

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE NINE-MONTH PERIODS ENDED
30 SEPTEMBER 2017 AND 2016

Notice to readers:

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

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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

English Translation of a Report Originally Issued in Chinese

To ZENG HSING INDUSTRIAL CO., LTD.

We have reviewed the accompanying consolidated balance sheets of Zeng Hsing Industrial Co., Ltd. and subsidiaries (the “Group”) as of 30 September 2017 and 2016, and the related consolidated statements of comprehensive income, for the three-month and nine-month periods ended 30 September 2017 and 2016, and consolidated statements of changes in equity and consolidated statements of cash flows for the nine-month periods ended 30 September 2017 and 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue the review report based on our reviews.

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

Certain investments were accounted for under the equity method based on the financial statements of the investees, which were not reviewed by the independent accountants. The assets of the investments amounted to NTD 190,573 thousand and NTD 200,098 thousand, which represented 3.04% and 3.20% of the total consolidated assets as of 30 September 2017, and 2016, respectively. The liabilities of the investments amounted to NTD 25,370 thousand and NTD 14,707 thousand, which represented 1.29% and 0.77% of the total consolidated liabilities as of 30 September 2017 and 2016, respectively. The related comprehensive income of the investments amounted to NTD 15,702 thousand, NTD (4,820) thousand, NTD 9,213 thousand and NTD 103 thousand, which represented 10.19%, (2.03)%, 3.14% and 0.02% of the consolidated comprehensive income for the three-month and nine-month periods ended 30 September 2017 and 2016, respectively. Our review, insofar as it related to the investments accounted for under the equity method amounting to NTD 57,088 thousand and NTD 61,469 thousand as of 30 September 2017 and 2016, respectively; and the related shares of investment income from the associates and joint ventures amounting to NTD (747) thousand, NTD (1,493) thousand, NTD (6,033) thousand and NTD (1,493) thousand for the three-month and nine-month periods ended 30 September 2017 and 2016, respectively; was recognized based upon the financial statements prepared by the investee companies not reviewed by the independent accountants in compliance with the review procedures described in the preceding paragraph. The information on Note (13) to the consolidated financial statements is not reviewed by the independent accountants.

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

Ernst & Young
Certified Public Accountants
13 November 2017
Taichung, Taiwan
Republic of China

Notice to Readers

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

30 September 2017, 31 December 2016 and 30 September 2016 (30 September 2017 and 2016 are unaudited)
(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	As of		
		30 September 2017	31 December 2016	30 September 2016
Current Assets				
Cash and cash equivalents	4, 6(1)	\$1,909,765	\$2,372,826	\$1,958,091
Financial assets at fair value through profit or loss, current	4, 12	8,277	22,308	139
Debt instrument investments with no active market, current	4	42,864	33,672	38,111
Accounts receivable, net	4, 6(2)	1,852,956	1,409,769	1,846,536
Other receivables		14,025	21,333	23,641
Inventories, net	4, 6(3)	572,920	461,371	469,240
Prepayment		21,680	23,607	29,548
Other current assets		57,496	83,009	68,256
Total Current Assets		<u>4,479,983</u>	<u>4,427,895</u>	<u>4,433,562</u>
Non-current assets				
Financial assets measured at cost, noncurrent		19,096	19,096	19,096
Debt instrument investments with no active market, noncurrent	8	200	200	200
Investments accounted for under the equity method	4	57,088	44,606	61,469
Property, plant and equipment	4, 6(4), 8	1,344,503	1,381,370	1,381,231
Investment property	4, 6(5), 8	70,129	71,052	71,359
Intangible assets	4, 6(6)	36,853	40,860	40,916
Deferred tax assets	4	60,053	37,811	41,115
Deposits-out		6,580	10,933	9,594
Other long-term investments		4,485	4,485	4,485
Other non-current assets	4, 6(7)	185,759	205,460	197,852
Total non-current assets		<u>1,784,746</u>	<u>1,815,873</u>	<u>1,827,317</u>
Total assets		<u>\$6,264,729</u>	<u>\$6,243,768</u>	<u>\$6,260,879</u>

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

(continued)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

30 September 2017, 31 December 2016 and 30 September 2016 (30 September 2017 and 2016 are unaudited)
(Expressed in Thousands of New Taiwan Dollars)

Liabilities and Equity	Notes	As of		
		30 September 2017	31 December 2016	30 September 2016
Current liabilities				
Short-term loans	4, 6(8)	\$465,959	\$311,395	\$436,895
Short-term notes and bills payable	4, 6(9)	230,000	80,000	180,000
Financial liabilities at fair value through profit or loss, current	4, 12	150	5,722	11,235
Notes payable		15,400	26,061	18,524
Accounts payable		733,352	622,640	730,941
Other payables		202,906	241,176	188,237
Current tax liabilities	4	102,184	120,986	93,902
Other current liabilities		27,129	40,218	26,072
Total current liabilities		<u>1,777,080</u>	<u>1,448,198</u>	<u>1,685,806</u>
Non-current liabilities				
Deferred tax liabilities	4	131,032	143,867	164,288
Accrued pension liabilities	4	59,768	66,437	67,002
Deposits-in		360	360	359
Total non-current liabilities		<u>191,160</u>	<u>210,664</u>	<u>231,649</u>
Total liabilities		<u>1,968,240</u>	<u>1,658,862</u>	<u>1,917,455</u>
Equity attributable to the parent company				
Capital				
Common stock	4, 6(11)	605,526	605,526	605,526
Additional paid-in capital				
Capital Surplus-Additional Paid-In Capital		1,308,533	1,308,533	1,308,533
Capital Surplus-Donated Assets Received		314	314	314
Capital Surplus-Other		78,498	78,498	78,498
Total Additional paid-in capital		<u>1,387,345</u>	<u>1,387,345</u>	<u>1,387,345</u>
Retained earnings				
Legal reserve		730,563	645,420	645,420
Special reserve		45,286	-	-
Retained earnings		1,651,840	1,961,977	1,714,734
Total Retained earnings		<u>2,427,689</u>	<u>2,607,397</u>	<u>2,360,154</u>
Other components of equity				
Exchange differences on translation of foreign operations		(157,887)	(45,286)	(37,145)
Treasury stock		(2,163)	(2,163)	(2,163)
Non-controlling interests	6(12)	35,979	32,087	29,707
Total equity		<u>4,296,489</u>	<u>4,584,906</u>	<u>4,343,424</u>
Total liabilities and equity		<u>\$6,264,729</u>	<u>\$6,243,768</u>	<u>\$6,260,879</u>

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three-month and nine-month periods ended 30 September 2017 and 2016
(Reviewed, Not Audited)
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	Notes	For the three-month periods ended 30 September		For the nine-month periods ended 30 September	
		2017	2016	2017	2016
Net Sales	6(13)	\$1,779,076	\$1,848,005	\$4,440,404	\$4,670,743
Cost of Sales	6(15)	(1,306,751)	(1,330,729)	(3,291,207)	(3,370,449)
Gross Profit		472,325	517,276	1,149,197	1,300,294
Operating Expenses	6(15)				
Selling and marketing		(54,086)	(26,827)	(124,977)	(103,764)
Management and administrative		(87,721)	(76,317)	(272,046)	(247,149)
Research and development		(29,125)	(28,122)	(88,198)	(84,129)
Total Operating Expenses		(170,932)	(131,266)	(485,221)	(435,042)
Operating Income		301,393	386,010	663,976	865,252
Non-operating income and expenses	6(16)				
Other revenue		15,372	21,011	56,064	70,257
Other gain and loss		(18,372)	(74,701)	(174,046)	(118,805)
Financial costs		(2,355)	(1,521)	(5,430)	(3,170)
Share of profit or loss of associates and joint ventures		(747)	(1,493)	(6,033)	(1,493)
Subtotal		(6,102)	(56,704)	(129,445)	(53,211)
Income from continuing operations before income tax		295,291	329,306	534,531	812,041
Income tax expense	6(18)	(57,776)	(70,996)	(128,660)	(204,057)
Income from Continuing Operations, Net of Tax		237,515	258,310	405,871	607,984
Other comprehensive income	6(17)				
Exchange differences on translation of foreign operations		(100,591)	(25,687)	(135,664)	(67,589)
Income tax related to components of other comprehensive income		17,101	4,367	23,063	11,490
Total other comprehensive income, net of tax		(83,490)	(21,320)	(112,601)	(56,099)
Total comprehensive income		\$154,025	\$236,990	\$293,270	\$551,885
Net income attributable to:					
Stockholders of the parent		\$229,498	\$257,745	\$395,380	\$603,123
Non-controlling interests		8,017	565	10,491	4,861
		\$237,515	\$258,310	\$405,871	\$607,984
Comprehensive income attributable to:					
Stockholder of the parent		\$146,008	\$236,425	\$282,779	\$547,024
Non-controlling interests		8,017	565	10,491	4,861
		\$154,025	\$236,990	\$293,270	\$551,885
Earnings per share (NTD)	6(19)				
Earnings per share-basic		\$3.79	\$4.26	\$6.53	\$9.96
Earnings per share-diluted		\$3.79	\$4.25	\$6.51	\$9.94

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine-month periods ended 30 September 2017 and 2016
(Reviewed, Not Audited)
(Expressed in Thousands of New Taiwan Dollars)

	Notes	Common Stock	Additional Paid-in Capital	Legal Reserve	Special reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Treasury stock	Total	Non- Controlling Interests	Total Equity
Balance as of 1 January 2016	6(11)	\$605,526	\$1,387,345	\$559,523	\$ -	\$1,772,596	\$18,954	\$(2,163)	\$4,341,781	\$33,400	\$4,375,181
Appropriations of earnings, 2015:											
Legal reserve				85,897		(85,897)			-		-
Cash dividends						(575,088)			(575,088)		(575,088)
Net income for the nine-month periods ended 30 September 2016						603,123			603,123	4,861	607,984
Other comprehensive income, net of tax for the nine-month periods ended 30 September 2016							(56,099)		(56,099)		(56,099)
Total comprehensive income		-	-	-	-	603,123	(56,099)	-	547,024	4,861	551,885
Cash dividends of subsidiary	6(12)								-	(8,554)	(8,554)
Balance as of 30 September 2016	6(11)	\$605,526	\$1,387,345	\$645,420	\$ -	\$1,714,734	\$(37,145)	\$(2,163)	\$4,313,717	\$29,707	\$4,343,424
Balance as of 1 January 2017	6(11)	\$605,526	\$1,387,345	\$645,420	\$ -	\$1,961,977	\$(45,286)	\$(2,163)	\$4,552,819	\$32,087	\$4,584,906
Appropriations of earnings, 2016:											
Legal reserve				85,143		(85,143)			-		-
Special reserve					45,286	(45,286)			-		-
Cash dividends						(575,088)			(575,088)		(575,088)
Net income for the nine-month periods ended 30 September 2017						395,380			395,380	10,491	405,871
Other comprehensive income, net of tax for the nine-month periods ended 30 September 2017							(112,601)		(112,601)		(112,601)
Total comprehensive income		-	-	-	-	395,380	(112,601)	-	282,779	10,491	293,270
Cash dividends of subsidiary	6(12)								-	(6,599)	(6,599)
Balance as of 30 September 2017	6(11)	\$605,526	\$1,387,345	\$730,563	\$45,286	\$1,651,840	\$(157,887)	\$(2,163)	\$4,260,510	\$35,979	\$4,296,489

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine-month periods ended 30 September 2017 and 2016
(Reviewed, Not Audited)
(Expressed in Thousand New Taiwan Dollars)

Cash flows from operating activities:	Notes	For the nine-month periods ended 30 September,	
		2017	2016
Net income before tax		\$534,531	\$812,041
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation		138,552	143,415
Amortization		38,355	37,533
Loss on disposal of property, plant and equipment		828	5,944
Net loss of financial assets at fair value through profit or loss		31,434	17,885
Loss (gain) from market value decline, obsolete and slow-moving of inventories		5,886	(2,327)
Share of profit or loss of associates and joint ventures		6,033	1,493
Loss provision (gain reversal) for doubtful accounts		11,828	(559)
Interest revenue		(14,141)	(10,785)
Interest expense		5,430	3,170
Changes in operating assets and liabilities:			
Increase in financial assets at fair value through profit or loss		(22,975)	(6,844)
Increase in accounts receivable		(455,015)	(593,495)
(Increase) decrease in inventories, net		(117,435)	2,124
Decrease in other receivables		7,308	6,011
Decrease (increase) in prepayments		1,927	(5,739)
Decrease in other current assets		25,513	14,767
Increase in other non-current assets		(55,847)	(32,798)
Decrease in notes payable		(10,661)	(9,856)
Increase in accounts payable		110,712	108,001
Decrease in other payables		(38,270)	(39,905)
Decrease in other current liabilities		(13,089)	(1,622)
Decrease in accrued pension liabilities		(6,669)	(7,252)
Cash generated from operations		184,235	441,202
Interest received		14,141	10,785
Income tax paid		(159,476)	(244,514)
Net cash provided by operating activities		38,900	207,473

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

(continued)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine-month periods ended 30 September 2017 and 2016
(Reviewed, Not Audited)
(Expressed in Thousand New Taiwan Dollars)

	Notes	For the nine-month periods ended 30 September,	
		2017	2016
Cash flows from investing activities:			
(Acquisition) disposal of debt instrument investments with no active market, current		(9,192)	31,728
Acquisition of property, plant and equipment		(136,388)	(120,389)
Acquisition of investment property		-	(71,871)
Increase in investments accounted for under the equity method		(18,515)	(62,962)
Proceeds from disposal of property, plant and equipment		1,069	12,733
Decrease (increase) in deposits-out		4,353	(206)
Acquisition in intangible assets		(8,093)	(14,479)
Net cash used in investing activities		(166,766)	(225,446)
Cash flows from financing activities:			
Increase in short-term loans		1,938,252	2,106,083
Decrease in short-term loans		(1,782,781)	(1,899,188)
Increase in short-term notes and bills payable		1,580,000	1,355,000
Decrease in short-term notes and bills payable		(1,430,000)	(1,175,000)
Increase in deposits-in		-	359
Cash dividends		(575,088)	(575,088)
Interest paid		(5,430)	(3,170)
Cash dividends of subsidiary		(6,599)	(8,554)
Net cash used in financing activities		(281,646)	(199,558)
Effect of exchange rate changes on cash and cash equivalents		(53,549)	(52,497)
Net decrease in cash and cash equivalents		(463,061)	(270,028)
Cash and cash equivalents at beginning of period		2,372,826	2,228,119
Cash and cash equivalents at end of period	6(1)	\$1,909,765	\$1,958,091

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Nine-Month Periods Ended 30 September 2017 and 2016
(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 28 December 2007. On 23 December 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 consolidated financial statements of the Company and subsidiaries (hereinafter referred to as “the Group”) for the nine-month periods ended 30 September 2017 and 2016 were authorized for issue in accordance with the resolution of the board of directors’ meeting held on 13 November 2017.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

- (1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2017. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

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.

- (2) Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Group at the date of issuance of the Group’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 recognises 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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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).

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. Consequential amendments on the related disclosures also become effective for annual periods beginning on or after 1 January 2018.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(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.

(d) *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.

(e) *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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(f) *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.

(g) *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 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 recognised 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 derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(h) *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).

(i) *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.

(j) *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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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 organisation, 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.

(k) *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 recognises 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.

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Notes to Consolidated Financial Statements (Continued)

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The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2018. Apart from the potential impact of the standards and interpretations listed under (a), (b), (e), and (f) which is described below, all other standards and interpretations have no material impact on the Group:

- (a) IFRS 15 “Revenue from Contracts with Customers” and IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15

The new standard has no material impact on the recognition of revenue from contracts with customers for the Group, however more extensive disclosure would have to be made.

- (b) IFRS 9 “Financial Instruments”

The Group elects not to restate prior periods in accordance with the requirements of IFRS 9 at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Group:

A. Classification and measurement of financial assets

Impairment of financial assets

This is applicable to financial assets not measured at fair value through profit or loss. In accordance with the requirements of IFRS 9, a loss allowance for debt instruments is measured using the expected credit loss model, whereas trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 is measured using the simplified approach (provision matrix); and no assessment of impairment on equity instrument is required. The aforementioned requirements on impairment is different from the current incurred loss model and the final impact is yet to be determined.

B. Others

Consequential amendments on the related disclosures in IFRS 9 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

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Notes to Consolidated Financial Statements (Continued)

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

- (c) Disclosure Initiative — Amendment to IAS 7 “Statement of Cash Flows”
Additional disclosure of a reconciliation of the carrying amount of liabilities arising from financing activities at the beginning and end of the period would be required.
- (3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group’s financial statements are listed below.
- (a) *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.
- (b) *IFRIC 23 “Uncertainty Over Income Tax Treatments”*
The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019.
- (c) *IFRS 17 “Insurance Contracts”*
IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:
- (1) estimates of future cash flows;
 - (2) discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
 - (3) a risk adjustment for non-financial risk.

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Notes to Consolidated Financial Statements (Continued)

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

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts. IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

(d) *IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

(e) *IFRS 9 “Financial Instruments” — Amendments to IFRS 9*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The consolidated financial statements of the Group for the nine-month periods ended 30 September 2017 and 2016 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 Interim Financial Reporting as endorsed and became effective by the FSC.

(2) Basis of Preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The consolidated entities are as follows:

Investor	Subsidiary	Business nature	Percentage of ownership (%) as of		
			30 September 2017	31 December 2016	30 September 2016
the Company	Shinco Worldwide Ltd. (BVI) [Shinco (BVI)]	Selling household sewing machines and spare parts	100.00%	100.00%	100.00%
the Company	Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Trading and holding Group	100.00%	100.00%	100.00%
the Company	Zeng Hsing Industrial Co., Ltd. (VN) [Zeng Hsing (VN)]	Manufacturing household sewing machines	100.00%	100.00%	100.00%
the Company	Shinco Technologies Limited (VN) [Shinco (VN)]	Material die-casting of metal of aluminum, zinc and magnesium alloy	100.00%	100.00%	100.00%
the Company	Mitsumichi Industrial Co. Ltd [Mitsumichi]	Manufacturing household sewing machines	53.00%	53.00%	53.00%
Zeng Hsing Industrial Co., Ltd.(BVI) [Zeng Hsing (BVI)]	Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd. [Zhangjiagang]	Manufacturing household sewing machines	100.00%	100.00%	100.00%
Zeng Hsing Industrial Co., Ltd.(BVI) [Zeng Hsing (BVI)]	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. [Cheau Hsing]	Selling household sewing machines and spare parts.	100.00%	100.00%	100.00%
Zeng Hsing Industrial Co., Ltd.(BVI) [Zeng Hsing (BVI)]	Arcoris Pte Ltd.	Holding company	100.00%	100.00%	100.00%
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd. [Zhangjiagang]	Zhangjiagang Zenghsing Trading Co.,Ltd. [Zhangjiagang trading]	Selling household sewing machines and spare parts	100.00%	100.00%	100.00%

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Certain investments were accounted for under the equity method base on the financial statements of investees, which were not reviewed by the independent accountants. The assets of the investments amounted to \$190,573 and \$200,098 of the total consolidated assets as of 30 September 2017 and 2016, respectively. The liabilities of the investments amounted to \$25,370 and \$14,707 of the total consolidated liabilities as of 30 September 2017 and 2016, respectively. The related comprehensive income of the investments amounted to \$15,702, \$(4,820), \$9,213 and \$103 of the consolidated comprehensive income for the three-month and nine-month periods ended 30 September 2017 and 2016, respectively.

(4) Foreign Currency Transactions

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

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

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

- a. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- 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.
- 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.

(5) Translation of foreign currency financial statements

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

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

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Notes to Consolidated Financial Statements (Continued)

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

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

(6) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as a current when:

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

All other liabilities are classified as non-current.

(7) Cash and 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(8) Financial Instruments

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

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

(a) Financial assets

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

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments and loans and receivables. The Group 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 Consolidated 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.

Loans and receivables

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

Loans and receivables are separately presented on the balance sheet as receivables or 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.

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Notes to Consolidated Financial Statements (Continued)

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Impairment of financial assets

The Group 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.

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 reorganization
- 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 Group 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 Group 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.

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Notes to Consolidated Financial Statements (Continued)

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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.

Derecognition of financial assets

A financial asset is derecognized when:

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

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

(b) Financial liabilities and equity

Classification between liabilities or equity

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

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.

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Notes to Consolidated Financial Statements (Continued)

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Compound instruments

The Group evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Group 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 Consolidated Financial Statements (Continued)

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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. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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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 carried at amortized cost

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

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

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.

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Notes to Consolidated Financial Statements (Continued)

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(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.

(9) Derivative financial instruments

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

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

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

(10) Fair value measurement

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

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Notes to Consolidated Financial Statements (Continued)

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

- (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 Group.

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

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

The Group 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.

(11) 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.

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(12) Investments accounted for under the equity method

The Group'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 Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

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

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate or joint venture, the Group 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 or joint venture on a pro-rata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in additional paid in capital and investment accounted for using the equity method. When the interest in the associate or joint venture 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 Group disposes of the associate or joint venture.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 39 Financial Instruments: Recognition and Measurement. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture 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 Group estimates:

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, 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 or an investment in a joint venture 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 or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

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(13) Property, plant and equipment

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

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

Items	Useful Lives
Buildings and facilities	20~50 years
Machinery and equipment	5~17 years
Tooling equipment	2~ 4 years
Transportation equipment	5~10 years
Furniture, fixtures and equipment	3~11 years
Miscellaneous equipment	3~15 years
Leasehold improvements	The shorter of lease terms or economic useful lives

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

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

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(14) 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.

(15) Leases

Group as a lessee

Finance leases which transfer to the Group 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.

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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.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(16) 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, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is 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 asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial 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 are treated as changes in accounting estimates.

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

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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 Group's intangible assets is summarized as follows:

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

(17) Impairment of non-financial assets

The Group 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 Group 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 Group 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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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.

(18) Provisions

Provisions are recognized when the Group 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 Group 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.

(19) Treasury shares

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.

(20) Revenue recognition

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

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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 Group's right to receive the payment is established.

(21) 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.

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(22) Post-employment benefits

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

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

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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.

(23) 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 tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, 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 in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

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

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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- i. Where 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
- ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where 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 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:

- i. 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
- ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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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 deferred tax 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.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group'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.

(1) Judgement

In the process of applying the Group'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 Group 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 Group accounts for the portions separately as investment properties and property, plant and equipment.

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(b) Operating lease commitment—Group as the lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group 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 Group 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. Please refer to Note 6 for more details.

(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.

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(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.

(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 Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective subsidiaries' domicile.

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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 of		
	30 September 2017	31 December 2016	30 September 2016
Cash on hand	\$406	\$285	\$540
Checking and savings accounts	1,704,052	2,059,770	1,746,876
Time deposits	205,307	312,771	210,675
Total	<u>\$1,909,765</u>	<u>\$2,372,826</u>	<u>\$1,958,091</u>

(2) ACCOUNTS RECEIVABLE, NET

	As of		
	30 September 2017	31 December 2016	30 September 2016
Accounts receivable - non related parties	\$1,874,921	\$1,419,906	\$1,862,518
Less: Allowance for doubtful accounts	<u>(21,965)</u>	<u>(10,137)</u>	<u>(15,982)</u>
Accounts receivable, net	<u>\$1,852,956</u>	<u>\$1,409,769</u>	<u>\$1,846,536</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):

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	Individually impaired	Collectively impaired	Total
As of 1 January 2017	\$-	\$10,137	\$10,137
Charge for the current period	-	11,828	11,828
As of 30 September 2017	<u>\$-</u>	<u>\$21,965</u>	<u>\$21,965</u>
As of 1 January 2016	\$-	\$16,541	\$16,541
Reversal for the current period	-	(559)	(559)
As of 30 September 2016	<u>\$-</u>	<u>\$15,982</u>	<u>\$15,982</u>

Ageing analysis of trade receivables 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	
30 September 2017	\$1,323,369	\$270,897	\$258,681	\$9	\$-	\$1,852,956
31 December 2016	1,100,430	260,635	47,759	945	-	1,409,769
30 September 2016	1,518,403	251,801	75,533	741	58	1,846,536

No accounts receivables were pledged.

(3) Inventories, net

a. Details as follows

	As of		
	30 September 2017	31 December 2016	30 September 2016
Raw materials	\$216,996	\$250,042	\$223,734
Work in progress	26,136	7,348	29,597
Semi-manufactured goods	29,085	18,325	25,963
Finished goods	300,703	185,656	189,946
Total	<u>\$572,920</u>	<u>\$461,371</u>	<u>\$469,240</u>

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- b. For the three-month periods ended 30 September 2017 and 2016, the Group recognized \$1,306,751 and \$1,330,729, respectively, in operating cost, of which \$4,125 was related to loss recognized and \$510 of gains, respectively, as a result of the net realized value recovery of inventory being lower than its cost. For the nine-month periods ended 30 September 2017 and 2016, the Group recognized \$3,291,207 and \$3,370,449, respectively, in operating cost, of which \$5,886 was related to loss recognized and \$2,327 of gains, respectively, as a result of the net realized value of inventory being lower than its cost.
- c. For the three-month and the nine-month periods ended 30 September 2016, because the factors that caused the net realizable value of inventory to be lower than its cost no longer existed, the Group recognized gains from price recovery of inventories.
- d. No inventories were pledged.

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

(4) Property, plant and equipment

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Leasehold improvements	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of 1 January 2017	\$21,075	\$754,034	\$866,263	\$249,567	\$32,318	\$27,209	\$3,280	\$333,041	\$40,514	\$2,327,301
Additions	-	-	46,504	40,574	1,610	420	-	6,910	40,370	136,388
Disposals	-	-	(6,077)	(16,371)	(2,634)	(12)	-	(975)	-	(26,069)
Transfers	-	-	36,249	25,997	52	203	-	425	(24,402)	38,524
Exchange differences	-	(33,422)	(44,943)	(9,893)	(1,404)	(1,149)	-	(15,048)	(2,556)	(108,415)
As of 30 September 2017	<u>\$21,075</u>	<u>\$720,612</u>	<u>\$897,996</u>	<u>\$289,874</u>	<u>\$29,942</u>	<u>\$26,671</u>	<u>\$3,280</u>	<u>\$324,353</u>	<u>\$53,926</u>	<u>\$2,367,729</u>
As of 1 January 2016	\$21,075	\$758,621	\$786,142	\$326,124	\$48,569	\$23,988	\$3,280	\$341,006	\$24,722	\$2,333,527
Additions	-	5,671	9,356	25,639	778	1,364	-	15,222	62,359	120,389
Disposals	-	-	(20,281)	(100,716)	(491)	(14)	-	(4,911)	-	(126,413)
Transfers	-	4,140	91,102	2,163	(17,037)	334	-	(18,602)	(46,716)	15,384
Exchange differences	-	(12,541)	(15,223)	(9,932)	(693)	(11)	-	(4,082)	(12)	(42,494)
As of 30 September 2016	<u>\$21,075</u>	<u>\$755,891</u>	<u>\$851,096</u>	<u>\$243,278</u>	<u>\$31,126</u>	<u>\$25,661</u>	<u>\$3,280</u>	<u>\$328,633</u>	<u>\$40,353</u>	<u>\$2,300,393</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Leasehold improvements	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:										
As of 1 January 2017	\$-	\$197,739	\$404,198	\$184,564	\$16,132	\$14,536	\$2,937	\$125,825	\$-	\$945,931
Depreciation	-	18,767	59,898	34,278	2,498	2,696	343	19,149	-	137,629
Disposals	-	-	(5,068)	(15,856)	(2,371)	(10)	-	(867)	-	(24,172)
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange differences	-	(5,258)	(18,928)	(7,169)	(621)	(493)	-	(3,693)	-	(36,162)
As of 30 September 2017	<u>\$-</u>	<u>\$211,248</u>	<u>\$440,100</u>	<u>\$195,817</u>	<u>\$15,638</u>	<u>\$16,729</u>	<u>\$3,280</u>	<u>\$140,414</u>	<u>\$-</u>	<u>\$1,023,226</u>
As of 1 January 2016	\$-	\$179,069	\$356,346	\$243,308	\$17,123	\$11,226	\$2,250	\$103,561	\$-	\$912,883
Depreciation	-	19,750	58,823	40,258	2,135	2,459	515	18,963	-	142,903
Disposals	-	-	(8,918)	(93,894)	(491)	(13)	-	(4,420)	-	(107,736)
Transfers	-	131	470	(6,066)	(1,319)	1	-	6,783	-	-
Exchange differences	-	(6,736)	(10,810)	(7,697)	(594)	(7)	-	(3,044)	-	(28,888)
As of 30 September 2017	<u>\$-</u>	<u>\$192,214</u>	<u>\$395,911</u>	<u>\$175,909</u>	<u>\$16,854</u>	<u>\$13,666</u>	<u>\$2,765</u>	<u>\$121,843</u>	<u>\$-</u>	<u>\$919,162</u>
Net carrying amount as of:										
30 September 2017	<u>\$21,075</u>	<u>\$509,364</u>	<u>\$457,896</u>	<u>\$94,057</u>	<u>\$14,304</u>	<u>\$9,942</u>	<u>\$-</u>	<u>\$183,939</u>	<u>\$53,926</u>	<u>\$1,344,503</u>
31 December 2016	<u>\$21,075</u>	<u>\$556,295</u>	<u>\$462,065</u>	<u>\$65,003</u>	<u>\$16,186</u>	<u>\$12,673</u>	<u>\$343</u>	<u>\$207,216</u>	<u>\$40,514</u>	<u>\$1,381,370</u>
30 September 2016	<u>\$21,075</u>	<u>\$563,677</u>	<u>\$455,185</u>	<u>\$67,369</u>	<u>\$14,272</u>	<u>\$11,995</u>	<u>\$515</u>	<u>\$206,790</u>	<u>\$40,353</u>	<u>\$1,381,231</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 purchase property, plant and equipment as of 30 September 2017, 31 December 2016 and 30 September 2016.

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

(5) Investment property

	Land	Buildings	Total
Cost:			
As of 1 January 2017	\$41,124	\$30,747	\$71,871
Additions	-	-	-
As of 30 September 2017	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
As of 1 January 2016	\$-	\$-	\$-
Additions	41,124	30,747	71,871
As of 30 September 2016	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
Depreciation and impairment:			
As of 1 January 2017	\$-	\$819	\$819
Depreciation	-	923	923
As of 30 September 2017	<u>\$-</u>	<u>\$1,742</u>	<u>\$1,742</u>
As of 1 January 2016	\$-	\$-	\$-
Depreciation	-	512	512
As of 30 September 2016	<u>\$-</u>	<u>\$512</u>	<u>\$512</u>
Net carrying amount:			
As of 30 September 2017	<u>\$41,124</u>	<u>\$29,005</u>	<u>\$70,129</u>
As of 31 December 2016	<u>\$41,124</u>	<u>\$29,928</u>	<u>\$71,052</u>
As of 30 September 2016	<u>\$41,124</u>	<u>\$30,235</u>	<u>\$71,359</u>

No investment property was pledged.

Investment properties held by the Group 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 of 30 September 2017. The fair value has been determined based on valuations performed by an independent valuer.

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

(6) Intangible assets

	Software	Patents	Trademarks	Goodwill	Others	Total
Cost:						
As of 1 January 2017	\$98,528	\$8,273	\$2,004	\$1,181	\$6,872	\$116,858
Addition-acquired separately	7,798	150	145	-	-	8,093
Transfers	1,400	-	-	-	-	1,400
Exchange differences	(319)	-	-	-	-	(319)
As of 30 September 2017	<u>\$107,407</u>	<u>\$8,423</u>	<u>\$2,149</u>	<u>\$1,181</u>	<u>\$6,872</u>	<u>\$126,032</u>
As of 1 January 2016	\$80,186	\$8,099	\$2,004	\$1,181	\$6,872	\$98,342
Addition-acquired separately	14,365	114	-	-	-	14,479
Disposals	-	-	-	-	-	-
Exchange differences	(142)	-	-	-	-	(142)
As of 30 September 2016	<u>\$94,409</u>	<u>\$8,213</u>	<u>\$2,004</u>	<u>\$1,181</u>	<u>\$6,872</u>	<u>\$112,679</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

	Software	Patents	Trademarks	Goodwill	Others	Total
Amortization and impairment:						
As of 1 January 2017	\$61,218	\$5,972	\$1,936	\$-	\$6,872	\$75,998
Amortization	13,222	155	22	-	-	13,399
Exchange differences	(218)	-	-	-	-	(218)
As of 30 September 2017	<u>\$74,222</u>	<u>\$6,127</u>	<u>\$1,958</u>	<u>\$-</u>	<u>\$6,872</u>	<u>\$89,179</u>
As of 1 January 2016	\$46,343	\$5,777	\$1,889	\$-	\$6,872	\$60,881
Amortization	10,807	145	38	-	-	10,990
Exchange differences	(108)	-	-	-	-	(108)
As of 30 September 2016	<u>\$57,042</u>	<u>\$5,922</u>	<u>\$1,927</u>	<u>\$-</u>	<u>\$6,872</u>	<u>\$71,763</u>
Net carrying amount as of:						
30 September 2017	<u>\$33,185</u>	<u>\$2,296</u>	<u>\$191</u>	<u>\$1,181</u>	<u>\$-</u>	<u>\$36,853</u>
31 December 2016	<u>\$37,310</u>	<u>\$2,301</u>	<u>\$68</u>	<u>\$1,181</u>	<u>\$-</u>	<u>\$40,860</u>
30 September 2016	<u>\$37,367</u>	<u>\$2,291</u>	<u>\$77</u>	<u>\$1,181</u>	<u>\$-</u>	<u>\$40,916</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Intangible asset amortization expenses are summarized as follows:

	For the three-month periods		For the nine-month periods	
	ended 30 September		ended 30 September	
	2017	2016	2017	2016
Operating cost	\$1,412	\$1,266	\$4,527	\$3,830
Selling and marketing	127	100	342	213
Management and administrative	2,424	2,063	7,001	5,665
Research and development	539	459	1,529	1,282
Total	\$4,502	\$3,888	\$13,399	\$10,990

(7) Other non-current assets

	As of		
	30 September	31 December	30 September
	2017	2016	2016
Long-term prepaid rent expenses	\$139,186	\$151,150	\$152,297
Prepayment for equipment	23,299	23,336	20,926
Others	23,274	30,974	24,629
Total	\$185,759	\$205,460	\$197,852

As of 30 September 2017, 31 December 2016 and 30 September 2016 all of long-term prepaid rent expenses were land use rights.

(8) Short-term borrowings

	As of		
	30 September	31 December	30 September
	2017	2016	2016
Unsecured bank loans	\$465,959	\$311,395	\$436,895

	As of		
	30 September	31 December	30 September
	2017	2016	2016
Interest rates	0.88%-1.98%	0.88%-1.21%	0.88%-1.18%

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The Group's unused short-term loans of credits amounted to \$341,563, \$394,558 and \$963,345 as of 30 September 2017, 31 December 2016 and 30 September 2016, respectively.

(9) Short-term notes and bills payable

Accounting title	Guarantee	As of		
		30 September 2017	31 December 2016	30 September 2016
Commercial paper payable	Ta Ching Bills Finance Corporation	\$80,000	\$80,000	\$80,000
	Mega Bills Finance Corporation	150,000	-	100,000
Less: discount on short-term notes and bills payable		-	-	-
Net short-term notes and bills payable		<u>\$230,000</u>	<u>\$80,000</u>	<u>\$180,000</u>

	As of		
	30 September 2017	31 December 2016	30 September 2016
Interest rates	0.56%-0.64%	0.56%	0.53%-0.54%

(10) Post-employment benefits

Defined contribution plan

Pension expenses under the defined contribution plan were \$2,973, \$2,564, \$8,526 and \$7,519 for the three-month and nine-month periods ended 30 September 2017 and 2016, respectively.

Defined benefits plan

Pension expenses under the defined benefits plan were \$661, \$704, \$1,982 and \$2,110 for the three-month and nine-month periods ended 30 September 2017 and 2016, respectively.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The Group recognized pension cost for high-ranking officers amounting to \$300, \$300, \$900 and \$900 for the three-month and nine-month periods ended 30 September 2017 and 2016, respectively.

(11) Equities

a. Share capital

As of 1 January 2016, the Company's authorized capital was \$850,000, divided into 85,000,000 shares with par value of \$10 (in dollar) each. The issued and outstanding capital stocks were \$605,526, divided into 60,552,631 shares with par value of \$10 (in dollar) each.

b. Capital surplus

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

c. Treasury Stock

(a) As of 30 September 2017, the Company's treasury stocks amounted to \$2,163, divided into 17,000 shares.

(b) The board meeting held on 28 August 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 29 August 2015 and 27 October 2015; the repurchase price will be between \$100 to \$150.

(c) No treasury stock has been transferred to employees as of 30 September 2017.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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

- (d) According to the Securities and Exchange Act of R.O.C., the total shares of treasury stock shall not exceed 10% of issued stock, and the total purchase amount shall not exceed the sum of retained earnings, additional paid-in capital in excess of par and realized additional paid-in capital.
- (e) In compliance with Securities and Exchange Act of R.O.C., treasury stocks shall not be pledged, nor should they be entitled to voting rights or receiving dividends.

d. Retained earnings and dividend policy

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

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.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

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Notes to Consolidated Financial Statements (Continued)

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

Following the adoption of TIFRS, the FSC on 6 April 2012 issued Order No. Financial-Supervisory-Securities-Corporate-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 a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from 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.

Details of the 2016 and 2015 earnings distribution and dividends per share as approved by the resolution of the shareholders' meeting held on 14 June 2017 and 15 June 2016, are as follows:

	Appropriation of earnings		Dividend per share (NTD)	
	2016	2015	2016	2015
Legal reserve	\$85,143	\$85,897		
Special reserve	45,286	-		
Cash dividends-common stock	575,088	575,088	\$9.5	\$9.5
Total	<u>\$705,517</u>	<u>\$660,985</u>		

The Company estimated the amounts of the employee bonuses and remuneration to directors and supervisors, please refer to Note 6 (15) for more details.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(12) Non-controlling interests

	Nine-month periods ended 30 September	
	2017	2016
Balance as of 1 January	\$32,087	\$33,400
Attributable to non-controlling interests Income	10,491	4,861
Cash dividends	(6,599)	(8,554)
Balance as of 30 September	<u>\$35,979</u>	<u>\$29,707</u>

(13) Sales

	Three-month periods ended		Nine-month periods ended	
	30 September		30 September	
	2017	2016	2017	2016
Sale of goods	\$1,779,982	\$1,848,245	\$4,444,004	\$4,671,514
Less: Sales returns and discounts	(906)	(240)	(3,600)	(771)
Net sales	<u>\$1,779,076</u>	<u>\$1,848,005</u>	<u>\$4,440,404</u>	<u>\$4,670,743</u>

(14) Operating lease

The Group as lessee

The Group has entered into commercial leases on certain buildings. These leases have an average life of three to five years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 September 2017, 31 December 2016 and 30 September 2016 are as follows:

	As of		
	30 September 2017	31 December 2016	30 September 2016
Lower than 1 year	\$7,080	\$450	\$675
Between 1 to 5 years	11,000	-	-
Total	<u>\$18,080</u>	<u>\$450</u>	<u>\$675</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The expenses of operating lease were as follows:

	Three-month periods ended		Nine-month periods ended	
	30 September		30 September	
	2017	2016	2017	2016
Minimum lease payments	\$1,770	\$225	\$5,310	\$675

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

Function Nature	Three-month periods ended 30 September					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$114,006	\$67,703	\$181,709	\$117,351	\$61,318	\$178,669
Labor and health insurance	15,068	5,985	21,053	13,828	5,556	19,384
Pension	1,104	2,830	3,934	877	2,691	3,568
Others	7,963	2,336	10,299	9,323	2,767	12,090
Depreciation	36,645	7,482	44,127	38,539	8,436	46,975
Amortization	3,451	7,747	11,198	4,091	8,541	12,632

Function Nature	Nine-month periods ended 30 September					
	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$353,946	\$206,067	\$560,013	\$332,292	\$181,919	\$514,211
Labor and health insurance	44,962	17,920	62,882	41,376	16,347	57,723
Pension	2,919	8,489	11,408	2,517	8,012	10,529
Others	25,886	7,190	33,076	26,480	10,362	36,842
Depreciation	114,518	24,034	138,552	118,594	24,821	143,415
Amortization	12,959	25,396	38,355	13,080	24,453	37,533

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Notes to Consolidated Financial Statements (Continued)

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

According to the Articles of Incorporation, 2% to 6% of profit of the current year is distributable as employees' compensation and no more 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. Information on the board of directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of current year, the Company estimated employees' compensation and remuneration to directors and supervisors and recognized them as employee benefits expense. If the board of directors resolved to distribute employees' compensation in the form of stocks, the number of stocks distributed was calculated based on the closing price one day prior to the date of resolution. The difference between the estimates and the figures resolved at shareholders' meeting will be recognized in profit or loss of the subsequent year. Details of the estimated employees' compensation and remuneration to directors and supervisors for the three-month and nine-month periods ended 2017 and 2016 are as follows:

	Three-month periods ended		Nine-month periods ended	
	30 September		30 September	
	2017	2016	2017	2016
Employees' compensation	\$7,000	\$6,288	\$21,000	\$18,863
Remuneration to directors and supervisors	1,783	860	4,350	2,549

A resolution was passed at a board of directors meeting held on 22 March 2017 to distribute \$28,000 and \$3,845 in cash as employees' compensation and remuneration to directors and supervisors of 2016, respectively. No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2016.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2015.

(16) Non-operating income and expenses

a. Other income

	Three-month periods ended		Nine-month periods ended	
	30 September		30 September	
	2017	2016	2017	2016
Interest income	\$4,076	\$3,366	\$14,141	\$10,785
Rental income	575	860	2,199	1,897
Dividends income	750	750	750	750
Others	9,971	16,035	38,974	56,825
Total	\$15,372	\$21,011	\$56,064	\$70,257

b. Other gains and losses

	Three-month periods ended		Nine-month periods ended	
	30 September		30 September	
	2017	2016	2017	2016
Foreign exchange losses, net	\$(21,775)	\$(58,742)	\$(138,579)	\$(94,229)
(Losses) gains on financial assets at fair value through profit or loss	3,715	(16,037)	(31,434)	(17,885)
(Losses) gains on disposal of property, plant and equipment	(412)	644	(828)	(5,944)
Others	100	(566)	(3,205)	(747)
Total	\$(18,372)	\$(74,701)	\$(174,046)	\$(118,805)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(17) Components of other comprehensive income

a. Three-month periods ended 30 September 2017

	Arising during the period	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:				
Exchange differences resulting from translating the financial statements of a foreign operation	\$(100,591)	\$(100,591)	\$17,101	\$(83,490)
Total of other comprehensive income	<u>\$(100,591)</u>	<u>\$(100,591)</u>	<u>\$17,101</u>	<u>\$(83,490)</u>

b. Three-month periods ended 30 September 2016

	Arising during the period	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:				
Exchange differences resulting from translating the financial statements of a foreign operation	\$(25,687)	\$(25,687)	\$4,367	\$(21,320)
Total of other comprehensive income	<u>\$(25,687)</u>	<u>\$(25,687)</u>	<u>\$4,367</u>	<u>\$(21,320)</u>

c. Nine-month periods ended 30 September 2017

	Arising during the period	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:				
Exchange differences resulting from translating the financial statements of a foreign operation	\$(135,664)	\$(135,664)	\$23,063	\$(112,601)
Total of other comprehensive income	<u>\$(135,664)</u>	<u>\$(135,664)</u>	<u>\$23,063</u>	<u>\$(112,601)</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

d. Nine-month periods ended 30 September 2016

	Arising during the period	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:				
Exchange differences resulting from translating the financial statements of a foreign operation	\$(67,589)	\$(67,589)	\$11,490	\$(56,099)
Total of other comprehensive income	<u>\$(67,589)</u>	<u>\$(67,589)</u>	<u>\$11,490</u>	<u>\$(56,099)</u>

(18) Income tax

The major components of income tax expense are as follows:

Income tax recorded in profit or loss

	Three-month periods ended 30 September		Nine-month periods ended 30 September	
	2017	2016	2017	2016
Current income tax expense:				
Current income tax charge	\$77,308	\$69,437	\$140,675	\$188,163
Deferred income tax (benefit) expense:				
Deferred income tax (benefit) expense related to origination and reversal of temporary differences	(19,532)	1,559	(12,015)	15,894
Income tax expense recognized in profit or loss	<u>\$57,776</u>	<u>\$70,996</u>	<u>\$128,660</u>	<u>\$204,057</u>

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Notes to Consolidated Financial Statements (Continued)
(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Income tax relating to components of other comprehensive income

	Three-month periods ended 30 September		Nine-month periods ended 30 September	
	2017	2016	2017	2016
Deferred income tax benefit:				
Exchange differences on translation of foreign operations	\$(17,101)	\$(4,367)	\$(23,063)	\$(11,490)
Income tax relating to components of other comprehensive income	<u>\$(17,101)</u>	<u>\$(4,367)</u>	<u>\$(23,063)</u>	<u>\$(11,490)</u>

Integrated income tax information

	As of		
	30 September 2017	31 December 2016	30 September 2016
Balance of the imputation credit account	<u>\$260,699</u>	<u>\$312,865</u>	<u>\$312,347</u>

The actual creditable ratio for 2016 and 2015 were 20.75% and 20.44%, respectively.

According to Article 66-6 of Company Act amended on 4 June 2014, the creditable ratio of the individual shareholders residing in Taiwan will be reduced by 50%, and will apply on 1 January 2015 to earnings distribution.

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

The assessment of income tax returns

As of 30 September 2017, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2015
Mitsumichi Industrial Co., Ltd.	Assessed and approved up to 2015
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	Assessed to 2016
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	Assessed to 2016
Zhangjiagang Zenghsing Trading Co., Ltd.	Assessed to 2016
Zeng Hsing Industrial Co., Ltd (VN)	Assessed to 2016
Shinco Technologies Limited (VN)	Assessed to 2016

(19) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

a. Earnings per share-basic

	<u>Three-month periods</u>		<u>Nine-month periods</u>	
	<u>ended 30 September</u>		<u>ended 30 September</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Profit attributable to ordinary equity holders of the Company	<u>\$229,498</u>	<u>\$257,745</u>	<u>\$395,380</u>	<u>\$603,123</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	<u>60,536</u>	<u>60,536</u>	<u>60,536</u>	<u>60,536</u>
Earnings per share-basic (NTD)	<u>\$3.79</u>	<u>\$4.26</u>	<u>\$6.53</u>	<u>\$9.96</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

b. Earnings per share-diluted

	Three-month periods ended 30 September		Nine-month periods ended 30 September	
	2017	2016	2017	2016
Profit attributable to ordinary equity holders of the Company	\$229,498	\$257,745	\$395,380	\$603,123
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	60,536	60,536	60,536	60,536
Effect of dilution:				
Employee compensation – stock (thousand shares)	53	39	159	117
Weighted average number of ordinary shares outstanding after dilution (thousand shares)	60,589	60,575	60,695	60,653
Diluted earnings per share (NTD)	\$3.79	\$4.25	\$6.51	\$9.94

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
Lin Zhi Cheng and other 22 people	Directors and Deputy General Manager of the Company

(2) Key management personnel compensation

	Three-month periods ended 30 September		Nine-month periods ended 30 September	
	2017	2016	2017	2016
Short-term employee benefits	\$13,568	\$10,574	\$40,249	\$27,478
Post-employment benefits	477	457	1,431	1,287
	\$14,045	\$11,031	\$41,680	\$28,765

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

8. ASSETS PLEDGED AS COLLATERAL

The following assets were pledged:

	As of		
	30 September 2017	31 December 2016	30 September 2016
Property, plant and equipment-building	\$-	\$22,594	\$22,753
Property, plant and equipment-land	-	20,660	20,660
Debt instrument investments with no active market, non-current	200	200	200
Total	\$200	\$43,454	\$43,613

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) As of 30 September 2017 and 2016, the Group provided guarantee notes in the amount of \$0 and \$100,000, respectively, as guarantees for loans, forward exchange agreements and a subsidy research project of Industrial Development Bureau Ministry of Economic Affairs.

(2) The important contracts of construction in progress

a. As of 30 September 2017

Contracting parties	Subject matter	Total contract amount	Contract amount paid as of 30 September 2017
Company A	Buildings	\$473,143	\$-
Company B	Buildings	33,574	12,167
Company C	Buildings	10,500	-

b. As of 30 September 2016

None.

(3) The Group entered into the financial guarantees to related parties: refer to Table 1 on pages 88.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

The Company adjusted its group business planning and layout strategy for long-term development. The board of directors resolved to establish new headquarters in Yongcheng Road, Taiping District, Taichung City. The Company entered into construction contracts on 20 September 2017 and expects to complete the construction within a year and a half. The Company will tear down the old headquarters in October 2017 and expect to recognize approximately \$34,298 of losses on disposal of property, plant and equipment based on the carrying amount.

12. OTHERS

(1) Categories of financial instruments

	As of		
	30 September 2017	31 December 2016	30 September 2016
<u>Financial Assets</u>			
Loans and receivables:			
Cash and cash equivalents (excludes cash on hand)	\$1,909,359	\$2,372,541	\$1,957,551
Debt instrument investments with no active market, current	42,864	33,672	38,111
Notes and accounts receivable	1,852,956	1,409,769	1,846,536
Other receivables	14,025	21,333	23,641
Debt instrument investments with no active market, noncurrent	200	200	200
Subtotal	3,819,404	3,837,515	3,866,039
Financial assets at fair value through profit or loss:			
Held for trading	8,277	22,308	139
Financial assets in available for sale:			
Financial assets at cost-noncurrent	19,096	19,096	19,096
Total	<u>\$3,846,777</u>	<u>\$3,878,919</u>	<u>\$3,885,274</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

	As of		
	30 September 2017	31 December 2016	30 September 2016
<u>Financial Liabilities</u>			
Financial liabilities carried at amortized cost:			
Short-term loans	\$465,959	\$311,395	\$436,895
Short-term notes and bills payable	230,000	80,000	180,000
Notes and accounts payables	748,752	648,701	749,465
Other payables	202,906	241,176	188,237
Subtotal	1,647,617	1,281,272	1,554,597
Financial liabilities at fair value through profit or loss			
Held for trading	150	5,722	11,235
Total	<u>\$1,647,767</u>	<u>\$1,286,994</u>	<u>\$1,565,832</u>

(2) Financial risk management objectives and policies

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

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

(3) Market risk

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Foreign currency risk

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

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

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

- a. When NTD strengthens against USD by 1%, the profit for the nine-month periods ended 30 September 2017 and 2016 is decreased by \$25,502 and \$23,904, respectively; and no impact on the equity.
- b. When NTD strengthens against RMB by 1%, the profit for the nine-month periods ended 30 September 2017 and 2016 is increased/decreased by \$190 and \$221, respectively; and no impact on the equity.
- c. When NTD strengthens against VND by 1%, the profit for the nine-month periods ended 30 September 2017 and 2016 is increased/decreased by \$306 and \$426, respectively; and no impact on the equity.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated 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 Group's exposure to the risk of changes in market interest rates relates primarily to Group's bank borrowings with fixed interest rates and variable interest rates.

The interest rate sensitivity analysis is performed on the borrowings with variable interest rates as of the end of the reporting period. At the reporting date, a change of 10 basis points of interest rate in a reporting period does not affect the profit for the nine-month periods ended 30 September 2017 and 2016, respectively.

(4) Credit risk management

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

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

As of 30 September 2017, 31 December 2016 and 30 September 2016, amounts receivables from top ten customers represented 92.71%, 89.01% and 94.89% of the total trade receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(5) Liquidity risk management

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

Non-derivative financial
instruments

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As of 30 September 2017					
Short-term loans	\$465,959	\$-	\$-	\$-	\$465,959
Short-term notes and bills payable	230,000	-	-	-	230,000
Payables	748,752	-	-	-	748,752
As of 31 December 2016					
Short-term loans	\$311,395	\$-	\$-	\$-	\$311,395
Short-term notes and bills payable	80,000	-	-	-	80,000
Payables	648,701	-	-	-	648,701
As of 30 September 2016					
Short-term loans	\$436,895	\$-	\$-	\$-	\$436,895
Short-term notes and bills payable	180,000	-	-	-	180,000
Payables	749,465	-	-	-	749,465

Derivative financial instruments

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As of 30 September 2017					
Inflow	\$8,277	\$-	\$-	\$-	\$8,277
Outflow	(150)	-	-	-	(150)
Net	\$8,127	\$-	\$-	\$-	\$8,127

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

As of 31 December 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 of 30 September 2016

Inflow	\$139	\$-	\$-	\$-	\$139
Outflow	(11,235)	-	-	-	(11,235)
Net	<u>\$(11,096)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(11,096)</u>

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

(6) Fair value of financial instruments

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

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

- i. The carrying amount of cash and cash equivalents, 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).

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- iv. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.).
 - v. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).
- b. Fair value of financial instruments measured at amortized cost

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

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

(7) Investment financial instruments

The Group's derivative financial instruments include a foreign exchange swap and a cross currency swap. The related information for derivative financial instruments not qualified for hedge accounting and not yet settled as of 30 September 2017, 31 December 2016 and 30 September 2016 is as follows:

Foreign Exchange Swap and Cross Currency Swap

The Group 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.

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Notes to Consolidated Financial Statements (Continued)

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

Contract	Contract amount	Maturity
As of 30 September 2017		
Zeng Hsing Industrial CO., LTD.		
Foreign Exchange Swap	Sell USD 34,500,000	2017.07.07-2017.12.26
As of 31 December 2016		
Zeng Hsing Industrial CO., LTD.		
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 of 30 September 2016		
Zeng Hsing Industrial CO., LTD.		
Foreign Exchange Swap	Sell USD 22,000,000	2016.07.06-2016.12.09
Cross Currency Swap	Sell USD 5,000,000	2016.09.13-2016.11.18

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

(8) Fair value of financial instruments

(a) Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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Notes to Consolidated Financial Statements (Continued)

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

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

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

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

As of 30 September 2017

	<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	\$-	\$8,277	\$-	\$8,277
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Foreign exchange swap	-	150	-	150

As of 31 December 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 liabilities at fair value through profit or loss				
Foreign exchange swap and cross currency swap	-	5,722	-	5,722

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

As of 30 September 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	\$-	\$139	\$-	\$139
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Foreign exchange swap	-	9,715	-	9,715
Cross currency swap	-	1,520	-	1,520

(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 of 30 September 2017

	<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. (5))	\$-	\$-	\$70,129	\$70,129

As of 31 December 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. (5))	\$-	\$-	\$71,052	\$71,052

As of 30 September 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. (5))	\$-	\$-	\$71,359	\$71,359

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(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								
	30 September 2017			31 December 2016			30 September 2016		
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD
<u>Financial assets</u>									
<u>Monetary item:</u>									
USD	\$112,016	30.3050	\$3,394,645	\$91,393	32.279	\$2,950,075	\$100,034	31.3660	\$3,137,666
CNY	56,207	4.5592	256,259	78,980	4.6448	366,846	64,689	4.7025	304,200
VND	34,299,131	0.001334	45,755	89,237,410	0.001424	127,074	115,895,114	0.001424	165,035
<u>Financial liabilities</u>									
<u>Monetary item:</u>									
USD	\$10,631	30.3050	\$322,172	\$5,813	32.279	\$187,368	\$8,214	31.3660	\$257,640
CNY	61,230	4.5592	279,160	49,516	4.6448	229,992	59,030	4.7025	277,589
VND	61,939,871	0.001334	82,628	157,871,144	0.001424	224,809	79,868,809	0.001424	113,733

Due to the large number of functional currencies used in the Group, it's impossible to disclose foreign exchange gains and losses on the basis of each monetary item which has significant impact. The Group recognized \$138,579 and \$94,229 for foreign exchange losses for the nine-month periods ended 30 September 2017 and 2016, respectively.

(10) Capital management

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

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Notes to Consolidated Financial Statements (Continued)

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

- (11) In order to facilitate the analysis and comparison, some of the accounts of the financial statements as of 31 December 2016 and 30 September 2016 have been properly reclassified.

13. ADDITIONAL DISCLOSURES

1. Information on significant transactions

- (1) Financing provided: none.
- (2) Endorsement/guarantee provided: Table 1 on page 88.
- (3) Marketable securities held: Table 2 on page 89.
- (4) Marketable securities acquired or disposed of that cost or amounted to at least \$300 million or 20% of the paid-in capital: none.
- (5) Acquisition of individual real estate that cost at least \$300 million or 20% of the paid-in capital: none.
- (6) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital: none.
- (7) 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 89 to 90.
- (8) Receivable from related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 4 on page 91.
- (9) Information about derivatives of investees over which the Group has a controlling interest: refer to Note 12. (7).
- (10) Inter-company relationships and significant intercompany transactions: refer to Table 3 on page 89 to 90.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

2. Information on investees

- (1) Names, locations, and related information of investees on which the Group exercises significant influence: refer to Table 5 on pages 92.

3. Information on investment in Mainland China

- (1) 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 6 on page 93.
- (2) Information about the significant transactions between the Company and its investees in China: refer to Table 3 on page 89 to 90.

14. OPERATING SEGMENT INFORMATION

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

Taiwan segment produces computerized and electronic sewing machines.

China segment produces computerized, electronic and mechanical sewing machines.

Vietnam segment produces mechanical sewing machines.

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured based on accounting policies consistent with those in the consolidated financial statements. However income taxes are managed on a group basis and are not allocated to operating segments.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

a. For the three-month periods ended 30 September 2017

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
Revenue					
External customers	\$1,682,114	\$64,825	\$32,137	\$-	\$1,779,076
Inter-segment	29,242	396,483	760,601	(1,186,326)	-
Total revenue	<u>\$1,711,356</u>	<u>\$461,308</u>	<u>\$792,738</u>	<u>\$(1,186,326)</u>	<u>\$1,779,076</u>
Segment profit	<u>\$305,221</u>	<u>\$17,887</u>	<u>\$38,133</u>	<u>\$(65,950)</u>	<u>\$295,291</u>

b. For the nine-month periods ended 30 September 2017

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
Revenue					
External customers	\$4,137,669	\$184,814	\$117,921	\$-	\$4,440,404
Inter-segment	45,042	1,068,790	2,150,364	(3,264,196)	-
Total revenue	<u>\$4,182,711</u>	<u>\$1,253,604</u>	<u>\$2,268,285</u>	<u>\$(3,264,196)</u>	<u>\$4,440,404</u>
Segment profit	<u>\$542,589</u>	<u>\$61,032</u>	<u>\$54,542</u>	<u>\$(123,632)</u>	<u>\$534,531</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

c. For the three-month periods ended 30 September 2016

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
Revenue					
External customers	\$1,760,035	\$48,941	\$39,029	\$-	\$1,848,005
Inter-segment	7,671	371,172	1,046,771	(1,425,614)	-
Total revenue	<u>\$1,767,706</u>	<u>\$420,113</u>	<u>\$1,085,800</u>	<u>\$(1,425,614)</u>	<u>\$1,848,005</u>
Segment profit	<u>\$315,169</u>	<u>\$26,720</u>	<u>\$81,652</u>	<u>\$(94,235)</u>	<u>\$329,306</u>

d. For the nine-month periods ended 30 September 2016

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
Revenue					
External customers	\$4,418,502	\$149,154	\$103,087	\$-	\$4,670,743
Inter-segment	34,070	1,235,243	2,393,940	(3,663,253)	-
Total revenue	<u>\$4,452,572</u>	<u>\$1,384,397</u>	<u>\$2,497,027</u>	<u>\$(3,663,253)</u>	<u>\$4,670,743</u>
Segment profit	<u>\$842,695</u>	<u>\$147,234</u>	<u>\$171,060</u>	<u>\$(348,948)</u>	<u>\$812,041</u>

The related information of operating segment asset as of 30 September 2017, 31 December 2016 and 30 September 2016 are listed as follows:

Segment Assets:

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
30 September 2017	<u>\$7,191,256</u>	<u>\$1,120,776</u>	<u>\$2,225,514</u>	<u>\$(4,272,817)</u>	<u>\$6,264,729</u>
31 December 2016	<u>\$7,527,113</u>	<u>\$1,227,404</u>	<u>\$2,160,689</u>	<u>\$(4,671,438)</u>	<u>\$6,243,768</u>
30 September 2016	<u>\$7,233,133</u>	<u>\$1,208,832</u>	<u>\$2,416,896</u>	<u>\$(4,597,982)</u>	<u>\$6,260,879</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Segment Liabilities:

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
30 September 2017	\$1,886,433	\$411,040	\$541,339	\$(870,572)	\$1,968,240
31 December 2016	\$1,833,383	\$381,142	\$401,914	\$(957,577)	\$1,658,862
30 September 2016	\$1,650,538	\$385,564	\$633,499	\$(752,146)	\$1,917,455

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

There's no segment revenue, profit, assets, liabilities or significant items that needed to be reconciled for the nine-month periods ended 30 September 2017 and 2016.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017

TABLE 1

No. (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)	\$1,278,153	\$500,033 (USD16,500,000)	\$409,118 (USD13,500,000)	\$121,182 (USD3,998,757)	\$-	9.60%	\$1,704,204	Yes	No	No

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

(1) The Company is coded "0".

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

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

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

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

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

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

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

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

Note 3: The amount of guarantees/endorsements shall not exceed 30% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of 30 September 2017.

Note 4: Limit of total guarantee/endorsement amount shall not exceed 40% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of 30 September 2017.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

MARKETABLE SECURITIES HELD
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017

TABLE 2

Securities Held By	Type and name of securities	Relationship with the Company	Financial Statement Account	30 September 2017			
				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.

RELATED PARTY TRANSACTIONS FOR PURCHASES AND SALES AMOUNTS EXCEEDING THE LOWER OF \$100 MILLION OR 20 PERCENT OF CAPITAL STOCK
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017

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	
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	1	Purchases	\$794,199	17.89%	There is no difference with other clients	Regular	Regular	Account payable \$(267,567)	(4.27%)	-
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$794,199	17.89%	There is no difference with other clients	Regular	Regular	Account receivable \$267,567 (RMB58,598,324)	4.27%	-
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	2	Purchases	\$144,017	3.24%	There is no difference with other clients	Regular	Regular	Account payable \$(60,046) (RMB13,156,996)	(0.96%)	-
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	1	Sales (Note 2)	\$144,017	3.24%	There is no difference with other clients	Regular	Regular	Account receivable \$60,046	0.96%	-
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Purchases	\$2,089,447	47.06%	There is no difference with other clients	Regular	Regular	Account payable \$(382,021)	(6.10%)	-

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated 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. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$2,089,447	47.06%	There is no difference with other clients	Regular	Regular	Account receivable \$382,021 (VND285,523,371,158)	6.10%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Purchases	\$208,762	4.70%	There is no difference with other clients	Regular	Regular	Account payable \$(70,439) (VND52,997,352,426)	(1.12%)	-
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Sales (Note 3)	\$208,762	4.70%	There is no difference with other clients	Regular	Regular	Account receivable \$70,439	1.12%	-
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	3	Purchases	\$136,627	3.08%	There is no difference with other clients	Regular	Regular	Account payable \$(24,706) (RMB5,418,903)	(0.39%)	-
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	3	Sales	\$136,627	3.08%	There is no difference with other clients	Regular	Regular	Account receivable \$24,706 (RMB5,418,903)	0.39%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zhangjiagang Zenghsing Trading Co., Ltd.	3	Purchases	\$102,654	2.31%	There is no difference with other clients	Regular	Regular	Account payable \$(24,281) (VND18,280,369,855)	(0.39%)	-
Zhangjiagang Zenghsing Trading Co., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	3	Sales	\$102,654	2.31%	There is no difference with other clients	Regular	Regular	Account receivable \$24,281 (RMB5,325,623)	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.

Note2: The Company reported the net sales of triangle trade and recognized commission of \$1,617 for the nine-month periods ended 30 September 2017.

Note3: The Company reported the net sales of triangle trade and recognized commission of \$(3,979) for the nine-month periods ended 30 September 2017.

Note4: Related party transactions were eliminated when preparing the consolidated financial statements.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO OVER NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017

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			
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	Subsidiary	Accounts Receivable \$267,567 (RMB 58,598,324)	3.89	\$-	\$-	\$85,824 (RMB 18,824,381)	\$-	accounts receivable-customers
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	Subsidiary	Accounts Receivable \$382,021 (VND 285,523,371,158)	8.05	\$-	\$-	\$108,601 (VND 81,409,765,220)	\$-	accounts receivable-customers

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

NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE NINE-MONTHS ENDED 30 SEPTEMBER 2017

TABLE 5

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of 30 September 2017			Net Income (Losses) of the Investee	Equity in Earnings (Losses)	Note
				30 September 2017	31 December 2016	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%	\$15,332	\$(5,015)	\$(5,015)	
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)	547,316 (USD16,573,452)	16,573	100%	786,127	37,188	37,188	Note 1
Zeng Hsing Industrial Co., Ltd. (BVI)	Arcoris Pte Ltd.	8 Cross Street #24-03/04 Pwc Building Singapore (048424)	Holding company	125,273 (USD3,900,000)	125,273 (USD3,900,000)	3,900,000	100%	96,808	(7,262)	(7,262)	
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	Bing Dong, Vietnam	Manufacturing household sewing machines	1,049,554 (USD35,000,000)	1,049,554 (USD35,000,000)	-	100%	1,376,619	VND23,989,832,527	32,242	
Zeng Hsing Industrial CO., Ltd.	Shinco Technologies Limited (VN)	Bing Dong, Vietnam	Material die-casting of metal of aluminum, zinc and magnesium alloy.	347,158 (USD11,173,331)	347,158 (USD11,173,331)	-	100%	307,684	VND9,714,835,743	13,057	
Zeng Hsing Industrial CO., Ltd.	Taiwan Carbon Technology CO., Ltd.	Taichung, Taiwan	Manufacturing carbon fiber, fire resistant fiber and related products.	24,105	24,105	2,500,000	19.53%	-	-	-	
Zeng Hsing Industrial CO., Ltd.	Mitsumichi industrial CO. Ltd	Taichung, Taiwan	Manufacturing household sewing machines	31,330	31,330	1,378,000	53.00%	41,754	22,321	11,830	

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017

TABLE 6

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of 1 January 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of 30 September 2017	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as of 30 September 2017	Accumulated Inward Remittance of Earnings as of 30 September 2017
					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%	\$17,508	\$560,847	\$416,843 (USD9,288,961) (RMB27,000,000)
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	Selling household sewing machines and spare parts.	USD500,000	Indirect investments through Zeng Hsing (BVI)	\$14,931 (USD500,000)	-	-	\$14,931 (USD500,000)	100%	\$23,443	\$123,597	\$-
Zhangjiagang Zenghsing Trading Co., Ltd.	Selling household sewing machines and spare parts	RMB1,000,000	Indirect investments through Zeng Hsing (BVI)	\$-	-	-	\$-	100%	RMB1,737,552	RMB5,547,551	RMB9,197,561

Accumulated investment in Mainland China as of 30 September 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$319,130 (USD9,603,039)	\$459,409(Note2) (USD13,848,355)	\$2,556,306

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

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