitely, but early adoption is allowed.

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Notes to Financial Statements (Continued)

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

(d) *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 1 January 2019.

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

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017.

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

The amendments relate 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 amendments are effective for annual periods beginning on or after 1 January 2017.

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

The amendments clarify 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 amendments are effective for annual periods beginning on or after 1 January 2018.

(h) *IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2*

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to

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Notes to Financial Statements (Continued)

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meet the employee's tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

(i) *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts — Amendments to IFRS 4*

The amendments help to resolve issues arising from the different effective dates for IFRS 9 "Financial Instruments" (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 "Financial Instruments" before the IASB's new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

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Notes to Financial Statements (Continued)

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

(j) *Transfers of Investment Property — Amendments to IAS 40*

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

(k) *Improvements to International Financial Reporting Standards (2014-2016 cycle):*

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after 1 January 2017.

IAS 28 “Investments in Associates and Joint Ventures”

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

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Notes to Financial Statements (Continued)

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

(1) IFRIC 22 “*Foreign Currency Transactions and Advance Consideration*”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations listed under (a), it is not practicable to estimate their impact on the Company at this point in time. All other standards and interpretations have no material impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The Company’s financial statements for the years ended December, 31, 2016 and 2015 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”).

(2) Basis of Preparation

The Company prepared parent company only financial statements in accordance with Article 21 of the Regulations, which provided that the profit or loss and other comprehensive income for the period presented in the parent company only financial statements shall be the same as the profit or loss and other comprehensive income attributable to stockholders of the parent presented in the consolidated financial statements for the period, and the total equity presented in the parent company only financial statements shall be the same as the equity attributable to the parent company presented in the consolidated financial statements. Therefore, the Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary adjustments.

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Notes to Financial Statements (Continued)

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

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

(3) Foreign Currency Transactions

The Company’s financial statements are presented in New Taiwan Dollars (NTD), which is also the parent company’s functional currency. Each entity in the Company 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 Company’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 *Financial Instruments: Recognition and Measurement* are accounted for based on the accounting policy for financial instruments.

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Notes to Financial Statements (Continued)

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

- 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.

(4) 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.

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Notes to Financial Statements (Continued)

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

(5) Current and Non-current Distinction

An asset is classified as current when:

- a. The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle; or
- b. The Company holds the asset primarily for the purpose of trading; or
- c. The Company 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 Company expects to settle the liability in normal operating cycle; or
- b. The Company 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 Company 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.

(6) Cash Equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within three months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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Notes to Financial Statements (Continued)

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

(7) Financial instruments

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

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

(a) Financial assets

The Company accounts for regular way purchase or sales of financial assets on the trade date.

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

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. A financial asset is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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Notes to Financial Statements (Continued)

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

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

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.

Available-for-sale financial assets

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

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

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Notes to Financial Statements (Continued)

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

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.

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 Company 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 debt instrument 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.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A 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 has 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 impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

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

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Notes to Financial Statements (Continued)

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Other loss events include:

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

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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 a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is 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.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the 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.

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Notes to Financial Statements (Continued)

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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.

Derecognition of financial assets

A financial asset is derecognized when:

- i. The rights to receive cash flows from the asset have expired.
- ii. The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- iii. The Company 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.

(b) Financial liabilities and equity

Classification between liabilities or equity

The Company 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.

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 (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IAS 39 *Financial Instruments: Recognition and Measurement*.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

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Notes to Financial Statements (Continued)

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

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.

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. A financial liability is classified as held for trading if:

- i. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- ii. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- iii. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- i. it eliminates or significantly reduces a measurement or recognition inconsistency; or
- ii. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss 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.

Financial liabilities 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.

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.

(c) 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.

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Notes to Financial Statements (Continued)

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

(8) Derivative financial instruments

The Company 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.

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.

(9) 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.

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Notes to Financial Statements (Continued)

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

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.

(10) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Materials	— Weighted average of actual procurements
Work in process and finished goods	— Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Finished goods and work in process are accounted for under the weighted average method.

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

(11) Investments accounted for under the equity method

The Company prepared parent company only financial statements in accordance with Article 21 of the Regulations, which provided that the profit or loss and other comprehensive income for the period presented in the parent company only financial statements shall be the same as the profit or loss and other comprehensive income attributable to stockholders of the parent presented in the consolidated financial statements for the period, and the total equity presented in the parent company only financial statements shall be the same as the equity attributable to the parent company presented in the consolidated financial statements. Therefore, the Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary adjustments. The adjustments took into consideration how the subsidiaries should be accounted for in accordance with IFRS 10 and the different extent to each reporting entity IFRS applies. The adjustments are made by debiting or crediting “investments accounted for under the equity method”, “share of profit or loss of associates and joint ventures accounted for under equity method”, and “share of other comprehensive income of associates and joint ventures accounted for using the equity method”.

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Notes to Financial Statements (Continued)

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

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company 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 Company'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 Company has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company's related interest in the associate.

When changes in the net assets of an associate occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing of the associate on a pro-rata basis.

When the associate issues new stock, and the Company's interest in an associate is reduced or increased as the Company fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in additional paid in capital and investment in associate. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro-rata basis when the Company disposes of the associate.

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

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired in accordance with IAS 39 Financial Instruments: Recognition and Measurement. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Company estimates:

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Notes to Financial Statements (Continued)

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

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment
- (b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

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

(12) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company 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	6~50 years
Machinery and equipment	6~15 years
Tooling equipment	2~ 7 years
Transportation equipment	5~10 years
Furniture, fixtures and equipment	5~10 years
Miscellaneous equipment	3~20 years
Leasehold improvements	The shorter of lease terms or economic useful lives

ZENG HSING INDUSTRIAL CO., LTD.

Notes to 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.

(13) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the cost model in accordance with the requirements of IAS 16 for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

Buildings	25 years
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Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Assets are transferred to or from investment properties when there is a change in use.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(14) Leases

The Company as a lessee

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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.

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Notes to 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 measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized. Accounting policies of the Company's intangible assets is summarized as follows:

	<u>Software</u>	<u>Trademarks</u>	<u>Patents</u>
Useful lives	1~5 years	1~5 years	1~5 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
Sources	Outside	Outside	Outside

(16) Impairment of Non-financial Assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit'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. However, 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.

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Notes to Financial Statements (Continued)

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

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. 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 for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(17) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(18) Treasury Stock

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(19) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company 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.

Notes to 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 and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

c. Dividends

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

(20) Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(21) Post-employment benefits

All regular employees of the Company is 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. Therefore fund assets are not included in the Company's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

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Notes to Financial Statements (Continued)

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For the defined contribution plan, the Company 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 and branches 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. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

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

Current income tax

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

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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:

- 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.

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Notes to Financial Statements (Continued)

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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 Company 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 accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

(23) Seasonal change

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(1) Judgement

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Investment properties

Certain properties of the Company comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. If these portions could be sold separately, the Company accounts for the portions separately as investment properties and property, plant and equipment.

(b) Operating lease commitment—Company as the lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(2) Estimates and assumptions

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

(a) Accounts receivables—estimation of impairment loss

The Company considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(b) Inventories

Estimates of net realizable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made.

(c) 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 the income approach (for example the discounted cash flows model) or 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.

(d) Pension 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, future salary increases, mortality rates and future pension increases. Please refer to Note 6 for more details.

(e) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company 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 Group company's domicile.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to 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 together with future tax planning strategies.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	As at	
	December 31, 2016	December 31, 2015
Cash on hand	\$70	\$70
Checking and savings accounts	1,247,635	1,402,466
Time deposits	258,232	-
Total	<u>\$1,505,937</u>	<u>\$1,402,536</u>

(2) ACCOUNTS RECEIVABLE, NET

	As at	
	December 31, 2016	December 31, 2015
Accounts receivable - non related parties	\$1,351,131	\$1,220,809
Less: Allowance for doubtful accounts	(10,078)	(16,541)
Subtotal	1,341,053	1,204,268
Accounts receivable - related parties	150,758	106,593
Accounts receivable, net	<u>\$1,491,811</u>	<u>\$1,310,861</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):

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

	Individually impaired	Collectively impaired	Total
As at January 1, 2016	\$-	\$16,541	\$16,541
Reversal for the current period	-	(6,463)	(6,463)
As at December 31, 2016	\$-	\$10,078	\$10,078
As at January 1, 2015	\$-	\$3,727	\$3,727
Charge for the current period	-	12,814	12,814
As at December 31, 2015	\$-	\$16,541	\$16,541

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	
December 31, 2016	\$1,186,019	\$257,097	\$47,749	\$946	\$-	\$1,491,811
December 31, 2015	\$1,207,184	\$89,326	\$14,351	\$-	\$-	\$1,310,861

No accounts receivables were pledged.

(3) INVENTORIES, NET

a. Details as follows

	As at	
	December 31, 2016	December 31, 2015
Raw materials	\$27,361	\$24,141
Work in progress	-	1,025
Semi-manufactured goods	6,988	9,002
Finished goods	16,793	13,295
Total	\$51,142	\$47,463

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- b. For the years ended December 31, 2016 and 2015, the Company recognized \$4,436,424 and \$4,492,238, respectively, in operating cost, of which \$1,349 was related to gains recognized and \$1,504 of loss, respectively, as a result of the net realized value recovery of inventory being lower than its cost.
- c. For the year ended December 31, 2016, because the factors that caused the net realizable value of inventory to be lower than its cost no longer existed, the Company recognized gains from price recovery of inventories.
- d. No inventories were pledged.

(4) INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

The following table lists the investments accounted for using the equity method of the Company:

	December 31, 2016		December 31, 2015	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership
Subsidiaries:				
Zeng Hsing Industrial Co., Ltd. (VN)	\$1,443,359	100.00%	\$1,290,526	100.00%
Zeng Hsing Industrial Co., Ltd. (BVI)	890,909	100.00%	909,291	100.00%
Shinco Technologies Limited (VN)	314,608	100.00%	382,366	100.00%
Shinco Worldwide Limited (BVI)	20,347	100.00%	89,057	100.00%
Mitsumichi Industrial Co., Ltd.	37,365	53.00%	38,845	53.00%
Subtotal	<u>2,706,588</u>		<u>2,710,085</u>	
Associates				
Taiwan Carbon Technology Co., Ltd.	4,559	19.53%	4,559	19.53%
Loss of impairment	<u>(4,559)</u>		<u>(4,559)</u>	
Subtotal	<u>-</u>		<u>-</u>	
Total	<u>\$2,706,588</u>		<u>\$2,710,085</u>	

a. Subsidiaries

The Company's investment in its associate is accounted for using the equity method.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

For the years ended December 31, 2016 and 2015, the Company recognized share of profit or loss of associates and joint ventures and exchange differences on translation of foreign operations with report of independent accountants, the details as follows:

Investee companies	December 31, 2016		December 31, 2015	
	Share of profit or loss of associates and joint ventures	Exchange differences on translation of foreign operations	Share of profit or loss of associates and joint ventures	Exchange differences on translation of foreign operations
Zeng Hsing Industrial Co., Ltd. (BVI)	\$104,086	\$(77,662)	\$132,875	\$(1,972)
Zeng Hsing Industrial Co., Ltd. (VN)	153,420	-	79,077	-
Shinco Technologies Limited (VN)	15,219	264	5,420	-
Shinco Worldwide Limited (BVI)	(5,404)	-	1,342	-
Mitsumichi Industrial Co., Ltd.	8,166	-	9,634	-
Asia Bright Hometec Co., Ltd.	-	-	(258)	-
Total	<u>\$275,487</u>	<u>\$(77,398)</u>	<u>\$228,090</u>	<u>\$(1,972)</u>

b. Investments in associates

The following table illustrates summarized financial information of the Company's investment in the associates:

	As at	
	December 31, 2016	December 31, 2015
Total assets (100%)	\$72,604	\$65,500
Total liabilities (100%)	5,928	11,535
	December 31, 2016	December 31, 2015
Total revenue (100%)	\$52,937	\$57,594
Total expense (100%)	12,711	14,251

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

c. Other investments

For the years ended December 31, 2016 and 2015, the details of the Company invested to subsidiaries by cash as follows:

Subsidiaries	December 31, 2016	December 31, 2015
Zeng Hsing Industrial Co., Ltd. (BVI)	\$93,893	\$24,767

For the years ended December 31, 2016 and 2015, the details of the Company received dividends from subsidiaries by cash as follows:

Subsidiaries	December 31, 2016	December 31, 2015
Zeng Hsing Industrial Co., Ltd. (BVI)	\$139,572	\$154,011
Shinco Technologies Limited (VN)	83,241	-
Shinco Worldwide Limited (BVI)	63,306	-
Mitsumichi Industrial Co., Ltd.	9,646	9,646
Total	<u>\$295,765</u>	<u>\$163,657</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(5) PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Miscellaneous equipment	Total
Cost:								
As at January 1, 2016	\$21,075	\$113,650	\$26,937	\$29,123	\$1,977	\$8,813	\$54,786	\$256,361
Additions	-	5,671	4,205	2,165	1,175	94	5,073	18,383
Disposals	-	-	(3,563)	(890)	(491)	-	(76)	(5,020)
Transfers	-	-	2,651	1,286	333	-	42	4,312
As at December 31, 2016	<u>\$21,075</u>	<u>\$119,321</u>	<u>\$30,230</u>	<u>\$31,684</u>	<u>\$2,994</u>	<u>\$8,907</u>	<u>\$59,825</u>	<u>\$274,036</u>
As at January 1, 2015	\$21,075	\$113,650	\$26,257	\$20,605	\$1,977	\$8,641	\$49,819	\$242,024
Additions	-	-	680	5,101	-	172	7,399	13,352
Disposals	-	-	-	-	-	-	(2,432)	(2,432)
Transfers	-	-	-	3,417	-	-	-	3,417
As at December 31, 2015	<u>\$21,075</u>	<u>\$113,650</u>	<u>\$26,937</u>	<u>\$29,123</u>	<u>\$1,977</u>	<u>\$8,813</u>	<u>\$54,786</u>	<u>\$256,361</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to 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	Miscellaneous equipment	Total
Depreciation and impairment:								
As at January 1, 2016	\$-	\$52,193	\$15,386	\$20,392	\$1,479	\$6,402	\$35,909	\$131,761
Depreciation	-	2,965	2,947	4,411	191	470	6,435	17,419
Disposals	-	-	(3,393)	(500)	(491)	-	(76)	(4,460)
As at December 31, 2016	<u>\$-</u>	<u>\$55,158</u>	<u>\$14,940</u>	<u>\$24,303</u>	<u>\$1,179</u>	<u>\$6,872</u>	<u>\$42,268</u>	<u>\$144,720</u>
As at January 1, 2015	\$-	\$48,833	\$12,607	\$15,336	\$1,296	\$5,668	\$32,568	\$116,308
Depreciation	-	3,360	2,779	5,056	183	734	5,435	17,547
Disposals	-	-	-	-	-	-	(2,094)	(2,094)
As at December 31, 2015	<u>\$-</u>	<u>\$52,193</u>	<u>\$15,386</u>	<u>\$20,392</u>	<u>\$1,479</u>	<u>\$6,402</u>	<u>\$35,909</u>	<u>\$131,761</u>
Net carrying amount as of:								
As at December 31, 2016	<u>\$21,075</u>	<u>\$64,163</u>	<u>\$15,290</u>	<u>\$7,381</u>	<u>\$1,815</u>	<u>\$2,035</u>	<u>\$17,557</u>	<u>\$129,316</u>
As at December 31, 2015	<u>\$21,075</u>	<u>\$61,457</u>	<u>\$11,551</u>	<u>\$8,731</u>	<u>\$498</u>	<u>\$2,411</u>	<u>\$18,877</u>	<u>\$124,600</u>

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

b. There is no occurrence of capitalization of interest due to purchasing property, plant and equipment for the years ended December 31, 2016 and 2015.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(6) Investment property

	Land	Buildings	Total
Cost:			
As at January 1, 2016	\$-	\$-	\$-
Additions	41,124	30,747	71,871
As at December 31, 2016	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
As at January 1, 2015	\$-	\$-	\$-
Additions	-	-	-
As at December 31, 2015	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Depreciation and impairment:			
As at January 1, 2016	\$-	\$-	\$-
Depreciation	-	819	819
As at December 31, 2016	<u>\$-</u>	<u>\$819</u>	<u>\$819</u>
As at January 1, 2015	\$-	\$-	\$-
Depreciation	-	-	-
As at December 31, 2015	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Net carrying amount:			
As at December 31, 2016	<u>\$41,124</u>	<u>\$29,928</u>	<u>\$71,052</u>
As at December 31, 2015	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

No investment property was pledged.

Investment properties held by the Company are not measured at fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3. The fair value of the investment properties was \$80,690 as at December 31, 2016. The fair value has been determined based on valuations performed by an independent valuer.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(7) INTANGIBLE ASSETS

	Software	Patents	Trademarks	Total
Cost:				
As at January 1, 2016	\$80,458	\$3,704	\$1,701	\$85,863
Addition-acquired separately	15,600	174	-	15,774
Exchange differences	675	-	-	675
As at December 31, 2016	\$96,733	\$3,878	\$1,701	\$102,312
As at January 1, 2015	\$57,734	\$3,502	\$1,639	\$62,875
Addition-acquired separately	22,724	202	62	22,988
As at December 31, 2015	\$80,458	\$3,704	\$1,701	\$85,863
	Software	Patents	Trademarks	Total
Amortization and impairment:				
As at January 1, 2016	\$47,035	\$1,382	\$1,586	\$50,003
Amortization	14,516	195	47	14,758
As at December 31, 2016	\$61,551	\$1,577	\$1,633	\$64,761
As at January 1, 2015	\$36,393	\$1,195	\$1,512	\$39,100
Amortization	10,642	187	74	10,903
As at December 31, 2015	\$47,035	\$1,382	\$1,586	\$50,003
Net carrying amount as of:				
As at December 31, 2016	\$35,182	\$2,301	\$68	\$37,551
As at December 31, 2015	\$33,423	\$2,322	\$115	\$35,860

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Intangible asset amortization expenses are summarized as follows:

	For the years ended December 31,	
	2016	2015
Operating cost	\$592	\$-
Selling and marketing	978	198
Management and administrative	7,481	4,864
Research and development	5,707	5,841
Total	\$14,758	\$10,903

(8) OTHER NON-CURRENT ASSETS

	As at	
	December 31, 2016	December 31, 2015
Prepayment for equipment	\$19,490	\$7,038
Others	3,985	78
Total	\$23,475	\$7,116

(9) SHORT-TERM BORROWINGS

	As at	
	December 31, 2016	December 31, 2015
Unsecured bank loans	\$311,395	\$230,000

	Annual ended December 31, 2016	Annual ended December 31, 2015
Interest rates	0.88%~1.21%	0.97%~1.00%

The Company's unused short-term lines of credits amounted to \$394,558 and \$546,132 as at December 31, 2016 and 2015, respectively.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(10) SHORT-TERM NOTES AND BILLS PAYABLE

Accounting title	Guarantee	As at	
		December 31, 2016	December 31, 2015
Commercial paper payable	Ta Ching Bills Finance Corporation	\$80,000	\$-
Less: discount on short-term notes and bills payable		-	-
		<u>\$80,000</u>	<u>\$-</u>

	As at	
	December 31, 2016	December 31, 2015
Interest rates	0.56%	-

(11) POST-EMPLOYMENT BENEFITS

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. According to the Act, the rate of contributions should be no lower than 6% of each individual employee's monthly salaries. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Overseas subsidiaries will contribute social welfare benefits of a certain percentage of employees' salaries or wages to the employees' individual pension accounts in accordance with local regulations.

Pension expenses under the defined contribution plan were \$9,352 and \$8,017 for the years ended December 31, 2016 and 2015, respectively.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries assess the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under discretionary accounts, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure to risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute \$13,112 to its defined benefit plan during the 12 months beginning after 31 December 2016.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

The defined benefits plan obligation as at 31 December 2016 and 2015 is expected to mature in 2030 and 2023.

The summary of defined benefits plan reflected in profit or loss is as follows:

	For the years ended December 31,	
	2016	2015
Current period service costs	\$1,957	\$1,985
Interest income or expense	855	1,368
Total	<u>\$2,812</u>	<u>\$3,353</u>

The Company recognized pension cost for high-ranking officers amounting to \$1,200 and \$1,200 for the years ended December 31, 2016 and 2015, respectively. As at December 31, 2016 and 2015, accrued pension liabilities non-current amounted to \$7,007 and \$5,807, respectively.

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	As at		
	December 31, 2016	December 31, 2015	January 1, 2015
Defined benefit obligation	\$156,451	\$159,254	\$145,245
Plan assets at fair value	<u>(97,021)</u>	<u>(90,807)</u>	<u>(84,448)</u>
Other non-current liabilities - accrued pension liabilities recognized on the balance sheets	<u>\$59,430</u>	<u>\$68,447</u>	<u>\$60,797</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	As at		
	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As at January 1, 2015	\$145,245	\$(84,448)	\$60,797
Current period service costs	1,985	-	1,985
Net interest expense (income)	3,268	(1,900)	1,368
Past service cost and gains and losses arising from settlements	-	-	-
Subtotal	150,498	(86,348)	64,150
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	12	-	12
Actuarial gains and losses arising from changes in financial assumptions	11,958	-	11,958
Experience adjustments	6,154	-	6,154
Remeasurements of benefit assets	-	(295)	(295)
Subtotal	18,124	(295)	17,829
Payments from the plan	(9,368)	(9,368)	-
Contributions by employer	-	(13,532)	(13,532)
Effect of changes in foreign exchange rates	-	-	-
As at December 31, 2015	\$159,254	\$(90,807)	\$68,447
Current period service costs	1,957	-	1,957
Net interest expense (income)	1,990	(1,135)	855
Past service cost and gains and losses arising from settlements	-	-	-
Subtotal	163,201	(91,942)	71,259
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	1,097	-	1,097
Actuarial gains and losses arising from changes in financial assumptions	(14,740)	-	(14,740)
Experience adjustments	14,456	-	14,456
Remeasurements of benefit assets	-	470	470
Subtotal	813	470	1,283
Payments from the plan	(7,563)	7,563	-
Contributions by employer	-	(13,112)	(13,112)
Effect of changes in foreign exchange rates	-	-	-
As at December 31, 2016	\$156,451	\$(97,021)	\$59,430

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	As at	
	December 31, 2016	December 31, 2015
Discount rate	1.50%	1.25%
Expected rate of salary increases	2.59%	3.00%

A sensitivity analysis for significant assumption as at 31 December 2016 and 2015 is as shown below:

	Effect on the defined benefit obligation			
	2016		2015	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.50%	\$-	\$10,126	\$-	\$6,316
Discount rate decrease by 0.50%	11,245	-	7,075	-
Future salary increase by 0.50 %	11,064	-	6,913	-
Future salary decrease by 0.50%	-	10,073	-	6,243

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(12) EQUITIES

a. Share capital

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

c. Treasury Stock

(a) As of December 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 27, 2015; the repurchase price will be between \$100 to \$150.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- (c) No treasury stock has been transferred to employees as of December 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

According 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 law and regulations ; the distribution of the remaining portion, if any, will be recommended by the board of directors and resolved in the shareholders' meeting.

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

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". The stockholders' meeting resolved the amendment of Company Articles of Incorporation on June 15, 2016. 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 reserves reach to the amount of the Company's paid-in capital, 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to 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.

Details of the 2016 and 2015 earnings distribution and dividends per share as approved and resolved by the board of directors' meeting and shareholders' meeting on March 22, 2017 and June 15, 2016, respectively, are as follows:

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

	Appropriation of earnings		Dividend per share (NTD)	
	2016	2015	2016	2015
Legal reserve	\$85,143	\$85,898		
Special reserve	45,286	-		
Cash dividends-common stock	575,088	575,088	\$9.5	\$9.5
Total	<u>\$705,517</u>	<u>\$660,986</u>		

The Company estimated the amounts of the employee compensation and remuneration to directors and supervisors, please refer to Note 6 (14) for more details.

(13) SALES

	For the years ended December 31,	
	2016	2015
Sale of goods	\$5,544,130	\$5,563,697
Repair income	51,844	-
Commission income	21,896	26,153
Premium income	6,729	7,231
Less: Sales returns and discounts	(12,873)	(9,907)
Net sales	<u>\$5,611,726</u>	<u>\$5,587,174</u>

(14) SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015:

Function Nature	For the years ended December 31,					
	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$63,799	\$241,474	\$305,273	\$54,351	\$226,924	\$281,275
Labor and health insurance	5,124	17,571	22,695	4,385	16,585	20,970
Pension	2,707	10,657	13,364	3,256	9,314	12,570
Others	2,179	8,526	10,705	1,849	5,827	7,676
Depreciation	8,270	9,968	18,238	7,690	9,857	17,547
Amortization	641	15,337	15,978	-	11,037	11,037

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Note: The number of employees were 379 and 360 as at December 31, 2016 and 2015, respectively.

A resolution was passed at the stockholders' meeting of the Company held on June 15, 2016 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 Taiwan Stock Exchange (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 December 31, 2016 to be \$28,000 and \$3,845 as employee benefits expense. A resolution was passed at a board of directors meeting held on March 22, 2017 to distribute \$28,000 and \$3,845 in cash as the employee's compensation and remuneration to directors and supervisors, respectively. No material differences exist between the estimated amount and the actual amount distributed.

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 December 31, 2016 to be \$28,000 and \$3,050 as employee benefits expense. The estimated employee's compensation and remuneration to directors and supervisors for the year ended December 31, 2016 are recognized as employee benefits expense for the period. If the Board modifies 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to 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.

(15) NON-OPERATING INCOME AND EXPENSES

a. Other income

	For the years ended December 31,	
	2016	2015
Interest income	\$5,922	\$3,367
Rental revenue	2,757	575
Others	52,350	43,702
Total	<u>\$61,029</u>	<u>\$47,644</u>

b. Other gains and losses

	For the years ended December 31,	
	2016	2015
Foreign exchange (losses) gains , net	\$(52,028)	\$99,425
Gains on financial assets at fair value through profit or loss	5,872	551
Losses on disposal of property, plant and equipment	(185)	(338)
Gains on disposal of investments	-	2,870
Total	<u>\$(46,341)</u>	<u>\$102,508</u>

c. Finance costs

	For the years ended December 31,	
	2016	2015
Interest expenses on bank loans	<u>\$4,104</u>	<u>\$1,200</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

d. Share of profit or loss of associates and joint ventures

	For the years ended December 31,	
	2016	2015
Share of profit or loss of associates & joint ventures accounted for using equity method	\$275,487	\$228,090

(16) COMPONENTS OF OTHER COMPREHENSIVE INCOME

a. For the years ended December 31, 2016

	Arising during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Remeasurements of defined benefit plans	\$(1,283)	\$(1,283)	\$218	\$(1,065)
To be reclassified to profit or loss in subsequent periods:				
Exchange differences resulting from translating the financial statements of a foreign operation	(77,398)	(77,398)	13,158	(64,240)
Total of other comprehensive income	\$(78,681)	\$(78,681)	\$13,376	\$(65,305)

b. For the years ended December 31, 2015

	Arising during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Remeasurements of defined benefit plans	\$(17,829)	\$(17,829)	\$6,942	\$(10,887)
To be reclassified to profit or loss in subsequent periods:				
Exchange differences resulting from translating the financial statements of a foreign operation	(1,972)	(1,972)	335	(1,637)
Total of other comprehensive income	\$(19,801)	\$(19,801)	\$7,277	\$(12,524)

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

(17) INCOME TAX

The major components of income tax expense are as follows:

a. Income tax recorded in profit or loss

	For the years ended December 31,	
	2016	2015
Current income tax expense:		
Current income tax charge	\$192,401	\$192,761
Adjustments in respect of current income tax of prior periods	(5,000)	-
Deferred income tax expense:		
Deferred income tax expense related to origination and reversal of temporary differences	588	7,091
Income tax expense recognized in profit or loss	<u>\$187,989</u>	<u>\$199,852</u>

b. Income tax relating to components of other comprehensive income

	For the years ended December 31	
	2016	2015
Deferred income tax (benefit) expense:		
Exchange differences on translation of foreign operations	\$(13,158)	\$(335)
Remeasurements of defined benefit plans	(218)	(6,942)
Income tax relating to reclassified to profit or loss	<u>\$(13,376)</u>	<u>\$(7,277)</u>

c. A reconciliation between tax expense and the product of accounting profit multiplied by the Company's applicable tax rate is as follows:

	For the years ended December 31	
	2016	2015
Accounting profit before tax from continuing operations	<u>\$1,039,420</u>	<u>\$1,058,827</u>
The amount of tax at each statutory income tax rate	\$176,701	\$180,001
Tax effect of non-deductible expenses	(2,422)	(2,549)
10% surtax on unappropriated earnings	18,710	22,400
Adjustments in respect of current income tax of prior periods	(5,000)	-
Total income tax expenses recorded in profit or loss	<u>\$187,989</u>	<u>\$199,852</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

d. Significant components of deferred income tax assets and liabilities are as follows:

i. For the year ended December 31, 2016

Items	Balance as at January 1	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at December 31
Temporary difference				
Excessive amount of allowance for doubtful accounts	\$556	\$556	\$-	\$-
Unrealized foreign currency exchange gain or loss	(4,244)	1,235	-	(5,479)
Provision for allowance to reduce inventories to market value	2,039	229	-	1,810
Impairment of long-term investment under equity method	775	-	-	775
Defined benefit Liability	15,822	1,751	(218)	14,289
Reserve for land appreciation tax	(87)	-	-	(87)
Investment income under equity method	(140,820)	(3,183)	-	(137,637)
Exchange differences on translation of foreign operations	6,615	-	(13,158)	19,773
Deferred income tax expense (benefit)		\$588	\$(13,376)	
Deferred income tax assets (liabilities)	<u>\$(119,344)</u>			<u>\$(106,556)</u>
The information represent in balance statement				
Deferred income tax assets	<u>\$30,909</u>			<u>\$37,287</u>
Deferred income tax liabilities	<u>\$(150,253)</u>			<u>\$(143,843)</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

ii. For the year ended December 31, 2015

Items	Balance as at January 1	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at December 31
Temporary difference				
Excessive amount of allowance for doubtful accounts	\$-	\$(556)	\$-	\$556
Unrealized foreign currency exchange gain or loss	(8,556)	(4,312)	-	(4,244)
Provision for allowance to reduce inventories to market value	1,784	(255)	-	2,039
Impairment of long-term investment under equity method	775	-	-	775
Defined benefit Liability	9,970	1,090	(6,942)	15,822
Reserve for land appreciation tax	(87)	-	-	(87)
Investment income under equity method	(129,696)	11,124	-	(140,820)
Exchange differences on translation of foreign operations	6,280	-	(335)	6,615
Deferred income tax expense (benefit)		<u>\$7,091</u>	<u>\$(7,277)</u>	
Deferred income tax assets (liabilities)	<u>\$(119,530)</u>			<u>\$(119,344)</u>
The information represent in balance statement				
Deferred income tax assets	<u>\$27,517</u>			<u>\$30,909</u>
Deferred income tax liabilities	<u>\$(147,047)</u>			<u>\$(150,253)</u>

iii. As at December 31, 2016 and 2015, deferred tax assets that have not been recognized as they may not be used to offset taxable profits as follows:

None.

iv. As at December 31, 2016 and 2015, the taxable temporary differences of unrecognized deferred tax liabilities associated with investment in subsidiaries as follows:

None.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

e. Integrated income tax information

	As at	
	December 31, 2016	December 31, 2015
Balance of the imputation credit account	<u>\$312,865</u>	<u>\$252,303</u>

The expected creditable ratio for 2016 and the actual creditable ratio for 2015 were 25.75% and 20.44%, respectively.

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

f. The assessment of income tax returns

The tax authorities have assessed income tax returns of the Company through 2014.

(18) EARNINGS PER SHARE

a. Earnings per share-basic

	For the years ended December 31,	
	2016	2015
Net profit attributable to the parent Company	<u>\$851,431</u>	<u>\$858,975</u>
Weighted-average number of ordinary shares for basic earnings per share(thousand shares)	<u>60,536</u>	<u>60,548</u>
Earnings per share-basic (NTD)	<u>\$14.06</u>	<u>\$14.19</u>

b. Earnings per share-diluted

	For the years ended December 31,	
	2016	2015
Net profit attributable to the parent Company	<u>\$851,431</u>	<u>\$858,975</u>
Weighted-average number of ordinary shares for basic earnings per share(thousand shares)	60,536	60,548
Effect of dilution:		
Employee bonus- stock(thousand shares)	<u>261</u>	<u>385</u>
Weighted average number of common stocks after dilution (thousand shares)	<u>60,797</u>	<u>60,933</u>
Diluted earnings per share (NTD)	<u>\$14.00</u>	<u>\$14.10</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

(1) Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
Shinco Worldwide Ltd. (BVI)	Subsidiaries
Zeng Hsing Industrial Co., Ltd. (BVI)	Subsidiaries
Zeng Hsing Industrial Co., Ltd. (VN)	Subsidiaries
Shinco Technologies Limited (VN)	Subsidiaries
Mitsumichi Industrial Co., Ltd.	Subsidiaries
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	Subsidiaries
Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd.	Subsidiaries
Arcoris Pte Ltd.	Subsidiaries
Zorca Worldwide Ltd. (BVI)	Subsidiaries
Zhangjiagang Zenghsing Trading CO., Ltd.	Subsidiaries
Lin Zhi Cheng And Other 15 People	Directors and Deputy General Manager of the Company

(2) The Company's significant transactions with related parties

a. Sales

(a) Sales

Name of Related Parties	For the years ended December 31,	
	2016	2015
Mitsumichi Industrial Co., Ltd.	\$-	\$5,770

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(b) Commission income

Transactions of materials and supplies sold to related parties for the years ended December 31, 2016 and 2015 are summarized as follows:

i. For the year ended December 31, 2016

Name of Related Parties	Price	Cost	Commission income
Zeng Hsing Industrial Co., Ltd. (VN)	\$209,053	\$197,535	\$11,518
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	194,114	182,730	11,384
Mitsumichi Industrial Co., Ltd.	1,810	2,816	(1,006)
	<u>\$404,977</u>	<u>\$383,081</u>	<u>\$21,896</u>

ii. For the year ended December 31, 2015

Name of Related Parties	Price	Cost	Commission income
Zeng Hsing Industrial Co., Ltd. (VN)	\$164,981	\$151,009	\$13,972
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	228,079	215,761	12,318
Mitsumichi Industrial Co., Ltd.	400	537	(137)
	<u>\$393,460</u>	<u>\$367,307</u>	<u>\$26,153</u>

Unrealized intercompany profit resulted from the abovementioned transactions amounted to \$1,627 and \$1,913 during 2016 and 2015, respectively. Sales prices and the terms between related parties are not significantly different from any third parties.

For the years ended December 31, 2016 and 2015, the trade credit terms for related parties were the same as general customers. For domestic customers, the credit terms were 30 to 60 days. For foreign customers, they were 60 to 120 days. The outstanding amounts at the end of the year were unsecured, interest-free and must be settled in cash. Accounts receivable from related parties did not have any guarantees.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

b. Purchase

Name of Related Parties	For the years ended December 31,	
	2016	2015
Zeng Hsing Industrial Co., Ltd. (VN)	\$2,869,272	\$2,706,187
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	1,296,897	1,458,592
Zhangjiagang Zenghsing Trading CO., Ltd.	34,268	50,321
Mitsumichi Industrial Co., Ltd.	17,634	28,952
Shinco Technologies Limited (VN)	238	-
Total	<u>\$4,218,309</u>	<u>\$4,244,052</u>

For the years ended December 31, 2016 and 2015, the payment terms for related parties were same as general supplies, from one to three months.

c. Accounts receivable

Name of Related Parties	As at	
	December 31, 2016	December 31, 2015
Zeng Hsing Industrial Co., Ltd. (VN)	\$86,185	\$26,768
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	60,258	75,961
Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd.	3,049	865
Mitsumichi Industrial Co., Ltd.	1,004	161
Shinco Technologies Limited (VN)	262	2,838
Total	<u>\$150,758</u>	<u>\$106,593</u>

d. Accounts payable

Name of Related Parties	As at	
	December 31, 2016	December 31, 2015
Zeng Hsing Industrial Co., Ltd. (VN)	\$337,924	\$152,340
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	298,017	310,740
Zhangjiagang Zenghsing Trading CO., Ltd.	6,065	13,768
Mitsumichi Industrial Co., Ltd.	1,319	2,275
Shinco Technologies Limited (VN)	238	-
Total	<u>\$643,563</u>	<u>\$479,123</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

e. Other receivables

Name of Related Parties	As at	
	December 31, 2016	December 31, 2015
Zeng Hsing Industrial Co., Ltd. (BVI)	\$125,615	\$-
Zeng Hsing Industrial Co., Ltd. (VN)	2,268	-
Mitsumichi Industrial Co., Ltd.	-	161
Total	<u>\$127,883</u>	<u>\$161</u>

f. Premium income

Name of Related Parties	As of	
	December 31, 2016	December 31, 2015
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	\$6,555	\$7,067
Mitsumichi Industrial Co., Ltd.	174	163
Total	<u>\$6,729</u>	<u>\$7,230</u>

g. Key management personnel compensation

	For the years ended December 31,	
	2016	2015
Short-term employee benefits	\$24,757	\$19,583
Post-employment Benefits	1,546	1,464
Total	<u>\$26,303</u>	<u>\$21,047</u>

8. ASSETS PLEDGED AS COLLATERAL

The following assets were pledged:

	As at	
	December 31, 2016	December 31, 2015
Property, Plant and Equipment-building	\$22,594	\$23,229
Property, Plant and Equipment-land	20,660	20,660
Bond investments in inactive market	200	200
Total	<u>\$43,454</u>	<u>\$44,089</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) As of December 31, 2016 and 2015, the Company provided guarantee notes in the amount of \$100,000 as guarantees for loans, forward exchange agreements and a subsidy research project of Industrial Development Bureau Ministry of Economic Affairs.

(2) The Company entered into the financial guarantees to related parties as of December 31, 2016 and 2015; please refer to Table 2 for more details.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Categories of financial instruments

	As at	
	December 31, 2016	December 31, 2015
<u>Financial Assets</u>		
Loans and receivables:		
Cash and cash equivalents (excludes cash on hand)	\$1,505,867	\$1,402,466
Notes and accounts receivable	1,491,811	1,310,861
Other receivables	137,217	2,976
Bond investments in inactive market	200	200
Subtotal	3,135,095	2,716,503
Financial assets at fair value through profit or loss:		
Held for trading	22,308	-
Total	<u>\$3,157,403</u>	<u>\$2,716,503</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

	As at	
	December 31, 2016	December 31, 2015
<u>Financial Liabilities</u>		
Financial liabilities carried at amortized cost:		
Short-term loans	\$311,395	\$230,000
Short-term notes and bills payable	80,000	-
Notes and accounts payables	806,049	602,601
Other payables	154,190	158,264
Subtotal	1,351,634	990,865
Financial liabilities at fair value through profit or loss:		
Held for trading	5,722	55
Total	\$1,357,356	\$990,920

(2) Financial risk management objectives and policies

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

The Company 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 Company 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Company 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 Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company'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 years ended December 31, 2016 and 2015 is decreased /increased by \$16,707 and \$17,924 respectively; and no impact on the equity.
- b. When NTD strengthens/weakens against VND by 1%, the profit for the years ended December 31, 2016 and 2015 is decreased/increased by \$14,598 and \$13,887, respectively; and no impact on the equity.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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 Company's exposure to the risk of changes in market interest rates relates primarily to Company'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 had no impact on the profit for the years ended December 31, 2016 and 2015.

(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 Company is exposed to credit risk from operating activities (primarily for trade receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Company'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 Company'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 December 31, 2016 and 2015, amounts receivables from top ten customers represented 82.58% and 85.36% of the total trade receivables of the Company, 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 Company's treasury in accordance with the Company's policy. The Company 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 counterparties.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(5) Liquidity risk management

The Company'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 at December 31, 2016					
Short-term loans	\$311,395	\$-	\$-	\$-	\$311,395
Short-term notes and bills payable	80,000	-	-	-	80,000
Payables	806,049	-	-	-	806,049
As at December 31, 2015					
Short-term loans	\$230,000	\$-	\$-	\$-	\$230,000
Payables	602,601	-	-	-	602,601

Derivative financial instruments

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As at December 31, 2016					
Inflow	\$22,308	\$-	\$-	\$-	\$22,308
Outflow	(5,722)	-	-	-	(5,722)
Net	<u>\$16,586</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$16,586</u>
As at December 31, 2015					
Inflow	\$-	\$-	\$-	\$-	\$-
Outflow	(55)	-	-	-	(55)
Net	<u>\$(55)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(55)</u>

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(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:

- 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 Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- 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).

- b. Fair value of financial instruments measured at amortized cost

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

- c. Fair value measurement hierarchy for financial instruments

Please refer to Note 12.(8) for fair value measurement hierarchy for financial instruments of the Company.

(7) Investment financial instruments

The related information for the Company's derivative financial instruments not qualified for hedge accounting and not yet settled as at December 31, 2016 and December 31, 2015 is as follows:

Foreign Exchange Swap and Cross Currency Swap

The Company entered into a foreign exchange swap and a cross currency swap to manage its exposure to financial risk, but these contracts are not designated as hedging instruments. The table below lists the related information:

Contract	Contract amount		Maturity
As at December 31, 2016			
Foreign Exchange Swap	Sell USD	17,000,000	2016.10.06-2017.03.09
Cross Currency Swap	Sell USD	5,000,000	2016.11.10-2017.01.18
As at December 31, 2015			
Forward Currency Contracts	Sell USD	1,000,000	2015.09.25-2016.03.28

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

(8) Fair value measurement hierarchy

(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 Company 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 Company's assets and liabilities

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

As at December 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				
Foreign exchange swap and cross currency swap	\$-	\$22,308	\$-	\$22,308
Financial liabilities:				
Financial assets at fair value through profit or loss				
Foreign exchange swap and cross currency swap	-	5,722	-	5,722

As at 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

(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.

As at December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property (Note 6. (6))	\$-	\$-	\$71,052	\$71,052

As at December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment property (Note 6. (6))	\$-	\$-	\$-	\$-

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(9) Significant assets and liabilities denominated in foreign currencies

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

	Unit: Thousands					
	December 31, 2016			December 31, 2015		
	Foreign	Exchange		Foreign	Exchange	
	Currency	rate	NTD	Currency	rate	NTD
<u>Financial assets</u>						
<u>Monetary item:</u>						
USD	\$88,121	32.279	\$2,844,467	\$80,532	33.066	\$2,662,875
Investment using						
<u>the equity method</u>						
VND	1,235,094,636	0.001424	1,758,775	1,174,937,795	0.001424	1,673,111
<u>Financial liabilities</u>						
<u>Monetary item:</u>						
USD	25,763	32.279	831,600	15,223	33.066	503,370

Due to the large number of functional currencies used in the Company, it's impossible to disclose foreign exchange gains and losses on the basis of each monetary item which has significant impact. The Company recognized \$(52,028) and \$99,425 for foreign exchange (losses) gains for the years ended December 31, 2016 and 2015, respectively.

(10) Capital management

The primary objective of the Company'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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

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

13. ADDITIONAL DISCLOSURES

(1) Information at significant transactions

- (a) Financing provided: Table 1 on page 94.
- (b) Endorsement/guarantee provided: Table 2 on page 95.
- (c) Marketable securities held: none.
- (d) Marketable securities acquired or disposed of that cost or amounted to at least \$300 million or 20% of the paid-in capital: none.
- (e) Acquisition of individual real estate that cost at least \$300 million or 20% of the paid-in capital: none.
- (f) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital: none.
- (g) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 3 on page 96 to 97.
- (h) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 4 on page 98.
- (i) Information about derivatives of investees over which the Company has a controlling interest: refer to 12(7).
- (j) Inter-company relationships and significant intercompany transactions: refer to Table 3 on page 96 to 97.

(2) Information on investees

- (a) Names, locations, and related information of investees on which the Company exercises significant influence: refer to Table 5 on pages 99.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- (b) Financing provided: none.
- (c) Endorsement/guarantee provided: none.
- (d) Marketable securities held: refer to Table 6 on page 100.
- (e) Marketable securities acquired or disposed of that cost or amounted to at least \$300 million or 20% of the paid-in capital: none.
- (f) Acquisition of individual real estate that cost at least \$300 million or 20% of the paid-in capital: none.
- (g) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital: none.
- (h) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 3 on page 96 to 97.
- (i) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 7 on page 100.
- (j) Information about derivatives of investees over which the Company has a controlling interest: refer to 12(7).
- (k) Inter-company relationships and significant intercompany transactions: refer to Table 3 on page 96 to 97.

(3) 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 8 on page 101.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

FINANCING PROVIDED

FOR THE YEAR ENDED DECEMBER 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 financin g	Amount of sales to (purchases from) counter-party	Reason for financing	Allowan ce 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	\$322,790 (USD10,000,000)	\$-	\$-	None	Note 4	-	For operation needs	-	-	-	\$910,564	\$1,821,128

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

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

Note 4: For short-term financing.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE 2

Note1	Endorser/ Guarantor	Company name	Relationship (Note 2)	Limit of guarantee/ endorsement amount for receiving party (Note 3)	Maximum balance for the period	Ending balance	Actual amount provided	Amount of collateral guarantee/ endorsement	Ratio of Accumulated Amount of Guarantee Provided to Net Equity of the Latest Financial Statements	Guaranty Limited Amount (Note 4)	Parent company to subsidiary	Subsidiary to parent company	To Mainland China
0	Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	(2)	\$1,365,846	\$1,049,068 (USD32,500,000)	\$823,115 (USD25,500,000)	\$-	\$-	18.08%	\$1,821,128	Yes	No	No
0	Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	(4)	\$1,365,846	\$16,140 (USD500,000)	\$-	\$-	\$-	-%	\$1,821,128	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 conjunctly invests with other shareholders, and for which ZENG HSING INDUSTRIAL CO., LTD has provided endorsement/guarantee in proportion to its shareholding percentage.

Note 3: The amount of guarantees/endorsements shall not exceed 30% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of December 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 December 31, 2016.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to 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 PERCENT OF CAPITAL STOCK
FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE 3

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	
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$1,296,897	23.13%	There is no difference with other clients	Regular	Regular	Account receivable \$298,017 (RMB62,115,572)	4.78%	-
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	1	Purchases	\$1,296,897	23.13%	There is no difference with other clients	Regular	Regular	Account payable \$(298,017)	(4.78%)	-
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	1	Sales (Note 1)	\$194,114	3.46%	There is no difference with other clients	Regular	Regular	Account receivable \$60,258	0.97%	-
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	2	Purchases	\$194,114	3.46%	There is no difference with other clients	Regular	Regular	Account payable \$(60,258) (RMB12,909,455)	(0.97%)	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$2,869,272	51.13%	There is no difference with other clients	Regular	Regular	Account receivable \$337,924 (VND231,786,982,730)	5.42%	-
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Purchase	\$2,869,272	51.13%	There is no difference with other clients	Regular	Regular	Account payable \$(337,924)	(5.42%)	-

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Company Name	Counter Party	Nature of Relationship (Note 1)	Transactions				Details of non-arm's length transaction		Notes and accounts receivable (payable)		Note
			Purchases (Sales)	Amount	% to Total	Term	Unit price	Term	Balance	% to Total	
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Sales (Note 2)	\$206,287	3.68%	There is no difference with other clients	Regular	Regular	Account receivable \$86,185	1.38%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Purchases	\$206,287	3.68%	There is no difference with other clients	Regular	Regular	Account payable \$(86,185) (VND60,901,546,209)	(1.38%)	-
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd.	3	Sales	\$165,914	2.96%	There is no difference with other clients	Regular	Regular	Account receivable \$18,274 (RMB3,934,272)	0.29%	-
Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	3	Purchases	\$165,914	2.96%	There is no difference with other clients	Regular	Regular	Account payable \$(18,274) (RMB3,934,272)	(0.29%)	-
Zhangjiagang Zenghsing Trading CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	3	Sales	\$170,462	3.04%	There is no difference with other clients	Regular	Regular	Account receivable \$24,512 (RMB5,277,330)	0.39%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zhangjiagang Zenghsing Trading CO., Ltd.	3	Purchases	\$170,462	3.04%	There is no difference with other clients	Regular	Regular	Account payable \$(24,512) (VND17,224,377,785)	(0.39%)	-

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.

Note 2: The Company reported the net sales of triangle trade and recognized commission of \$11,384 for the year ended December 31, 2016.

Note 3: The Company reported the net sales of triangle trade and recognized commission of \$11,518 for the year ended December 31, 2016.

ZENG HSING INDUSTRIAL CO., LTD.
Notes to 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 YEAR ENDED DECEMBER 31, 2016

TABLE 4

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.	Zeng Hsing Industrial Co.,Ltd. (BVI)	Subsidiary	Accounts Receivable \$125,615	-	\$-	-	\$125,615	\$-	Dividend receivable

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE 5

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as at December 31, 2016			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				December 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%	\$20,347	\$(5,404)	\$(5,404)	
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	547,316 (USD16,573,452)	453,423 (USD13,673,452)	16,573	100%	890,909	104,086	104,086	Note 1
Zeng Hsing Industrial CO., Ltd. (BVI)	Arcoris Pte Ltd.	30 Cecil Street #10-05 Prudential Tower Singapore (049712)	Holding company	125,273 (USD3,900,000)	24,769 (USD800,000)	3,900,000	100%	104,070	(21,586)	(21,586)	
Arcoris Pte Ltd.	Zorca Worldwide Ltd. (BVI)	Marcy Building,2nd Floor,Purcell Estate,P.O.Box 2416,Road Town,Tortola,British Virgin Islands	Holding company	77,534 (USD2,400,000)	-	2,400,000	100%	56,901	(20,633)	(20,633)	
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	Bing Doung, Vietnam	Manufacturing household sewing machines and sport equipment	1,049,554 (USD35,000,000)	1,049,554 (USD35,000,000)	-	100%	1,443,359	VND107,739,193,135	153,420	
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%	314,608	VND10,687,827,258	15,219	
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%	37,365	15,407	8,166	

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE 6

Securities Held By	Type and name of securities	Relationship with the Company	Financial Statement Account	December 31, 2016			
				Shares/Units	Carrying Value	Ownership Percentage	Market Value or Net Asset Value
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.

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

TABLE 7

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 \$337,924 (VND 231,786,982,730)	11.96	\$-	-	\$337,924 (VND231,786,982,730)	\$-	accounts receivable-customers
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	Subsidiary	Accounts Receivable \$298,017 (RMB 62,115,572)	4.35	\$-	-	\$298,017 (RMB 62,115,572)	\$-	accounts receivable-customers

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE 8

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as at January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as at December 31, 2016	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as at December 31, 2016	Accumulated Inward Remittance of Earnings as at December 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%	\$110,897	\$684,191	\$177,691 (USD5,525,351)
Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd.	Manufacturing and selling household sewing machines, vacuum cleaners and spare parts	USD500,000	direct investments through Zeng Hsing (BVI)	\$14,931 (USD500,000)	-	-	\$14,931 (USD500,000)	100%	\$22,910	\$101,654	\$-
Zhangjiagang Zenghsing Trading CO., Ltd.	Selling household sewing machines and spare parts.	RMB1,000,000	Indirect investments through Zeng Hsing (BVI)	\$-	-	-	\$-	100%	RMB2,310,000	RMB13,007,560	\$-

Accumulated investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$319,130 (USD9,603,039)	\$459,409(Note2) (USD13,848,355)	\$2,731,691

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 was over of the upper limit of investment.