

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE SIX-MONTH PERIODS ENDED  
JUNE 30, 2018 AND 2017

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.

#### **Introduction**

We have reviewed the accompanying consolidated balance sheets of Zeng Hsing Industrial Co., Ltd. (the “Company”) and its subsidiaries as of June 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and consolidated statements of changes in equity and cash flows for the six-month periods ended June 30, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

#### **Scope of Review**

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 65, “Review of Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Basis for Qualified Conclusion**

As explained in Note 4(3), the financial statements of certain insignificant subsidiaries were not reviewed by independent accountants. Those statements reflected total assets of NTD 205,445 thousand and NTD 183,464 thousand, constituting 2.90% and 2.78% of the consolidated total assets, and total liabilities of NTD 19,839 thousand and NTD 14,851 thousand, constituting 0.71% and 0.60% of the consolidated total liabilities as of June 30, 2018 and 2017, respectively; and total comprehensive income of NTD 4,156 thousand, NTD 1,251 thousand, NTD 5,837 thousand and NTD (6,489) thousand, which represented 0.87%, 0.48%, 1.46% and (4.66)% of the consolidated comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, respectively. The financial statements of certain associates and joint ventures accounted for under the equity method were not reviewed by independent accountants. Those associates' and joint ventures' investments under equity method amounted to NTD 52,862 thousand and NTD 57,835 thousand as of June 30, 2018 and 2017, respectively. The related shares of profits from the associates and joint ventures under the equity method amounted to NTD (1,828) thousand, NTD (1,187) thousand, NTD (3,468) thousand and NTD (5,286) thousand for the three-month and six-month periods ended June 30, 2018 and 2017, respectively. The information related to the above subsidiaries, and associates and joint ventures accounted for under the equity method disclosed in Note 13 was also not reviewed by independent accountants.

### **Qualified Conclusion**

Based on our reviews, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements of certain insignificant subsidiaries, associates and joint ventures accounted for using equity method been reviewed by independent accountants described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as at June 30, 2018 and 2017, and their consolidated financial performance for the three-month and six-month periods ended June 30, 2018 and 2017, and cash flows for the six-month periods ended June 30, 2018 and 2017, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

### **Emphasis of Matter – Applying the New Accounting Standards**

As described in Note 3 of the consolidated financial statements, which stated that describes the Company and its subsidiaries applied the International Financial Reporting Standard 9, “Financial Instruments” and 15, “Revenue from Contracts with Customers” starting from January 1, 2018, and elected not to restate the consolidated financial statements for prior periods. Our conclusion is not to make modifications in respect of this matter.

Tu, Chin Yuan  
Chen, Ming Hung

Ernst & Young, Taiwan

August 8, 2018

### **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

June 30, 2018, December 31, 2017 and June 30, 2017 (June 30, 2018 and 2017 are unaudited)

(Expressed in Thousands of New Taiwan Dollars)

| Assets                                                                        | Notes          | As of                     |                           |                           |
|-------------------------------------------------------------------------------|----------------|---------------------------|---------------------------|---------------------------|
|                                                                               |                | June 30, 2018             | December 31, 2017         | June 30, 2017             |
| Current Assets                                                                |                |                           |                           |                           |
| Cash and cash equivalents                                                     | 4, 6(1)        | \$2,631,536               | \$3,095,629               | \$2,222,966               |
| Financial assets at fair value through profit or loss, current                | 4, 12          | 9,700                     | 132                       | 8,431                     |
| Financial assets measured at amortized cost, current                          | 4, 12          | 42,253                    | -                         | -                         |
| Debt instrument investments with no active market, current                    | 4, 12          | -                         | 59,463                    | 51,910                    |
| Accounts receivable, net                                                      | 4, 6(2), 6(15) | 1,599,497                 | 1,311,147                 | 1,601,310                 |
| Other receivables                                                             | 12             | 100,854                   | 70,619                    | 101,096                   |
| Inventories, net                                                              | 4, 6(3)        | 777,615                   | 390,272                   | 702,464                   |
| Prepayment                                                                    |                | 24,836                    | 28,131                    | 22,851                    |
| Other current assets                                                          |                | 36,263                    | 25,707                    | 40,775                    |
| Total Current Assets                                                          |                | <u>5,222,554</u>          | <u>4,981,100</u>          | <u>4,751,803</u>          |
| Non-current assets                                                            |                |                           |                           |                           |
| Financial assets at fair value through other comprehensive income, noncurrent | 4, 12          | 32,056                    | -                         | -                         |
| Financial assets measured at amortized cost, noncurrent                       | 4, 8, 12       | 200                       | -                         | -                         |
| Financial assets measured at cost, noncurrent                                 | 4, 12          | -                         | 19,096                    | 19,096                    |
| Debt instrument investments with no active market, noncurrent                 | 8, 12          | -                         | 13,198                    | 200                       |
| Investments accounted for under the equity method                             | 4              | 52,862                    | 56,330                    | 57,835                    |
| Property, plant and equipment                                                 | 4, 6(4), 8     | 1,369,438                 | 1,280,479                 | 1,408,636                 |
| Investment property                                                           | 4, 6(5)        | 69,207                    | 69,822                    | 70,437                    |
| Intangible assets                                                             | 4, 6(6)        | 38,591                    | 44,560                    | 39,375                    |
| Deferred tax assets                                                           | 4              | 64,090                    | 61,199                    | 42,571                    |
| Deposits-out                                                                  |                | 7,225                     | 4,434                     | 12,446                    |
| Prepayment for investments                                                    |                | 19,797                    | -                         | -                         |
| Other long-term investments                                                   |                | 4,485                     | 4,485                     | 4,485                     |
| Other non-current assets                                                      | 4, 6(7)        | 210,559                   | 204,587                   | 204,427                   |
| Total non-current assets                                                      |                | <u>1,868,510</u>          | <u>1,758,190</u>          | <u>1,859,508</u>          |
| Total assets                                                                  |                | <u><u>\$7,091,064</u></u> | <u><u>\$6,739,290</u></u> | <u><u>\$6,611,311</u></u> |

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

(continued)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
June 30, 2018, December 31, 2017 and June 30, 2017 (June 30, 2018 and 2017 are unaudited)  
(Expressed in Thousands of New Taiwan Dollars)

| Liabilities and Equity                                                                                                 | Notes    | As of              |                    |                    |
|------------------------------------------------------------------------------------------------------------------------|----------|--------------------|--------------------|--------------------|
|                                                                                                                        |          | June 30, 2018      | December 31, 2017  | June 30, 2017      |
| Current liabilities                                                                                                    |          |                    |                    |                    |
| Short-term loans                                                                                                       | 6(8)     | \$336,654          | \$672,585          | \$372,450          |
| Short-term notes and bills payable                                                                                     | 6(9)     | 250,000            | 230,000            | 210,000            |
| Financial liabilities at fair value through profit or loss, current                                                    | 4, 12    | -                  | 4,628              | 99                 |
| Contract liabilities, current                                                                                          | 6(14)    | 18,848             | -                  | -                  |
| Notes payable                                                                                                          |          | 9,258              | 12,765             | 13,704             |
| Accounts payable                                                                                                       |          | 905,108            | 652,306            | 786,030            |
| Other payables                                                                                                         | 6(12)    | 753,699            | 250,043            | 773,018            |
| Current tax liabilities                                                                                                | 4        | 101,202            | 122,263            | 81,015             |
| Other current liabilities                                                                                              |          | 7,276              | 25,028             | 19,701             |
| Total current liabilities                                                                                              |          | <u>2,382,045</u>   | <u>1,969,618</u>   | <u>2,256,017</u>   |
| Non-current liabilities                                                                                                |          |                    |                    |                    |
| Long-term loans                                                                                                        | 4, 6(11) | 160,000            | 160,000            | -                  |
| Deferred tax liabilities                                                                                               | 4        | 204,060            | 143,905            | 150,181            |
| Accrued pension liabilities                                                                                            | 4        | 34,524             | 39,870             | 62,289             |
| Deposits-in                                                                                                            |          | 360                | 360                | 360                |
| Total non-current liabilities                                                                                          |          | <u>398,944</u>     | <u>344,135</u>     | <u>212,830</u>     |
| Total liabilities                                                                                                      |          | <u>2,780,989</u>   | <u>2,313,753</u>   | <u>2,468,847</u>   |
| Equity attributable to the parent company                                                                              | 4, 6(12) |                    |                    |                    |
| Capital                                                                                                                |          |                    |                    |                    |
| Common stock                                                                                                           |          | 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            | 730,563            | 730,563            |
| Special reserve                                                                                                        |          | 176,886            | 45,286             | 45,286             |
| Retained earnings                                                                                                      |          | 1,518,621          | 1,797,553          | 1,422,342          |
| Total Retained earnings                                                                                                |          | <u>2,426,070</u>   | <u>2,573,402</u>   | <u>2,198,191</u>   |
| Other components of equity                                                                                             |          |                    |                    |                    |
| Exchange differences on translation of foreign operations                                                              |          | (148,972)          | (176,886)          | (74,397)           |
| Unrealized gains and losses on equity instrument measured at fair value through other comprehensive income, noncurrent |          | 10,368             | -                  | -                  |
| Treasury stock                                                                                                         |          | (2,163)            | (2,163)            | (2,163)            |
| Non-controlling interests                                                                                              | 6(13)    | 31,901             | 38,313             | 27,962             |
| Total equity                                                                                                           |          | <u>4,310,075</u>   | <u>4,425,537</u>   | <u>4,142,464</u>   |
| Total liabilities and equity                                                                                           |          | <u>\$7,091,064</u> | <u>\$6,739,290</u> | <u>\$6,611,311</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 six-month periods ended June 30, 2018 and 2017  
(Reviewed, Not Audited)  
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

|                                                                        |       | For the three-month periods ended June 30, |                  | For the six-month periods ended June 30, |                  |
|------------------------------------------------------------------------|-------|--------------------------------------------|------------------|------------------------------------------|------------------|
|                                                                        | Notes | 2018                                       | 2017             | 2018                                     | 2017             |
| Net Sales                                                              | 6(14) | \$1,851,718                                | \$1,687,803      | \$2,899,813                              | \$2,661,328      |
| Cost of Sales                                                          | 6(17) | (1,385,307)                                | (1,245,477)      | (2,211,886)                              | (1,984,456)      |
| Gross Profit                                                           |       | <u>466,411</u>                             | <u>442,326</u>   | <u>687,927</u>                           | <u>676,872</u>   |
| Operating Expenses                                                     | 6(17) |                                            |                  |                                          |                  |
| Selling and marketing                                                  |       | (34,630)                                   | (33,708)         | (65,708)                                 | (70,891)         |
| Management and administrative                                          |       | (84,885)                                   | (85,040)         | (171,644)                                | (184,325)        |
| Research and development                                               |       | (26,285)                                   | (27,577)         | (54,323)                                 | (59,073)         |
| Expected credit losses                                                 | 6(15) | (2,476)                                    | -                | (6,609)                                  | -                |
| Total Operating Expenses                                               |       | <u>(148,276)</u>                           | <u>(146,325)</u> | <u>(298,284)</u>                         | <u>(314,289)</u> |
| Operating Income                                                       |       | <u>318,135</u>                             | <u>296,001</u>   | <u>389,643</u>                           | <u>362,583</u>   |
| Non-operating income and expenses                                      | 6(18) |                                            |                  |                                          |                  |
| Other revenue                                                          |       | 20,163                                     | 22,516           | 39,517                                   | 40,692           |
| Other gain and loss                                                    |       | 197,235                                    | 8,298            | 93,574                                   | (155,674)        |
| Financial costs                                                        |       | (2,486)                                    | (1,461)          | (5,318)                                  | (3,075)          |
| Share of profit or loss of associates and joint ventures               |       | (1,828)                                    | (1,187)          | (3,468)                                  | (5,286)          |
| Subtotal                                                               |       | <u>213,084</u>                             | <u>28,166</u>    | <u>124,305</u>                           | <u>(123,343)</u> |
| Income from continuing operations before income tax                    |       | <u>531,219</u>                             | <u>324,167</u>   | <u>513,948</u>                           | <u>239,240</u>   |
| Income tax expense                                                     | 6(20) | <u>(106,786)</u>                           | <u>(73,966)</u>  | <u>(142,150)</u>                         | <u>(70,884)</u>  |
| Income from Continuing Operations, Net of Tax                          |       | <u>424,433</u>                             | <u>250,201</u>   | <u>371,798</u>                           | <u>168,356</u>   |
| Other comprehensive income                                             | 6(19) |                                            |                  |                                          |                  |
| Items that will not be reclassified subsequently to profit or loss     |       |                                            |                  |                                          |                  |
| Income tax related to items that will not be reclassified subsequently |       | -                                          | -                | 8                                        | -                |
| Items that may be reclassified subsequently to profit or loss          |       |                                            |                  |                                          |                  |
| Exchange differences on translation of foreign operations              |       | 63,335                                     | 15,212           | 24,585                                   | (35,073)         |
| Income tax related to items that will be reclassified subsequently     |       | (12,667)                                   | (2,586)          | 3,329                                    | 5,962            |
| Total other comprehensive income (loss) , net of tax                   |       | <u>50,668</u>                              | <u>12,626</u>    | <u>27,922</u>                            | <u>(29,111)</u>  |
| Total comprehensive income                                             |       | <u>\$475,101</u>                           | <u>\$262,827</u> | <u>\$399,720</u>                         | <u>\$139,245</u> |
| Net income attributable to:                                            |       |                                            |                  |                                          |                  |
| Stockholders of the parent                                             |       | \$422,094                                  | \$248,638        | \$367,212                                | \$165,882        |
| Non-controlling interests                                              |       | <u>2,339</u>                               | <u>1,563</u>     | <u>4,586</u>                             | <u>2,474</u>     |
|                                                                        |       | <u>\$424,433</u>                           | <u>\$250,201</u> | <u>\$371,798</u>                         | <u>\$168,356</u> |
| Comprehensive income attributable to:                                  |       |                                            |                  |                                          |                  |
| Stockholder of the parent                                              |       | \$472,762                                  | \$261,264        | \$395,134                                | \$136,771        |
| Non-controlling interests                                              |       | <u>2,339</u>                               | <u>1,563</u>     | <u>4,586</u>                             | <u>2,474</u>     |
|                                                                        |       | <u>\$475,101</u>                           | <u>\$262,827</u> | <u>\$399,720</u>                         | <u>\$139,245</u> |
| Earnings per share (NTD)                                               | 6(21) |                                            |                  |                                          |                  |
| Earnings per share-basic                                               |       | <u>\$6.97</u>                              | <u>\$4.11</u>    | <u>\$6.07</u>                            | <u>\$2.74</u>    |
| Earnings per share-diluted                                             |       | <u>\$6.97</u>                              | <u>\$4.10</u>    | <u>\$6.06</u>                            | <u>\$2.74</u>    |

(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 six-month periods ended June 30, 2018 and 2017

(Reviewed, Not Audited)

(Expressed in Thousands of New Taiwan Dollars)

|                                                                  | Notes | Common Stock     | Additional<br>Paid-in Capital | Legal Reserve    | Special reserve  | Unappropriated<br>Earnings | Exchange<br>Differences on<br>Translation of<br>Foreign<br>Operations | Unrealized Gains or<br>Losses on Financial<br>Assets Measured at<br>Fair Value through<br>Other<br>Comprehensive<br>Income | Treasury stock   | Total              | Non-Controlling<br>Interests | Total Equity       |
|------------------------------------------------------------------|-------|------------------|-------------------------------|------------------|------------------|----------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------------|--------------------|------------------------------|--------------------|
| Balance as of January 1, 2017                                    | 6(12) | \$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 in the first half of 2017                             |       |                  |                               |                  |                  | 165,882                    |                                                                       |                                                                                                                            |                  | 165,882            | 2,474                        | 168,356            |
| Other comprehensive income, net of tax in the first half of 2017 |       |                  |                               |                  |                  |                            | (29,111)                                                              |                                                                                                                            |                  | (29,111)           |                              | (29,111)           |
| Total comprehensive income                                       |       | -                | -                             | -                | -                | 165,882                    | (29,111)                                                              | -                                                                                                                          | -                | 136,771            | 2,474                        | 139,245            |
| Cash dividends of subsidiary                                     | 6(13) |                  |                               |                  |                  |                            |                                                                       |                                                                                                                            |                  |                    | (6,599)                      | (6,599)            |
| Balance as of June 30, 2017                                      | 6(12) | <u>\$605,526</u> | <u>\$1,387,345</u>            | <u>\$730,563</u> | <u>\$45,286</u>  | <u>\$1,422,342</u>         | <u>\$(74,397)</u>                                                     | <u>\$ -</u>                                                                                                                | <u>\$(2,163)</u> | <u>\$4,114,502</u> | <u>\$27,962</u>              | <u>\$4,142,464</u> |
| Balance as of January 1, 2018                                    | 6(12) | \$605,526        | \$1,387,345                   | \$730,563        | \$45,286         | \$1,797,553                | \$(176,886)                                                           | \$ -                                                                                                                       | \$(2,163)        | \$4,387,224        | \$38,313                     | \$4,425,537        |
| Impact of retroactive applications                               |       |                  |                               |                  |                  |                            |                                                                       | 10,368                                                                                                                     |                  | 10,368             |                              | 10,368             |
| Adjusted balance as January 1, 2018                              |       | 605,526          | 1,387,345                     | 730,563          | 45,286           | 1,797,553                  | (176,886)                                                             | 10,368                                                                                                                     | (2,163)          | 4,397,592          | 38,313                       | 4,435,905          |
| Appropriations of earnings, 2017:                                |       |                  |                               |                  |                  |                            |                                                                       |                                                                                                                            |                  |                    |                              |                    |
| Special reserve                                                  |       |                  |                               |                  | 131,600          | (131,600)                  |                                                                       |                                                                                                                            |                  | -                  |                              | -                  |
| Cash Dividends                                                   |       |                  |                               |                  |                  | (514,552)                  |                                                                       |                                                                                                                            |                  | (514,552)          |                              | (514,552)          |
| Net income in the first half of 2018                             |       |                  |                               |                  |                  | 367,212                    |                                                                       |                                                                                                                            |                  | 367,212            | 4,586                        | 371,798            |
| Other comprehensive income, net of tax in the first half of 2018 |       |                  |                               |                  |                  | 8                          | 27,914                                                                |                                                                                                                            |                  | 27,922             |                              | 27,922             |
| Total comprehensive income                                       |       | -                | -                             | -                | -                | 367,220                    | 27,914                                                                | -                                                                                                                          | -                | 395,134            | 4,586                        | 399,720            |
| Cash dividends of subsidiary                                     | 6(13) |                  |                               |                  |                  |                            |                                                                       |                                                                                                                            |                  |                    | (10,998)                     | (10,998)           |
| Balance as of June 30, 2018                                      | 6(12) | <u>\$605,526</u> | <u>\$1,387,345</u>            | <u>\$730,563</u> | <u>\$176,886</u> | <u>\$1,518,621</u>         | <u>\$(148,972)</u>                                                    | <u>\$10,368</u>                                                                                                            | <u>\$(2,163)</u> | <u>\$4,278,174</u> | <u>\$31,901</u>              | <u>\$4,310,075</u> |

(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 six-month periods ended June 30, 2018 and 2017  
(Reviewed, Not Audited)  
(Expressed in Thousand New Taiwan Dollars)

|                                                                                          | For the six-month periods ended June 30, |           |
|------------------------------------------------------------------------------------------|------------------------------------------|-----------|
| Notes                                                                                    | 2018                                     | 2017      |
| Cash flows from operating activities:                                                    |                                          |           |
| Net income before tax                                                                    | \$513,948                                | \$239,240 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: |                                          |           |
| Depreciation                                                                             | 98,203                                   | 94,425    |
| Amortization                                                                             | 22,482                                   | 27,157    |
| Loss on disposal of property, plant and equipment                                        | 601                                      | 416       |
| Net (gain) loss of financial assets at fair value through profit or loss                 | (13,029)                                 | 35,149    |
| (Gain) loss from market value decline, obsolete and slow-moving of inventories           | (2,423)                                  | 1,761     |
| Share of profit or loss of associates and joint ventures                                 | 3,468                                    | 5,286     |
| Expected credit loss (gain)                                                              | 6,609                                    | (5,050)   |
| Interest revenue                                                                         | (22,305)                                 | (10,065)  |
| Interest expense                                                                         | 5,318                                    | 3,075     |
| Changes in operating assets and liabilities:                                             |                                          |           |
| Increase in financial assets at fair value through profit or loss                        | (1,167)                                  | (26,895)  |
| Increase in accounts receivable                                                          | (294,959)                                | (186,491) |
| Increase in inventories, net                                                             | (384,920)                                | (242,854) |
| Increase in other receivables                                                            | (30,235)                                 | (19,273)  |
| Decrease in prepayments                                                                  | 118                                      | 756       |
| Increase in other current assets                                                         | (10,556)                                 | (18,256)  |
| Increase in other non-current assets                                                     | (28,518)                                 | (34,929)  |
| Increase in contract liabilities                                                         | 18,848                                   | -         |
| Decrease in notes payable                                                                | (3,507)                                  | (12,357)  |
| Increase in accounts payable                                                             | 252,802                                  | 163,390   |
| Decrease in other payables                                                               | (10,896)                                 | (43,246)  |
| Decrease in other current liabilities                                                    | (17,752)                                 | (20,517)  |
| Decrease in accrued pension liabilities                                                  | (5,346)                                  | (4,148)   |
| Cash generated (used) from operations                                                    | 96,784                                   | (53,426)  |
| Interest received                                                                        | 22,305                                   | 10,065    |
| Income tax paid                                                                          | (105,202)                                | (103,339) |
| Net cash provided (used) by operating activities                                         | 13,887                                   | (146,700) |

(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 six-month periods ended June 30, 2018 and 2017  
(Reviewed, Not Audited)  
(Expressed in Thousand New Taiwan Dollars)

|                                                                  |       | For the six-month periods ended June 30, |             |
|------------------------------------------------------------------|-------|------------------------------------------|-------------|
|                                                                  | Notes | 2018                                     | 2017        |
| Cash flows from investing activities:                            |       |                                          |             |
| Disposal of financial assets measured at amortized cost          |       | 30,208                                   | -           |
| Acquisition of debt instrument investments with no active market |       | -                                        | (18,238)    |
| Increase in prepayments for investments                          |       | (19,797)                                 | -           |
| Acquisition of property, plant and equipment                     |       | (165,522)                                | (111,716)   |
| Increase in investments accounted for under the equity method    |       | -                                        | (18,515)    |
| Proceeds from disposal of property, plant and equipment          |       | 3,600                                    | 1,025       |
| Increase in deposits-out                                         |       | (2,791)                                  | (1,513)     |
| Acquisition in intangible assets                                 |       | (2,032)                                  | (6,023)     |
| Net cash used in investing activities                            |       | (156,334)                                | (154,980)   |
| Cash flows from financing activities:                            |       |                                          |             |
| Increase in short-term loans                                     |       | 1,692,359                                | 1,302,914   |
| Decrease in short-term loans                                     |       | (2,025,739)                              | (1,241,859) |
| Increase in short-term notes and bills payable                   |       | 1,810,000                                | 890,000     |
| Decrease in short-term notes and bills payable                   |       | (1,790,000)                              | (760,000)   |
| Interest paid                                                    |       | (5,318)                                  | (3,075)     |
| Cash dividends of subsidiary                                     |       | (10,998)                                 | (6,599)     |
| Net cash (used) provided in financing activities                 |       | (329,696)                                | 181,381     |
| Effect of exchange rate changes on cash and cash equivalents     |       | 8,050                                    | (29,561)    |
| Net decrease in cash and cash equivalents                        |       | (464,093)                                | (149,860)   |
| Cash and cash equivalents at beginning of period                 |       | 3,095,629                                | 2,372,826   |
| Cash and cash equivalents at end of period                       | 6(1)  | \$2,631,536                              | \$2,222,966 |

(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 Six-Month Periods Ended June 30 2018 and 2017**  
(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

**1. ORGANIZATION AND OPERATIONS**

Zeng Hsing Industrial Co., Ltd. (the Company) was incorporated in 1968 to manufacture and market household sewing machines, vacuum cleaners, and the spare parts used on these products. The Company applied to be listed on the GreTai Securities Market on April 2004, and was authorized for trading over the counter on December 28, 2007. On December 23, 2014, the Company was authorized to be listed on Taiwan Stock Exchange.

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

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

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

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

The consolidated financial statements of the Company and subsidiaries (hereinafter referred to as “the Group”) for the six-month periods ended June 30, 2018 and 2017 were authorized for issue in accordance with the resolution of the board of directors’ meeting held on August 8, 2018.

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 recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

- (a) *IFRS 15 “Revenue from Contracts with Customers” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”)*

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations. In accordance with the transition provision in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group’s principal activities consist of the sale of goods. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

- A. Please refer to Note 4 for the accounting policies before or after January 1, 2018.
- B. Before January 1, 2018, revenue from sale of goods was recognized when goods have been delivered to the buyer. Starting from January 1, 2018, in accordance with IFRS 15, the Group recognized revenue when (or as) the Group satisfies a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Group’s revenue recognition from sale of goods. Besides, the Group has the right to transfer the goods to customers and also to an amount of consideration that is unconditional. Therefore, the recognition of trade receivables has no difference from treatment under IFRS 15.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- C. The Group received consideration in advance from customers before transferring a promised good to a customer and had the obligation to provide the services subsequently. Before January 1, 2018, the Group recognized the consideration received in advance from customers under other current liabilities. Starting from January 1, 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from other current liabilities to contracts liabilities of the Group as at the date of initial application was \$19,787. In addition, compared with IAS 18, other current liabilities decreased by \$18,848 and the contract liabilities increased by \$18,848 as at June 30, 2018.
- D. Please refer to Notes 4, 5 and 6 for additional disclosure note required by IFRS 15.

(b) *IFRS 9“Financial Instruments”*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. In accordance with the transition provision in IFRS 9, the Group elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Group:

- A. The Group adopted IFRS 9 on January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.
- B. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are 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)

| IAS 39                                                                                                                                                                                              |                    | IFRS 9                                                                                                                                                                                    |                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Measurement categories                                                                                                                                                                              | Carrying amounts   | Measurement categories                                                                                                                                                                    | Carrying amounts   |
| Fair value through profit or loss                                                                                                                                                                   | \$132              | Fair value through profit or loss                                                                                                                                                         | \$132              |
| Fair value through other comprehensive income                                                                                                                                                       |                    | Fair value through other comprehensive income                                                                                                                                             | 32,056             |
| Available-for-sale financial assets (including measured at cost)                                                                                                                                    | 19,096             |                                                                                                                                                                                           |                    |
| At amortized cost                                                                                                                                                                                   |                    | At amortized cost (including cash and cash equivalents (excludes cash on hand) , notes receivables, trade receivables, financial assets measured at amortized cost and other receivables) | 4,508,023          |
| Loans and receivables (including cash and cash equivalents (excludes cash on hand) , notes receivables, trade receivables, debt instrument investments with no active market and other receivables) | 4,508,023          |                                                                                                                                                                                           |                    |
| Total                                                                                                                                                                                               | <u>\$4,527,251</u> | Total                                                                                                                                                                                     | <u>\$4,540,211</u> |

C. The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets and financial liabilities as at January 1, 2018 are as follows:

| IAS 39                                                |                  | IFRS 9                                        |                  | Difference | Deferred tax liabilities | Other components of equity |
|-------------------------------------------------------|------------------|-----------------------------------------------|------------------|------------|--------------------------|----------------------------|
| Class of financial instruments                        | Carrying amounts | Class of financial instruments                | Carrying amounts |            | Adjustment               | Adjustment                 |
| Financial assets at fair value through profit or loss |                  |                                               |                  |            |                          |                            |
| Held-for-trading                                      | \$132            | Measured at fair value through profit or loss | \$132            | -          | -                        | -                          |

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

| IAS 39                                                                                                                                                                        |                    | IFRS 9                                                                         |                    |                 | Deferred tax liabilities | Other components of equity |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------------------------------------------------------------------|--------------------|-----------------|--------------------------|----------------------------|
| Class of financial instruments                                                                                                                                                | Carrying amounts   | Class of financial instruments                                                 | Carrying amounts   | Difference      | Adjustment               | Adjustment                 |
| Available-for-sale financial assets - noncurrent (including investments measured at cost with initial investment cost of \$19,096, reported as a separate line item) (Note 1) | 19,096             | Measured at fair value through other comprehensive income (equity instruments) | 32,056             | 12,960          | 2,592                    | 10,368                     |
| Loans and receivables (Note 2)                                                                                                                                                |                    |                                                                                |                    |                 |                          |                            |
| Cash and cash equivalents (excludes cash on hand)                                                                                                                             | 3,095,339          | Cash and cash equivalents (excludes cash on hand)                              | 3,095,339          | -               | -                        | -                          |
| Debt instrument investments with no active market, current                                                                                                                    | 59,463             | Financial assets measured at amortized cost, current                           | 59,463             | -               | -                        | -                          |
| Accounts receivable, net                                                                                                                                                      | 1,311,147          | Accounts receivable, net                                                       | 1,311,147          | -               | -                        | -                          |
| Other receivables                                                                                                                                                             | 28,876             | Measured at fair value through profit or loss                                  | 28,876             | -               | -                        | -                          |
| Debt instrument investments with no active market, noncurrent                                                                                                                 | 13,198             | Financial assets measured at amortized cost, noncurrent                        | 13,198             | -               | -                        | -                          |
| Subtotal                                                                                                                                                                      | 4,508,023          | Subtotal                                                                       | 4,508,023          | -               | -                        | -                          |
| Total                                                                                                                                                                         | <u>\$4,527,251</u> | Total                                                                          | <u>\$4,540,211</u> | <u>\$12,960</u> | <u>\$2,592</u>           | <u>\$10,368</u>            |

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Notes:

- (1) In accordance with of IAS 39, the Group's available-for-sale financial assets included investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Adjustment details are described as follows:

a. Stocks (unlisted companies)

The Group assessed the facts and circumstances existed as at January 1, 2018, and determined these stocks were not held-for-trading; therefore, the Group elected to designate them as financial assets measured at fair value through other comprehensive income. As at January 1, 2018, the Group reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income of \$19,096. Other related adjustments are described as follows:

- (a) The stocks of unlisted companies previously measured at cost in accordance with IAS 39 had an original cost of \$19,096. In accordance with IFRS 9, stocks of unlisted companies must be measured at fair value. The fair value of the stocks of unlisted companies was \$32,056 as at January 1, 2018. Accordingly, the Group adjusted the carrying amount of financial assets measured at fair value through other comprehensive income in the amount of \$32,056 and also adjusted other equity and deferred tax liabilities by \$10,368 and \$2,592, respectively.
- (2) In accordance with IAS 39, the cash flow characteristics for held-to-maturity investments and loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arising from the assessment of impairment losses for the aforementioned assets as at January 1, 2018. Therefore, there is no impact on the carrying amount as at January 1, 2018. As at January 1, 2018, debt instrument investments with no active market-current of \$59,463 and debt instrument investments with no active market-noncurrent of \$13,198 were reclassified to financial assets measured at amortized cost-current of \$59,463 and financial assets measured at amortized cost-noncurrent of \$13,198, respectively.



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- D. Please refer to Notes 4, 5, 6 and 12 for the related disclosures required by IFRS 7 and IFRS 9.

(c) *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 the entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Group originally recorded their foreign currency sales transactions based on the exchange rate on the date of revenue recognition and converted into its functional currency. The exchange difference was recognized when the foreign currency advance payment was written off. The Group elected to apply this application prospectively on January 1, 2018. This change in accounting principle did not significantly impact the Group's recognition and measurement.

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

The Group required to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Please refer to Note 12 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)

- (2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board (“IASB”) which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below.

| Items | New, Revised or Amended Standards and Interpretations                         | Effective Date issued by IASB |
|-------|-------------------------------------------------------------------------------|-------------------------------|
| a     | IFRS 16 “Leases”                                                              | January 1, 2019               |
| b     | IFRIC 23 “Uncertainty Over Income Tax Treatments”                             | January 1, 2019               |
| c     | IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28   | January 1, 2019               |
| d     | Prepayment Features with Negative Compensation (Amendments to IFRS 9)         | January 1, 2019               |
| e     | Improvements to International Financial Reporting Standards (2015-2017 cycle) | January 1, 2019               |
| f     | Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)              | January 1, 2019               |

(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.

(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.

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

(d) *Prepayment Features with Negative Compensation (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.

(e) *Improvements to International Financial Reporting Standards (2015-2017 cycle):*

*IFRS 3 “Business Combinations”*

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

*IFRS 11 “Joint Arrangements”*

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

*IAS 12 “Income Taxes”*

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

*IAS 23 “Borrowing Costs”*

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

(f) *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. As the Group is still currently determining the potential impact of the standards and interpretations listed under (a), it is not practicable to estimate their impact on the Group at this point in time. All other standards and interpretations have no material impact on the Group.

- (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.

| Items | New, Revised or Amended Standards and Interpretations                                                                                                                                          | Effective Date issued by IASB |
|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| a     | 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 | To be determined by IASB      |
| b     | IFRS 17 “Insurance Contracts”                                                                                                                                                                  | January 1, 2021               |

- (a) *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*

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

### Notes to Consolidated Financial Statements (Continued)

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

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.

#### (b) 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.

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

### 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 :

- (1) a specific adaptation for contracts with direct participation features (the Variable Fee Approach) ;
- (2) a simplified approach mainly for short-duration contracts (Premium Allocation Approach).

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, it is not practicable to estimate their impact on the Group at this point in time.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (1) Statement of compliance

The consolidated financial statements of the Group for the six-month periods ended June 30, 2018 and 2017 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

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

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

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

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

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

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

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

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

If the Group loses control of a subsidiary, it:

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

The consolidated entities are as follows:

| Investor    | Subsidiary                                               | Business nature                                                     | Percentage of ownership (%) as of |                      |                  |
|-------------|----------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------|----------------------|------------------|
|             |                                                          |                                                                     | June 30,<br>2018                  | December 31,<br>2017 | June 30,<br>2017 |
| 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 company                                         | 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. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

| Investor                                                                | Subsidiary                                                                               | Business nature                                   | Percentage of ownership (%) as of |                      |                  |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------|----------------------|------------------|
|                                                                         |                                                                                          |                                                   | June 30,<br>2018                  | December 31,<br>2017 | June 30,<br>2017 |
| 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%          |

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 \$205,445 and \$183,464 of the total consolidated assets as of June 30, 2018, and 2017, respectively. The liabilities of the investments amounted to \$19,839 and \$14,851 of the total consolidated liabilities as of June 30, 2018 and 2017, respectively. The related comprehensive income of the investments amounted to \$4,156, \$1,251, \$5,837 and \$(6,489) of the consolidated comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

- a. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- b. Foreign currency items within the scope of IFRS 9 *Financial Instruments* (Before January 1, 2018: 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.

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

### Notes to Consolidated Financial Statements (Continued)

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

#### (5) Translation of foreign currency financial statements

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

- (a) when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- (b) when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

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

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

#### (6) Current and non-current distinction

An asset is classified as current when:

- a. The Group expects to 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

(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 IFRS 9 *Financial Instruments* (Before January 1, 2018: 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.

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

(1) Financial instruments: Recognition and Measurement

**The accounting policy from January 1, 2018 as follows:**

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

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- A. the Group's business model for managing the financial assets
- B. the contractual cash flow characteristics of the financial asset

**Financial assets measured at amortized cost**

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- A. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- B. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- A. purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition
- B. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- A. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- B. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
  - (i) Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

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

### Notes to Consolidated Financial Statements (Continued)

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

- (ii) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

In addition, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

#### Financial asset measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

#### **The accounting policy before January 1, 2018 is as follows:**

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, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Financial assets 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 as 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)

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.



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

### Notes to Consolidated Financial Statements (Continued)

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

#### Available-for-sale financial assets

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

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

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

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(2) Impairment of financial assets

**The accounting policy from January 1, 2018 is as follows:**

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- (b) the time value of money
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

The loss allowance is measured as follows:

- A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

**The accounting policy before January 1, 2018 is as follows:**

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.

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

Other loss events include:

- i. significant financial difficulty of the issuer or obligor
- 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 loans and receivables, 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.

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

### Notes to Consolidated Financial Statements (Continued)

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

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

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

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

#### (3) 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

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

### Notes to Consolidated Financial Statements (Continued)

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

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.

#### (4) 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.

##### Financial liabilities

Financial liabilities within the scope of IFRS 9 *Financial Instruments* (before January 1, 2018: 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 as at fair value through profit or loss. A financial liability is classified as held for trading if:

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

### Notes to Consolidated Financial Statements (Continued)

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

- 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.

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.

Before January 1, 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

#### Financial liabilities at amortized cost

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

(5) 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 instruments

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

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

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

### Notes to Consolidated Financial Statements (Continued)

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

Before January 1, 2018, 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 separated from the host contract and accounted for as a derivative. The aforementioned policy are applicable to host contracts as financial liabilities or non-financial assets on January 1, 2018.

#### (10) Fair value measurement

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

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

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



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

### Notes to Consolidated Financial Statements (Continued)

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

#### (11) Inventories

Inventories are 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                          | — Purchase cost under weighted average cost method.                                                                                                                                                                                        |
| 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.

Starting from January 1, 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

#### (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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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 the associate or joint venture on a prorata 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 the associate or joint venture.

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 28 *Investments in Associates and Joint Ventures* (before January 1, 2018: 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:

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

### Notes to Consolidated Financial Statements (Continued)

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

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- (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.

#### (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.

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

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.

### (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*.

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

### Notes to Consolidated Financial Statements (Continued)

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

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

|           |          |
|-----------|----------|
| Buildings | 25 years |
|-----------|----------|

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.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the 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.

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.

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

### Notes to Consolidated Financial Statements (Continued)

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

#### 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.

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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Accounting policies of the Group's intangible assets is summarized as follows:

|                        | <u>Software</u>                                                    | <u>Trademarks</u>                                                  | <u>Patents</u>                                                     | <u>Others</u>                                                      |
|------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Useful lives           | 1~5 years                                                          | 1~5 years                                                          | 1~5 years                                                          | 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 | Amortized on a straight- line basis over the estimated useful life |
| Sources                | 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.

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

### Notes to Consolidated Financial Statements (Continued)

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

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

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

#### (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 Stock

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

#### (20) Revenue recognition

##### **The accounting policy from January 1, 2018 is as follows:**

The Group's revenue arising from contracts with customers are primarily related to sale of goods. The accounting policies are explained 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)

#### Sale of goods

The Group manufactures and sells machinery. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group are sewing machines and vacuum cleaners and spare parts and revenue is recognized based on the consideration stated in the contract.

The credit period of the Group's sale of goods is from 45 to 90 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

#### **The accounting policy before January 1, 2018 is as follows:**

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

##### a. Sale of goods

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

(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.

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

### Notes to Consolidated Financial Statements (Continued)

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

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of :

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

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

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

#### (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.

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

### Notes to Consolidated Financial Statements (Continued)

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

The 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:

- 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.

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

### Notes to Consolidated Financial Statements (Continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and 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.

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. The estimated average annual effective income tax rate only includes current income tax. The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12. The Group recognizes the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

#### 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.

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

(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) 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

Starting from January 1, 2018:

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Before January 1, 2018:

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. Please refer to Note 6 for more details.

(c) Fair value of financial instruments

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

(d) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

### (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 countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

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              |                      |                    |
|-------------------------------|--------------------|----------------------|--------------------|
|                               | June 30,<br>2018   | December 31,<br>2017 | June 30,<br>2017   |
| Cash on hand                  | \$270              | \$290                | \$248              |
| Checking and savings accounts | 1,346,621          | 2,697,743            | 1,873,682          |
| Time deposits                 | 1,284,645          | 397,596              | 349,036            |
| Total                         | <u>\$2,631,536</u> | <u>\$3,095,629</u>   | <u>\$2,222,966</u> |



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(2) ACCOUNTS RECEIVABLE, NET

|                                              | As of              |                      |                    |
|----------------------------------------------|--------------------|----------------------|--------------------|
|                                              | June 30,<br>2018   | December 31,<br>2017 | June 30,<br>2017   |
| Accounts receivable - non<br>related parties | \$1,610,905        | \$1,315,946          | \$1,606,397        |
| Less: loss allowance                         | (11,408)           | (4,799)              | (5,087)            |
| Accounts receivable, net                     | <u>\$1,599,497</u> | <u>\$1,311,147</u>   | <u>\$1,601,310</u> |

Trade receivables are generally on 45-90 day terms. The Group adopted IFRS 9 for impairment assessment on January 1, 2018. Please refer to Note 6(15) for more details on impairment of trade receivables. The Group adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of trade receivables for the six-month ended June 30, 2017 are as follows: (Please refer to Note 12 for more details on credit risk disclosure) :

|                                 | Individually<br>impaired | Collectively<br>impaired | Total          |
|---------------------------------|--------------------------|--------------------------|----------------|
| As of January 1, 2017           | \$-                      | \$10,137                 | \$10,137       |
| Reversal for the current period | -                        | (5,050)                  | (5,050)        |
| As of June 30, 2017             | <u>\$-</u>               | <u>\$5,087</u>           | <u>\$5,087</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<br>nor impaired | Past due but not impaired |            |                |                 | Total       |
|-------------------|----------------------------------|---------------------------|------------|----------------|-----------------|-------------|
|                   |                                  | 1~30 days                 | 31-90 days | 91-360<br>days | Upon 361<br>day |             |
| December 31, 2017 | \$1,272,075                      | \$22,170                  | \$16,895   | \$7            | \$-             | \$1,311,147 |
| June 30, 2017     | \$1,452,135                      | \$139,271                 | \$8,963    | \$941          | \$-             | \$1,601,310 |

No accounts receivables were pledged.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(3) Inventories, net

a. Details as follows

|                         | As of            |                      |                  |
|-------------------------|------------------|----------------------|------------------|
|                         | June 30,<br>2018 | December 31,<br>2017 | June 30,<br>2017 |
| Raw materials           | \$333,801        | \$269,890            | \$304,760        |
| Work in progress        | 8,931            | 2,721                | 22,612           |
| Semi-manufactured goods | 37,267           | 18,275               | 23,181           |
| Finished goods          | 397,616          | 99,386               | 351,911          |
| Total                   | <u>\$777,615</u> | <u>\$390,272</u>     | <u>\$702,464</u> |

- b. For the three-month periods ended June 30, 2018 and 2017, the Group recognized \$1,385,307 and \$1,245,477, respectively, in operating cost, of which \$16 and \$1,174 were related to inventory valuation loss. For the six-month periods ended June 30, 2018 and 2017, the Group recognized \$2,211,886 and \$1,984,456, respectively, in operating cost, of which \$2,423 was related to gain from inventory price recovery and \$1,761 of inventory valuation loss, respectively.
- c. For the six-month period ended June 30, 2018, the gains from inventory price recovery were recognized due to the fact that the inventory that has been established a valuation loss earlier has been scrapped and the sluggish inventory has been consumed.
- d. No inventories were pledged.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (Continued)  
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(4) Property, plant and equipment

|                       | Land            | Buildings and<br>Facilities | Machinery and<br>equipment | Tooling<br>equipment | Transportation<br>equipment | Furniture,<br>fixtures and<br>equipment | Leasehold<br>improvements | Miscellaneous<br>equipment | Construction in<br>progress and<br>equipment awaiting<br>examination | Total              |
|-----------------------|-----------------|-----------------------------|----------------------------|----------------------|-----------------------------|-----------------------------------------|---------------------------|----------------------------|----------------------------------------------------------------------|--------------------|
| Cost:                 |                 |                             |                            |                      |                             |                                         |                           |                            |                                                                      |                    |
| As of January 1, 2018 | \$21,075        | \$639,454                   | \$884,874                  | \$295,125            | \$29,688                    | \$20,057                                | \$3,280                   | \$314,413                  | \$69,507                                                             | \$2,277,473        |
| Additions             | -               | 405                         | 13,148                     | 39,187               | 3                           | 546                                     | -                         | 8,906                      | 103,327                                                              | 165,522            |
| Disposals             | -               | -                           | (4,132)                    | (8,869)              | (769)                       | (80)                                    | (3,280)                   | (600)                      | -                                                                    | (17,730)           |
| Transfers             | -               | 5,377                       | 3,044                      | 17,841               | 2,335                       | 179                                     | -                         | 1,005                      | (16,257)                                                             | 13,524             |
| Exchange differences  | -               | 5,912                       | 8,805                      | 2,928                | 278                         | 213                                     | -                         | 2,709                      | 71                                                                   | 20,916             |
| As of June 30, 2018   | <u>\$21,075</u> | <u>\$651,148</u>            | <u>\$905,739</u>           | <u>\$346,212</u>     | <u>\$31,535</u>             | <u>\$20,915</u>                         | <u>\$-</u>                | <u>\$326,433</u>           | <u>\$156,648</u>                                                     | <u>\$2,459,705</u> |
| As of January 1, 2017 | \$21,075        | \$754,034                   | \$866,263                  | \$249,567            | \$32,318                    | \$27,209                                | \$3,280                   | \$333,041                  | \$40,514                                                             | \$2,327,301        |
| Additions             | -               | -                           | 42,324                     | 28,010               | 1,612                       | 318                                     | -                         | 6,499                      | 32,953                                                               | 111,716            |
| Disposals             | -               | -                           | (1,772)                    | (9,909)              | (2,542)                     | (11)                                    | -                         | (544)                      | -                                                                    | (14,778)           |
| Transfers             | -               | -                           | 23,217                     | 13,033               | 55                          | 159                                     | -                         | 437                        | (21,232)                                                             | 15,669             |
| Exchange differences  | -               | (5,002)                     | (5,750)                    | (2,658)              | (234)                       | (5)                                     | -                         | (1,651)                    | (70)                                                                 | (15,370)           |
| As of June 30, 2017   | <u>\$21,075</u> | <u>\$749,032</u>            | <u>\$924,282</u>           | <u>\$278,043</u>     | <u>\$31,209</u>             | <u>\$27,670</u>                         | <u>\$3,280</u>            | <u>\$337,782</u>           | <u>\$52,165</u>                                                      | <u>\$2,424,538</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<br>Facilities | Machinery and<br>equipment | Tooling<br>equipment | Transportation<br>equipment | Furniture,<br>fixtures and<br>equipment | Leasehold<br>improvements | Miscellaneous<br>equipment | Construction in<br>progress and<br>equipment awaiting<br>examination | Total              |
|---------------------------------|-----------------|-----------------------------|----------------------------|----------------------|-----------------------------|-----------------------------------------|---------------------------|----------------------------|----------------------------------------------------------------------|--------------------|
| Depreciation and<br>impairment: |                 |                             |                            |                      |                             |                                         |                           |                            |                                                                      |                    |
| As of January 1, 2018           | \$-             | \$173,775                   | \$453,133                  | \$200,478            | \$16,320                    | \$12,073                                | \$3,280                   | \$137,935                  | \$-                                                                  | \$996,994          |
| Depreciation                    | -               | 11,404                      | 39,843                     | 30,464               | 1,583                       | 1,482                                   | -                         | 12,812                     | -                                                                    | 97,588             |
| Disposals                       | -               | -                           | (3,915)                    | (4,938)              | (739)                       | (80)                                    | (3,280)                   | (577)                      | -                                                                    | (13,529)           |
| Transfers                       | -               | -                           | -                          | -                    | -                           | -                                       | -                         | -                          | -                                                                    | -                  |
| Exchange differences            | -               | 1,341                       | 4,724                      | 1,849                | 124                         | 147                                     | -                         | 1,029                      | -                                                                    | 9,214              |
| As of June 30, 2018             | <u>\$-</u>      | <u>\$186,520</u>            | <u>\$493,785</u>           | <u>\$227,853</u>     | <u>\$17,288</u>             | <u>\$13,622</u>                         | <u>\$-</u>                | <u>\$151,199</u>           | <u>\$-</u>                                                           | <u>\$1,090,267</u> |
| As of January 1, 2017           | \$-             | \$197,739                   | \$404,198                  | \$184,564            | \$16,132                    | \$14,536                                | \$2,937                   | \$125,825                  | \$-                                                                  | \$945,931          |
| Depreciation                    | -               | 12,950                      | 41,181                     | 22,525               | 1,737                       | 1,899                                   | 343                       | 13,175                     | -                                                                    | 93,810             |
| Disposals                       | -               | -                           | (1,180)                    | (9,395)              | (2,288)                     | (10)                                    | -                         | (464)                      | -                                                                    | (13,337)           |
| Transfers                       | -               | -                           | -                          | -                    | -                           | -                                       | -                         | -                          | -                                                                    | -                  |
| Exchange differences            | -               | (2,790)                     | (4,254)                    | (2,036)              | (212)                       | (3)                                     | -                         | (1,207)                    | -                                                                    | (10,502)           |
| As of June 30, 2017             | <u>\$-</u>      | <u>\$207,899</u>            | <u>\$439,945</u>           | <u>\$195,658</u>     | <u>\$15,369</u>             | <u>\$16,422</u>                         | <u>\$3,280</u>            | <u>\$137,329</u>           | <u>\$-</u>                                                           | <u>\$1,015,902</u> |
| Net carrying amount<br>as of:   |                 |                             |                            |                      |                             |                                         |                           |                            |                                                                      |                    |
| June 30, 2018                   | <u>\$21,075</u> | <u>\$464,628</u>            | <u>\$411,954</u>           | <u>\$118,359</u>     | <u>\$14,247</u>             | <u>\$7,293</u>                          | <u>\$-</u>                | <u>\$175,234</u>           | <u>\$156,648</u>                                                     | <u>\$1,369,438</u> |
| December 31, 2017               | <u>\$21,075</u> | <u>\$465,679</u>            | <u>\$431,741</u>           | <u>\$94,647</u>      | <u>\$13,368</u>             | <u>\$7,984</u>                          | <u>\$-</u>                | <u>\$176,478</u>           | <u>\$69,507</u>                                                      | <u>\$1,280,479</u> |
| June 30, 2017                   | <u>\$21,075</u> | <u>\$541,133</u>            | <u>\$484,337</u>           | <u>\$82,385</u>      | <u>\$15,840</u>             | <u>\$11,248</u>                         | <u>\$-</u>                | <u>\$200,453</u>           | <u>\$52,165</u>                                                      | <u>\$1,408,636</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 June 30, 2018, December 31, 2017 and June 30, 2017.

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    |
|--------------------------------------------------------------------------------|----------|--------------------------------------------|----------|
| <b>Cost:</b>                                                                   |          |                                            |          |
| As of January 1, 2018                                                          | \$41,124 | \$30,747                                   | \$71,871 |
| Additions                                                                      | -        | -                                          | -        |
| As of June 30, 2018                                                            | \$41,124 | \$30,747                                   | \$71,871 |
| As of January 1, 2017                                                          | \$41,124 | \$30,747                                   | \$71,871 |
| Additions                                                                      | -        | -                                          | -        |
| As of June 30, 2017                                                            | \$41,124 | \$30,747                                   | \$71,871 |
| <b>Depreciation and impairment:</b>                                            |          |                                            |          |
| As of January 1, 2018                                                          | \$-      | \$2,049                                    | \$2,049  |
| Depreciation                                                                   | -        | 615                                        | 615      |
| As of June 30, 2018                                                            | \$-      | \$2,664                                    | \$2,664  |
| As of January 1, 2017                                                          | \$-      | \$819                                      | \$819    |
| Depreciation                                                                   | -        | 615                                        | 615      |
| As of June 30, 2017                                                            | \$-      | \$1,434                                    | \$1,434  |
| Net carrying amount:                                                           |          |                                            |          |
| As of June 30, 2018                                                            | \$41,124 | \$28,083                                   | \$69,207 |
| As of December 31, 2017                                                        | \$41,124 | \$28,698                                   | \$69,822 |
| As of June 30, 2017                                                            | \$41,124 | \$29,313                                   | \$70,437 |
|                                                                                |          | For the six-month periods<br>ended June 30 |          |
|                                                                                |          | 2018                                       | 2017     |
| Rental income from investment property                                         |          | \$1,149                                    | \$1,149  |
| Less:                                                                          |          |                                            |          |
| Direct operating expenses from investment property<br>generating rental income |          | -                                          | -        |
| Total                                                                          |          | \$1,149                                    | \$1,149  |

No investment property was pledged.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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 Group's investment properties was \$80,690 determined based on valuations performed by an independent valuer appointed on March 15, 2016. The fair value has been supported by prices in the active market. The valuation methods used are comparison approach and direct capitalization method, and the inputs of direct method used were net profit in the amount of \$1,342 and capitalization rate of 1.60%.

The Group assessed the fair value by comparing the actual selling price to cases with similar conditions in the neighborhood registered on the website of Real Estate Actual Transaction Price Inquiring System of Ministry of the Interior on June 30, 2018, December 31, 2017 and June 30, 2017. The fair value of the abovementioned investment properties assessed by the Group was almost the same as the one determined by the independent valuer appointed on March 15, 2016.

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 January 1, 2018        | \$119,551        | \$8,865        | \$2,149        | \$1,181        | \$6,872        | \$138,618        |
| Addition-acquired separately | 1,638            | 309            | 85             | -              | -              | 2,032            |
| Disposals                    | 1,170            | -              | -              | -              | -              | 1,170            |
| Exchange differences         | 69               | -              | -              | -              | -              | 69               |
| As of June 30, 2018          | <u>\$122,428</u> | <u>\$9,174</u> | <u>\$2,234</u> | <u>\$1,181</u> | <u>\$6,872</u> | <u>\$141,889</u> |
| As of January 1, 2017        | \$98,528         | \$8,273        | \$2,004        | \$1,181        | \$6,872        | \$116,858        |
| Addition-acquired separately | 5,966            | 57             | -              | -              | -              | 6,023            |
| Disposals                    | 1,400            | -              | -              | -              | -              | 1,400            |
| Exchange differences         | (56)             | -              | -              | -              | -              | (56)             |
| As of June 30, 2017          | <u>\$105,838</u> | <u>\$8,330</u> | <u>\$2,004</u> | <u>\$1,181</u> | <u>\$6,872</u> | <u>\$124,225</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 January 1, 2018        | \$79,040        | \$6,183        | \$1,963        | \$-            | \$6,872        | \$94,058         |
| Amortization                 | 9,056           | 120            | 13             | -              | -              | 9,189            |
| Exchange differences         | 51              | -              | -              | -              | -              | 51               |
| As of June 30, 2018          | <u>88,147</u>   | <u>\$6,303</u> | <u>\$1,976</u> | <u>\$-</u>     | <u>\$6,872</u> | <u>\$103,298</u> |
| As of January 1, 2017        | \$61,218        | \$5,972        | \$1,936        | \$-            | \$6,872        | \$75,998         |
| Amortization                 | 8,777           | 103            | 17             | -              | -              | 8,897            |
| Exchange differences         | (45)            | -              | -              | -              | -              | (45)             |
| As of June 30, 2017          | <u>\$69,950</u> | <u>\$6,075</u> | <u>\$1,953</u> | <u>\$-</u>     | <u>\$6,872</u> | <u>\$84,850</u>  |
| Net carrying amount as of:   |                 |                |                |                |                |                  |
| June 30, 2018                | <u>\$34,281</u> | <u>\$2,871</u> | <u>\$258</u>   | <u>\$1,181</u> | <u>\$-</u>     | <u>\$38,591</u>  |
| December 31, 2017            | <u>\$40,511</u> | <u>\$2,682</u> | <u>\$186</u>   | <u>\$1,181</u> | <u>\$-</u>     | <u>\$44,560</u>  |
| June 30, 2017                | <u>\$35,888</u> | <u>\$2,255</u> | <u>\$51</u>    | <u>\$1,181</u> | <u>\$-</u>     | <u>\$39,375</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<br>ended June 30 |                | For the six-month periods<br>ended June 30 |                |
|-------------------------------|----------------------------------------------|----------------|--------------------------------------------|----------------|
|                               | 2018                                         | 2017           | 2018                                       | 2017           |
| Operating cost                | \$1,608                                      | \$1,608        | \$3,168                                    | \$3,115        |
| Selling and marketing         | 138                                          | 108            | 277                                        | 215            |
| Management and administrative | 2,388                                        | 2,340          | 5,274                                      | 4,577          |
| Research and development      | 192                                          | 463            | 470                                        | 990            |
| Total                         | <u>\$4,326</u>                               | <u>\$4,519</u> | <u>\$9,189</u>                             | <u>\$8,897</u> |

(7) Other non-current assets

|                                 | As of            |                      |                  |
|---------------------------------|------------------|----------------------|------------------|
|                                 | June 30,<br>2018 | December<br>31, 2017 | June 30,<br>2017 |
| Long-term prepaid rent expenses | \$158,529        | \$162,739            | \$148,490        |
| Prepayment for equipment        | 23,812           | 18,909               | 28,954           |
| Others                          | 28,218           | 22,939               | 26,983           |
| Total                           | <u>\$210,559</u> | <u>\$204,587</u>     | <u>\$204,427</u> |

As of June 30, 2018, December 31, 2017 and June 30, 2017 all of long-term prepaid rent expenses were land use rights.

(8) Short-term borrowings

|                      | As of            |                      |                  |
|----------------------|------------------|----------------------|------------------|
|                      | June 30,<br>2018 | December<br>31, 2017 | June 30,<br>2017 |
| Unsecured bank loans | <u>\$336,654</u> | <u>\$672,585</u>     | <u>\$372,450</u> |

|                | As of            |                      |                  |
|----------------|------------------|----------------------|------------------|
|                | June 30,<br>2018 | December<br>31, 2017 | June 30,<br>2017 |
| Interest rates | 0.88%-2.90%      | 0.88%-2.10%          | 0.88%-1.95%      |

The Group's unused short-term lines of credits amounted to \$939,671, \$455,610 and \$464,000 as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(9) Short-term notes and bills payable

| Accounting title                                        | Guarantee                             | As of            |                      |                  |
|---------------------------------------------------------|---------------------------------------|------------------|----------------------|------------------|
|                                                         |                                       | June 30,<br>2018 | December<br>31, 2017 | June 30,<br>2017 |
| Commercial paper payable                                | Ta Ching Bills<br>Finance Corporation | \$-              | \$80,000             | \$60,000         |
|                                                         | Mega Bills Finance<br>Corporation     | 250,000          | 150,000              | 150,000          |
| Less: discount on short-term<br>notes and bills payable |                                       | -                | -                    | -                |
| Net short-term notes and bills<br>payable               |                                       | <u>\$250,000</u> | <u>\$230,000</u>     | <u>\$210,000</u> |

|                | As of            |                      |                  |
|----------------|------------------|----------------------|------------------|
|                | June 30,<br>2018 | December 31,<br>2017 | June 30,<br>2017 |
| Interest rates | 0.64%            | 0.56%-0.64%          | 0.56%-0.72%      |

(10) Post-employment benefits

Defined contribution plan

Pension expenses under the defined contribution plan were \$2,663, \$2,795, \$5,373 and \$5,553 for the three-month and six-month periods ended June 30, 2018 and 2017, respectively.

Defined benefits plan

Pension expenses under the defined benefits plan were \$419, \$661, \$838 and \$1,321 for the three-month and six-month periods ended June 30, 2018 and 2017, respectively.

The Group recognized pension cost for high-ranking officers amounting to \$300, \$300, \$600 and \$600 for the three-month and six-month periods ended June 30, 2018 and 2017, respectively.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(11) Long-term loans

Details of long-term loans as of June 30, 2018, December 31, 2017 and June 30, 2017 are as follows:

(a) Details of long-term loans in June 30, 2018 are as follows:

| Creditor                    | June 30,<br>2018 | Rate (%) | Repayment period and methods                                                                                                                     |
|-----------------------------|------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Bank of Taiwan<br>(Secured) | \$160,000        | 1.02%    | Interests are paid monthly from December 7, 2017 through December 7, 2022. Principals are paid in 48 installments starting from the second year. |
| Subtotal                    | 160,000          |          |                                                                                                                                                  |
| Less: current portion       | -                |          |                                                                                                                                                  |
| Total                       | <u>\$160,000</u> |          |                                                                                                                                                  |

(b) Details of long-term loans in December 31, 2017 are as follows:

| Creditor                    | December<br>31, 2017 | Rate (%) | Repayment period and methods                                                                                                                     |
|-----------------------------|----------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Bank of Taiwan<br>(Secured) | \$160,000            | 1.02%    | Interests are paid monthly from December 7, 2017 through December 7, 2022. Principals are paid in 48 installments starting from the second year. |
| Subtotal                    | 160,000              |          |                                                                                                                                                  |
| Less: current portion       | -                    |          |                                                                                                                                                  |
| Total                       | <u>\$160,000</u>     |          |                                                                                                                                                  |

(c) Details of long-term loans in June 30, 2017 are as follows: none.

(d) Certain land and buildings are pledged as first priority security for secured bank loans with Bank of Taiwan, please refer to Note 8 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) Equities

a. Share capital

As of January 1, 2017, 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 June 30, 2018, the Company's treasury stocks amounted to \$2,163, divided into 17,000 shares.

(b) The board meeting held on August 28, 2015 approved to repurchase 1,200,000 shares, which would be transferred to employees to motivate them. The expected period to execute the decision will take place between August 29, 2015 and October 27, 2015; the repurchase price will be between \$100 to \$150.

(c) No treasury stock has been transferred to employees as of June 30, 2018.

(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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (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.

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

Following the adoption of IFRS, the FSC on April 6, 2012 issued Order No Jin-Guan-Cheng-Fa-Zi-1010012865, on a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following the Company's adoption of the IFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, the special reserve equivalent to the net debit balance of the other components of shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company's special reserve resulted from first-time adoption of IFRS on January 1, 2012 (adoption date) was \$0.

Details of the 2017 and 2016 earnings distribution and dividends per share as approved by the resolution of the shareholders' meeting on June 13, 2018 and June 14, 2017, respectively, are as follows:

|                             | Appropriation of earnings |                  | Dividend per share<br>(NTD) |       |
|-----------------------------|---------------------------|------------------|-----------------------------|-------|
|                             | 2017                      | 2016             | 2017                        | 2016  |
| Legal reserve               | \$-                       | \$85,143         |                             |       |
| Special reserve             | 131,600                   | 45,286           |                             |       |
| Cash dividends-common stock | 514,552                   | 575,088          | \$8.5                       | \$9.5 |
| Total                       | <u>\$646,152</u>          | <u>\$705,517</u> |                             |       |

The Company estimated the amounts of the employee's compensation and remuneration to directors and supervisors, please refer to Note 6 (17) 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)

(13) Non-controlling interests

|                                                   | Six-month periods ended June 30 |          |
|---------------------------------------------------|---------------------------------|----------|
|                                                   | 2018                            | 2017     |
| Balance as of January 1                           | \$38,313                        | \$32,087 |
| Profits attributable to non-controlling interests | 4,586                           | 2,474    |
| Cash dividends                                    | (10,998)                        | (6,599)  |
| Balance as of June 30                             | \$31,901                        | \$27,962 |

(14) Sales

|                                       | Three-month periods ended<br>June 30 |             | Six-month periods ended<br>June 30 |             |
|---------------------------------------|--------------------------------------|-------------|------------------------------------|-------------|
|                                       | 2018(Note)                           | 2017        | 2018(Note)                         | 2017        |
| Revenue from contracts with customers |                                      |             |                                    |             |
| Sale of goods                         | \$1,851,339                          | \$1,687,803 | \$2,899,080                        | \$2,661,328 |
| Commissions                           | 379                                  | -           | 733                                | -           |
| Net sales                             | \$1,851,718                          | \$1,687,803 | \$2,899,813                        | \$2,661,328 |

Note: The Group adopted IFRS 15 on January 1, 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (January 1, 2018).

The Group adopted IFRS 15 on January 1, 2018. Analysis of revenue from contracts with customers during the year is as follows:

(1) Disaggregation of revenue

a. For the three-month periods ended June 30, 2018

|               | Taiwan      | China    | Vietnam  | Total       |
|---------------|-------------|----------|----------|-------------|
| Sale of goods | \$1,743,844 | \$53,383 | \$54,112 | \$1,851,339 |
| Commissions   | 379         | -        | -        | 379         |
| Total         | \$1,744,223 | \$53,383 | \$54,112 | \$1,851,718 |

b. For the six-month periods ended June 30, 2018

|               | Taiwan      | China     | Vietnam  | Total       |
|---------------|-------------|-----------|----------|-------------|
| Sale of goods | \$2,683,750 | \$116,971 | \$98,359 | \$2,899,080 |
| Commissions   | 733         | -         | -        | 733         |
| Total         | \$2,684,483 | \$116,971 | \$98,359 | \$2,899,813 |

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 adopted IFRS 15 on January 1, 2018 and recognized revenue from contracts with customers at a point in time during the six-month period ended June 30, 2018.

(2) Contract balances

Contract liabilities - current

|                | Beginning<br>balance | Ending<br>balance | Difference |
|----------------|----------------------|-------------------|------------|
| Sales of goods | \$19,787             | \$18,848          | \$(939)    |

During the period, contract liabilities decreased as performance obligations are partially satisfied and \$13,625 included in the contract liability balance at the beginning of the period was recognized as revenue during the period.

(3) Transaction price allocated to unsatisfied performance obligations

None.

(4) Assets recognized from costs to fulfil a contract

None.

(15) Expected credit losses / (gains)

|                                                | Three-month periods ended<br>June 30 |            | Six-month periods ended<br>June 30 |            |
|------------------------------------------------|--------------------------------------|------------|------------------------------------|------------|
|                                                | 2018                                 | 2017(Note) | 2018                               | 2017(Note) |
| Operating expenses –<br>Expected credit losses |                                      |            |                                    |            |
| Trade receivables                              | \$2,476                              | \$-        | \$6,609                            | \$-        |

Note: The Group adopted IFRS 9 on January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.



# 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 measures the loss allowance of its trade receivables (including note receivables and trade receivables) at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as at June 30, 2018 is as follows:

|                                 | Not yet due | Overdue   |            |            |             |            | Total       |
|---------------------------------|-------------|-----------|------------|------------|-------------|------------|-------------|
|                                 |             | <=30 days | 31-60 days | 61-90 days | 91-360 days | >=361 days |             |
| Gross carrying amount           | \$1,569,840 | \$16,542  | \$1,201    | \$6,125    | \$14,173    | \$3,024    | \$1,610,905 |
| Loss ratio                      | -%          | -%        | 10%        | 20%        | 50%         | 100%       |             |
| Lifetime expected credit losses | -           | -         | (72)       | (1,225)    | (7,087)     | (3,024)    | (11,408)    |
| Carrying amount                 | \$1,569,840 | \$16,542  | \$1,129    | \$4,900    | \$7,086     | \$-        | \$1,599,497 |

Note: The Group's note receivables are not overdue.

The movement in the provision for impairment of note receivables and trade receivables during the six-month period ended June 30, 2018 is as follows:

|                                               | Note receivables | Trade receivables |
|-----------------------------------------------|------------------|-------------------|
| Beginning balance (in accordance with IAS 39) | \$-              | \$4,799           |
| Transition adjustment to retained earnings    | -                | -                 |
| Beginning balance (in accordance with IFRS 9) | -                | 4,799             |
| Addition for the current period               | -                | 6,609             |
| Ending balance                                | \$-              | \$11,408          |

### (16) 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Future minimum rentals payable under non-cancellable operating leases as at June 30, 2018, December 31, 2017, and June 30, 2017 are as follows:

|                      | As of            |                      |                  |
|----------------------|------------------|----------------------|------------------|
|                      | June 30,<br>2018 | December<br>31, 2017 | June 30,<br>2017 |
| Lower than 1 year    | \$7,080          | \$7,080              | \$7,080          |
| Between 1 to 5 years | 5,690            | 9,230                | 12,770           |
| Total                | <u>\$12,770</u>  | <u>\$16,310</u>      | <u>\$19,850</u>  |

The expenses of operating lease were as follows:

|                        | Three-month periods ended<br>June 30 |                | Six-month periods ended<br>June 30 |                |
|------------------------|--------------------------------------|----------------|------------------------------------|----------------|
|                        | 2018                                 | 2017           | 2018                               | 2017           |
| Minimum lease payments | <u>\$1,770</u>                       | <u>\$1,770</u> | <u>\$3,540</u>                     | <u>\$3,540</u> |

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

| Function<br><br>Nature     | Three-month periods ended June 30 |                    |           |                 |                    |           |
|----------------------------|-----------------------------------|--------------------|-----------|-----------------|--------------------|-----------|
|                            | 2018                              |                    |           | 2017            |                    |           |
|                            | Operating costs                   | Operating expenses | Total     | Operating costs | Operating expenses | Total     |
| Employee benefits expense  |                                   |                    |           |                 |                    |           |
| Salaries                   | \$131,328                         | \$71,156           | \$202,484 | \$129,569       | \$69,213           | \$198,782 |
| Labor and health insurance | 15,424                            | 5,142              | 20,566    | 15,926          | 5,138              | 21,064    |
| Pension                    | 806                               | 2,576              | 3,382     | 927             | 2,829              | 3,756     |
| Others                     | 10,454                            | 2,675              | 13,129    | 10,038          | 2,321              | 12,359    |
| Depreciation               | 42,951                            | 7,113              | 50,064    | 39,240          | 8,295              | 47,535    |
| Amortization               | 4,134                             | 7,076              | 11,210    | 4,871           | 8,812              | 13,683    |

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

| Function<br>Nature         | Six-month periods ended June 30 |                    |           |                 |                    |           |
|----------------------------|---------------------------------|--------------------|-----------|-----------------|--------------------|-----------|
|                            | 2018                            |                    |           | 2017            |                    |           |
|                            | Operating costs                 | Operating expenses | Total     | Operating costs | Operating expenses | Total     |
| Employee benefits expense  |                                 |                    |           |                 |                    |           |
| Salaries                   | \$244,814                       | \$136,936          | \$381,750 | \$239,940       | \$138,364          | \$378,304 |
| Labor and health insurance | 29,537                          | 11,629             | 41,166    | 29,894          | 11,935             | 41,829    |
| Pension                    | 1,627                           | 5,184              | 6,811     | 1,815           | 5,659              | 7,474     |
| Others                     | 18,338                          | 4,338              | 22,676    | 17,923          | 4,854              | 22,777    |
| Depreciation               | 84,042                          | 14,161             | 98,203    | 77,873          | 16,552             | 94,425    |
| Amortization               | 7,751                           | 14,731             | 22,482    | 9,508           | 17,649             | 27,157    |

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 six-month periods ended 2018 and 2017 are 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)

|                                           | Three-month periods ended |         | Six-month periods ended |          |
|-------------------------------------------|---------------------------|---------|-------------------------|----------|
|                                           | June 30                   |         | June 30                 |          |
|                                           | 2018                      | 2017    | 2018                    | 2017     |
| Employees' compensation                   | \$7,000                   | \$7,000 | \$14,000                | \$14,000 |
| Remuneration to directors and supervisors | 850                       | 1,117   | 2,300                   | 2,567    |

A resolution was passed at a board of directors meeting held on March 20, 2018 to distribute \$28,000 and \$4,600 in cash as employees' compensation and remuneration to directors and supervisors of 2017, respectively. No material differences existed between the estimated amount and the actual distribution of the employee's compensation and remuneration to directors and supervisors for the year ended December 31, 2017.

No material differences existed between the estimated amount and the actual distribution of the employee's compensation and remuneration to directors and supervisors for the year ended December 31, 2016.

(18) Non-operating income and expenses

a. Other income

|                 | Three-month periods ended |                 | Six-month periods ended |                 |
|-----------------|---------------------------|-----------------|-------------------------|-----------------|
|                 | June 30                   |                 | June 30                 |                 |
|                 | 2018                      | 2017            | 2018                    | 2017            |
| Interest income | \$14,088                  | \$6,183         | \$22,305                | \$10,065        |
| Rental income   | 575                       | 764             | 1,149                   | 1,624           |
| Others          | 5,500                     | 15,569          | 16,063                  | 29,003          |
| Total           | <u>\$20,163</u>           | <u>\$22,516</u> | <u>\$39,517</u>         | <u>\$40,692</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. Other gains and losses

|                                                                               | Three-month periods ended |                | Six-month periods ended |                    |
|-------------------------------------------------------------------------------|---------------------------|----------------|-------------------------|--------------------|
|                                                                               | June 30                   |                | June 30                 |                    |
|                                                                               | 2018                      | 2017           | 2018                    | 2017               |
| Foreign exchange gains (losses), net                                          | \$162,943                 | \$7,548        | \$81,381                | \$(116,804)        |
| Gains (losses) on financial assets at fair value through profit or loss(Note) | 35,346                    | 4,832          | 13,029                  | (35,149)           |
| Losses on disposal of property, plant and equipment                           | (885)                     | (950)          | (601)                   | (416)              |
| Others                                                                        | (169)                     | (3,132)        | (235)                   | (3,305)            |
| Total                                                                         | <u>\$197,235</u>          | <u>\$8,298</u> | <u>\$93,574</u>         | <u>\$(155,674)</u> |

Note: Balance in both periods arose from gains (losses) on financial assets at fair value through profit or loss.

(19) Components of other comprehensive income

a. Three-month periods ended June 30, 2018

|                                                                                                 | Arising during the period | Other comprehensive income, net of tax | Income tax effect | Other comprehensive income, net of tax |
|-------------------------------------------------------------------------------------------------|---------------------------|----------------------------------------|-------------------|----------------------------------------|
| Not to be reclassified to profit or loss in subsequent periods:                                 |                           |                                        |                   |                                        |
| Remeasurements of defined benefit plans(Note)                                                   | \$-                       | \$-                                    | \$-               | \$-                                    |
| To be reclassified to profit or loss in subsequent periods:                                     |                           |                                        |                   |                                        |
| Exchange differences resulting from translating the financial statements of a foreign operation | 63,335                    | 63,335                                 | (12,667)          | 50,668                                 |
| Total of other comprehensive income                                                             | <u>\$63,335</u>           | <u>\$63,335</u>                        | <u>\$(12,667)</u> | <u>\$50,668</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. Three-month periods ended June 30, 2017

|                                                                                                       | Arising during<br>the period | Other<br>comprehensive<br>income,<br>net of tax | Income tax<br>effect | Other<br>comprehensive<br>income,<br>net of tax |
|-------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------|----------------------|-------------------------------------------------|
| To be reclassified to profit or loss in<br>subsequent periods:                                        |                              |                                                 |                      |                                                 |
| Exchange differences resulting from<br>translating the financial statements<br>of a foreign operation | \$15,212                     | \$15,212                                        | \$(2,586)            | \$12,626                                        |
| Total of other comprehensive income                                                                   | <u>\$15,212</u>              | <u>\$15,212</u>                                 | <u>\$(2,586)</u>     | <u>\$12,626</u>                                 |

c. Six-month periods ended June 30, 2018

|                                                                                                       | Arising during<br>the period | Other<br>comprehensive<br>income,<br>net of tax | Income tax<br>effect | Other<br>comprehensive<br>income,<br>net of tax |
|-------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------|----------------------|-------------------------------------------------|
| Not to be reclassified to profit or loss<br>in subsequent periods:                                    |                              |                                                 |                      |                                                 |
| Remeasurements of defined benefit<br>plans(Note)                                                      | \$-                          | \$-                                             | \$8                  | \$8                                             |
| To be reclassified to profit or loss in<br>subsequent periods:                                        |                              |                                                 |                      |                                                 |
| Exchange differences resulting from<br>translating the financial statements<br>of a foreign operation | 24,585                       | 24,585                                          | 3,329                | 27,914                                          |
| Total of other comprehensive income                                                                   | <u>\$24,585</u>              | <u>\$24,585</u>                                 | <u>\$3,337</u>       | <u>\$27,922</u>                                 |

d. Six-month periods ended June 30, 2017

|                                                                                                       | Arising during<br>the period | Other<br>comprehensive<br>income,<br>net of tax | Income tax<br>effect | Other<br>comprehensive<br>income,<br>net of tax |
|-------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------|----------------------|-------------------------------------------------|
| To be reclassified to profit or loss in<br>subsequent periods:                                        |                              |                                                 |                      |                                                 |
| Exchange differences resulting from<br>translating the financial statements<br>of a foreign operation | \$(35,073)                   | \$(35,073)                                      | \$5,962              | \$(29,111)                                      |
| Total of other comprehensive income                                                                   | <u>\$(35,073)</u>            | <u>\$(35,073)</u>                               | <u>\$5,962</u>       | <u>\$(29,111)</u>                               |

Note: The Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(20) Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense are as follows:

a. Income tax recorded in profit or loss

|                                                                                          | Three-month periods<br>ended June 30 |                 | Six-month periods<br>ended June 30 |                 |
|------------------------------------------------------------------------------------------|--------------------------------------|-----------------|------------------------------------|-----------------|
|                                                                                          | 2018                                 | 2017            | 2018                               | 2017            |
| Current income tax expense:                                                              |                                      |                 |                                    |                 |
| Current income tax charge                                                                | \$76,057                             | \$56,922        | \$84,140                           | \$63,367        |
| Adjustments in respect of current income tax of prior periods                            | -                                    | (316)           | -                                  | -               |
| Deferred income tax (benefit) expense:                                                   |                                      |                 |                                    |                 |
| Deferred income tax expense related to origination and reversal of temporary differences | 30,729                               | 17,360          | 34,507                             | 7,517           |
| Deferred tax expense relating to changes in tax rate or the imposition of new taxes      | -                                    | -               | 23,503                             | -               |
| Income tax expense recognized in profit or loss                                          | <u>\$106,786</u>                     | <u>\$73,966</u> | <u>\$142,150</u>                   | <u>\$70,884</u> |

b. Income tax relating to components of other comprehensive income

|                                                                 | Three-month periods<br>ended June 30 |                | Six-month periods<br>ended June 30 |                  |
|-----------------------------------------------------------------|--------------------------------------|----------------|------------------------------------|------------------|
|                                                                 | 2018                                 | 2017           | 2018                               | 2017             |
| Deferred income tax expense (benefit):                          |                                      |                |                                    |                  |
| Exchange differences on translation of foreign operations       | \$12,667                             | \$2,586        | \$(3,329)                          | \$(5,962)        |
| Remeasurements of defined benefit plans                         | -                                    | -              | (8)                                | -                |
| Income tax relating to components of other comprehensive income | <u>\$12,667</u>                      | <u>\$2,586</u> | <u>\$(3,337)</u>                   | <u>\$(5,962)</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 assessment of income tax returns

As of June 30, 2018, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

|                                                                            | The assessment of income tax returns |
|----------------------------------------------------------------------------|--------------------------------------|
| The Company                                                                | Assessed and approved up to 2015     |
| Mitsumichi Industrial Co., Ltd.                                            | Assessed and approved up to 2016     |
| Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.                   | Assessed to 2017                     |
| Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. | Assessed to 2017                     |
| Zhangjiagang Zenghsing Trading Co., Ltd.                                   | Assessed to 2017                     |
| Zeng Hsing Industrial Co., Ltd (VN)                                        | Assessed to 2017                     |
| Shinco Technologies Limited (VN)                                           | Assessed to 2017                     |

### (21) 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

|                                                                                                       | Three-month periods<br>ended June 30 |           | Six-month periods<br>ended June 30 |           |
|-------------------------------------------------------------------------------------------------------|--------------------------------------|-----------|------------------------------------|-----------|
|                                                                                                       | 2018                                 | 2017      | 2018                               | 2017      |
| Profit attributable to ordinary equity holders of the Company                                         | \$422,094                            | \$248,638 | \$367,212                          | \$165,882 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares) | 60,536                               | 60,536    | 60,536                             | 60,536    |
| Earnings per share-basic (NTD)                                                                        | \$6.97                               | \$4.11    | \$6.07                             | \$2.74    |



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<br>ended June 30 |                  | Six-month periods<br>ended June 30 |                  |
|-------------------------------------------------------------------------------------------------------|--------------------------------------|------------------|------------------------------------|------------------|
|                                                                                                       | 2018                                 | 2017             | 2018                               | 2017             |
| Profit attributable to ordinary equity holders of the Company                                         | <u>\$422,094</u>                     | <u>\$248,638</u> | <u>\$367,212</u>                   | <u>\$165,882</u> |
| 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's compensation – stock (thousand shares)                                                     | <u>54</u>                            | <u>48</u>        | <u>109</u>                         | <u>96</u>        |
| Weighted average number of ordinary shares outstanding after dilution (thousand shares)               | <u>60,590</u>                        | <u>60,584</u>    | <u>60,645</u>                      | <u>60,632</u>    |
| Diluted earnings per share (NTD)                                                                      | <u>\$6.97</u>                        | <u>\$4.10</u>    | <u>\$6.06</u>                      | <u>\$2.74</u>    |

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

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

(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 23 people | Directors and Deputy General Manager of the Company |

(2) Key management personnel compensation

|                              | Three-month periods<br>ended June 30 |                 | Six-month periods<br>ended June 30 |                 |
|------------------------------|--------------------------------------|-----------------|------------------------------------|-----------------|
|                              | 2018                                 | 2017            | 2018                               | 2017            |
| Short-term employee benefits | \$12,374                             | \$13,590        | \$24,436                           | \$26,681        |
| Post-employment benefits     | 487                                  | 477             | 988                                | 954             |
|                              | <u>\$12,861</u>                      | <u>\$14,067</u> | <u>\$25,424</u>                    | <u>\$27,635</u> |

# 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            |                      |                  |
|------------------------------------------------------------------|------------------|----------------------|------------------|
|                                                                  | June 30,<br>2018 | December<br>31, 2017 | June 30,<br>2017 |
| Property, Plant and Equipment-land                               | \$21,075         | \$21,075             | \$-              |
| Debt instrument investments with no<br>active market, noncurrent | (Note)           | 200                  | 200              |
| Financial assets measured at amortized<br>cost-noncurrent        | 200              | (Note)               | (Note)           |
| Total                                                            | <u>\$21,075</u>  | <u>\$21,275</u>      | <u>\$200</u>     |

Note: The Group adopted IFRS 9 on January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

### 9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The important contracts of construction in progress

a. As of June 30 2018

| Contracting parties | Subject<br>matter | Total contract amount | Contract amount paid as<br>of June 30 2018 |
|---------------------|-------------------|-----------------------|--------------------------------------------|
| Company A           | Building          | \$450,612             | \$133,809                                  |
| Company B           | Building          | 41,975                | 13,920                                     |

b. As of June 30 2017

None.

(2) The Group entered into the financial guarantees to related parties: refer to Table 1 on pages 101.

### 10. SIGNIFICANT DISASTER LOSS

None.

### 11. SIGNIFICANT SUBSEQUENT EVENTS

None.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

12. OTHERS

(1) Categories of financial instruments

|                                                                        | As of              |                      |                    |
|------------------------------------------------------------------------|--------------------|----------------------|--------------------|
|                                                                        | June 30,<br>2018   | December 31,<br>2017 | June 30,<br>2017   |
| <u>Financial Assets</u>                                                |                    |                      |                    |
| Financial assets at fair value through profit or loss:                 |                    |                      |                    |
| Held for trading                                                       | (Note)             | \$132                | \$8,431            |
| Designated at fair value through profit or loss at initial recognition | 9,700              | (Note)               | (Note)             |
| Financial assets at fair value through other comprehensive income      | 32,056             | (Note)               | (Note)             |
| Available-for-sale financial assets                                    |                    |                      |                    |
| Financial assets measured at cost, noncurrent                          | (Note)             | 19,096               | 19,096             |
| Financial assets measured at amortized cost                            |                    |                      |                    |
| Cash and cash equivalents (excludes cash on hand)                      | 2,631,266          | (Note)               | (Note)             |
| Financial assets measured at amortized cost, current                   | 42,253             | (Note)               | (Note)             |
| Notes and accounts receivable                                          | 1,599,497          | (Note)               | (Note)             |
| Other receivables                                                      | 100,854            | (Note)               | (Note)             |
| Financial assets measured at amortized cost, noncurrent                | 200                | (Note)               | (Note)             |
| Subtotal                                                               | 4,415,826          | (Note)               | (Note)             |
| Loans and receivables                                                  |                    |                      |                    |
| Cash and cash equivalents (excludes cash on hand)                      | (Note)             | 3,095,339            | 2,222,718          |
| Debt instrument investments with no active market, current             | (Note)             | 59,463               | 51,910             |
| Notes and accounts receivable                                          | (Note)             | 1,311,147            | 1,601,310          |
| Other receivables                                                      | (Note)             | 70,619               | 101,096            |
| Debt instrument investments with no active market, noncurrent          | (Note)             | 13,198               | 200                |
| Subtotal                                                               | (Note)             | 4,549,766            | 3,977,234          |
| Total                                                                  | <u>\$4,415,826</u> | <u>\$4,568,994</u>   | <u>\$4,004,761</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              |                      |                    |
|-------------------------------------------------------------|--------------------|----------------------|--------------------|
|                                                             | June 30,<br>2018   | December 31,<br>2017 | June 30,<br>2017   |
| <u>Financial Liabilities</u>                                |                    |                      |                    |
| Financial liabilities at amortized cost:                    |                    |                      |                    |
| Short-term loans                                            | \$336,654          | \$672,585            | \$372,450          |
| Short-term notes and bills payable                          | 250,000            | 230,000              | 210,000            |
| Notes and accounts payables                                 | 914,366            | 665,071              | 799,734            |
| Other payables                                              | 753,699            | 250,043              | 773,018            |
| Long-term loans                                             | 160,000            | 160,000              | -                  |
| Subtotal                                                    | 2,414,719          | 1,977,699            | 2,155,202          |
| Financial liabilities at fair value through profit or loss: |                    |                      |                    |
| Held for trading                                            | -                  | 4,628                | 99                 |
| Total                                                       | <u>\$2,414,719</u> | <u>\$1,982,327</u>   | <u>\$2,155,301</u> |

Note: The Group adopted IFRS 9 on January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

(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.

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

### Notes to Consolidated Financial Statements (Continued)

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

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

#### Foreign currency risk

The 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 six-month periods ended June 30, 2018 and 2017 is decreased/increased by \$26,105 and \$22,977, respectively; and no impact on the equity.
- b. When NTD strengthens against RMB by 1%, the profit for the six-month periods ended June 30, 2018 and 2017 is increased/decreased by \$631 and \$414, respectively; and no impact on the equity.
- c. When NTD strengthens against VND by 1%, the profit for the six-month periods ended June 30, 2018 and 2017 is increased/decreased by \$760 and \$184, 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 will result in a decrease of \$160 and \$0 for the years ended June 30, 2018 and 2017, respectively.

#### Equity price risk

The fair value of the Group's listed and unlisted equity securities and conversion rights of the Euro-convertible bonds issued are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's listed and unlisted equity securities are classified under held for trading financial assets or available-for-sale financial assets, while conversion rights of the Euro-convertible bonds issued are classified as financial liabilities at fair value through profit or loss as it does not satisfy the definition of an equity component. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

Please refer to Note 12.(9) for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

#### (4) Credit risk management

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

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

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

As of June 30, 2018, December 31, 2017 and June 30, 2017, amounts receivables from top ten customers represented 92.14%, 92.58% and 92.14% 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. Consequently, there is no significant credit risk for these counter parties.

### (5) Liquidity risk management

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

#### Non-derivative financial liabilities

|                                    | <u>&lt; 1 year</u> | <u>2 ~ 3 years</u> | <u>4 ~ 5 years</u> | <u>&gt; 5 years</u> | <u>Total</u> |
|------------------------------------|--------------------|--------------------|--------------------|---------------------|--------------|
| As of June 30, 2018                |                    |                    |                    |                     |              |
| Short-term loans                   | \$336,654          | \$-                | \$-                | \$-                 | \$336,654    |
| Short-term notes and bills payable | 250,000            | -                  | -                  | -                   | 250,000      |
| Payables                           | 914,366            | -                  | -                  | -                   | 914,366      |
| Long-term loans                    | 24,965             | 41,394             | 41,160             | 57,347              | 164,866      |

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Non-derivative financial liabilities

|                                    | <u>&lt; 1 year</u> | <u>2 ~ 3 years</u> | <u>4 ~ 5 years</u> | <u>&gt; 5 years</u> | <u>Total</u> |
|------------------------------------|--------------------|--------------------|--------------------|---------------------|--------------|
| As of December 31, 2017            |                    |                    |                    |                     |              |
| Short-term loans                   | \$672,585          | \$-                | \$-                | \$-                 | \$672,585    |
| Short-term notes and bills payable | 230,000            | -                  | -                  | -                   | 230,000      |
| Payables                           | 665,071            | -                  | -                  | -                   | 665,071      |
| Long-term loans                    | 1,632              | 41,632             | 41,440             | 80,960              | 165,664      |
| As of June 30, 2017                |                    |                    |                    |                     |              |
| Short-term loans                   | \$372,450          | \$-                | \$-                | \$-                 | \$372,450    |
| Short-term notes and bills payable | 210,000            | -                  | -                  | -                   | 210,000      |
| Payables                           | 799,734            | -                  | -                  | -                   | 799,734      |

Derivative financial liabilities

|                         | <u>&lt; 1 year</u> | <u>2 ~ 3 years</u> | <u>4 ~ 5 years</u> | <u>&gt; 5 years</u> | <u>Total</u>     |
|-------------------------|--------------------|--------------------|--------------------|---------------------|------------------|
| As of June 30, 2018     |                    |                    |                    |                     |                  |
| Inflow                  | \$9,700            | \$-                | \$-                | \$-                 | \$9,700          |
| Outflow                 | -                  | -                  | -                  | -                   | -                |
| Net                     | <u>\$9,700</u>     | <u>\$-</u>         | <u>\$-</u>         | <u>\$-</u>          | <u>\$9,700</u>   |
| As of December 31, 2017 |                    |                    |                    |                     |                  |
| Inflow                  | \$132              | \$-                | \$-                | \$-                 | \$132            |
| Outflow                 | (4,628)            | -                  | -                  | -                   | (4,628)          |
| Net                     | <u>\$(4,496)</u>   | <u>\$-</u>         | <u>\$-</u>         | <u>\$-</u>          | <u>\$(4,496)</u> |
| As of June 30, 2017     |                    |                    |                    |                     |                  |
| Inflow                  | \$8,431            | \$-                | \$-                | \$-                 | \$8,431          |
| Outflow                 | (99)               | -                  | -                  | -                   | (99)             |
| Net                     | <u>\$8,332</u>     | <u>\$-</u>         | <u>\$-</u>         | <u>\$-</u>          | <u>\$8,332</u>   |

The table above contains the undiscounted net cash flows of derivative financial liabilities.



ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the six-month period ended June 30, 2018:

|                       | Short-term<br>loans | Short-term<br>notes and bills<br>payable | Long-term<br>loans | Total liabilities<br>from financing<br>activities |
|-----------------------|---------------------|------------------------------------------|--------------------|---------------------------------------------------|
| As of January 1, 2018 | \$672,585           | \$230,000                                | \$160,000          | \$1,062,585                                       |
| Cash flow             | (333,380)           | 20,000                                   | -                  | (313,380)                                         |
| Currency change       | (2,551)             | -                                        | -                  | (2,551)                                           |
| As of June 30, 2018   | <u>\$336,654</u>    | <u>\$250,000</u>                         | <u>\$160,000</u>   | <u>\$746,654</u>                                  |

Reconciliation of liabilities for the six-month period ended June 30, 2017:

Not applicable.

(7) 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.

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

### Notes to Consolidated Financial Statements (Continued)

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

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

Please refer to Note 12(9) for fair value measurement hierarchy for financial instruments of the Group.

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

(8) Derivative 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 June 30, 2018, December 31, 2017 and June 30, 2017 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.

|                                 |                 |                 | Unit: Thousands       |
|---------------------------------|-----------------|-----------------|-----------------------|
| Contract                        | Contract amount |                 | Maturity              |
| As of June 30, 2018             |                 |                 |                       |
| Zeng Hsing Industrial CO., LTD. |                 |                 |                       |
| Foreign Exchange Swap           | Sell USD        | 11,000 thousand | 2018.04.17-2018.09.18 |
| As of December 31, 2017         |                 |                 |                       |
| Zeng Hsing Industrial CO., LTD. |                 |                 |                       |
| Foreign Exchange Swap           | Sell USD        | 38,000 thousand | 2017.10.13-2018.03.26 |
| As of June 30, 2017             |                 |                 |                       |
| Zeng Hsing Industrial CO., LTD. |                 |                 |                       |
| Foreign Exchange Swap           | Sell USD        | 19,000 thousand | 2017.04.07-2017.09.12 |
| Cross Currency Swap             | Sell USD        | 6,500 thousand  | 2017.05.09-2017.07.28 |

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

# ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

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

### (9) Fair value of financial instruments

#### (a) Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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

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

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

As of June 30, 2018

|                                                                             | Level 1 | Level 2 | Level 3 | Total   |
|-----------------------------------------------------------------------------|---------|---------|---------|---------|
| Financial assets:                                                           |         |         |         |         |
| Financial assets at fair value through profit or loss                       |         |         |         |         |
| Foreign exchange swap                                                       | \$-     | \$9,700 | \$-     | \$9,700 |
| Financial assets at fair value through other comprehensive income           |         |         |         |         |
| Equity instrument measured at fair value through other comprehensive income | -       | -       | 32,056  | 32,056  |
| Financial liabilities:                                                      |         |         |         |         |
| Financial liabilities at fair value through profit or loss                  |         |         |         |         |
| Foreign exchange swap                                                       | -       | -       | -       | -       |

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

As of December 31, 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                                      | \$-            | \$132          | \$-            | \$132        |
| Financial liabilities:                                     |                |                |                |              |
| Financial liabilities at fair value through profit or loss |                |                |                |              |
| Foreign exchange swap                                      | -              | 4,628          | -              | 4,628        |

As of June 30, 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 and cross currency swap              | \$-            | \$8,431        | \$-            | \$8,431      |
| Financial liabilities:                                     |                |                |                |              |
| Financial liabilities at fair value through profit or loss |                |                |                |              |
| Foreign exchange swap and cross currency swap              | -              | 99             | -              | 99           |

Transfers between Level 1 and Level 2 during the period

During the six-month periods ended June 30, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period 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)

|                                                                                                                                                      | Assets                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
|                                                                                                                                                      | At fair value through other comprehensive income |
|                                                                                                                                                      | Stocks                                           |
|                                                                                                                                                      | 2018                                             |
| Beginning balances as of January 1, 2018                                                                                                             | \$19,096                                         |
| Impact of retrospective application and retrospective restatement                                                                                    | 12,960                                           |
| Retrospective balances as of January 1, 2018                                                                                                         | 32,056                                           |
| Total gains and losses recognized for the six-month period ended June 30, 2018:                                                                      |                                                  |
| Amount recognized in OCI (presented in “Unrealized gains (losses) from equity instruments measured at fair value through other comprehensive income) | -                                                |
| Acquisition(Disposal)                                                                                                                                | -                                                |
| Ending balances as of June 30, 2018                                                                                                                  | \$32,056                                         |

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As at June 30, 2018

|                                                  | Valuation techniques | Significant unobservable inputs    | Quantitative information | Relationship between inputs and fair value                                                | Sensitivity of the input to fair value                                                                                                         |
|--------------------------------------------------|----------------------|------------------------------------|--------------------------|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial assets:                                |                      |                                    |                          |                                                                                           |                                                                                                                                                |
| At fair value through other comprehensive income |                      |                                    |                          |                                                                                           |                                                                                                                                                |
| Stocks                                           | Market approach      | discount for lack of marketability | 10%~30%                  | The higher the discount for lack of marketability, the lower the fair value of the stocks | 10% increase (decrease) in the discount for lack of marketability would result in (decrease) increase in the Group’s profit or loss by \$3,206 |

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Group's Financial Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at each reporting date.

(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 June 30, 2018

|                                                                                        | <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))                                                      | \$-            | \$-            | \$80,690       | \$80,690     |

As of December 31, 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))                                                      | \$-            | \$-            | \$80,690       | \$80,690     |

As of June 30, 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))                                                      | \$-            | \$-            | \$80,690       | \$80,690     |

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 assets and liabilities denominated in foreign currencies

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

Unit: Thousands

|                       | As of               |                  |             |                     |                  |             |                     |                  |             |
|-----------------------|---------------------|------------------|-------------|---------------------|------------------|-------------|---------------------|------------------|-------------|
|                       | June 30, 2018       |                  |             | December 31, 2017   |                  |             | June 30, 2017       |                  |             |
|                       | Foreign<br>Currency | Exchange<br>rate | NTD         | Foreign<br>Currency | Exchange<br>rate | NTD         | Foreign<br>Currency | Exchange<br>rate | NTD         |
| Financial assets      |                     |                  |             |                     |                  |             |                     |                  |             |
| Monetary item:        |                     |                  |             |                     |                  |             |                     |                  |             |
| USD                   | \$117,196           | 30.500           | \$3,574,478 | \$130,558           | 29.848           | \$3,896,895 | \$108,699           | 30.4360          | \$3,308,363 |
| CNY                   | 40,535              | 4.6041           | 186,627     | 57,917              | 4.5835           | 265,463     | 68,835              | 4.4894           | 309,028     |
| VND                   | 54,925,784          | 0.001329         | 72,996      | 47,707,715          | 0.001314         | 62,688      | 63,902,286          | 0.001424         | 90,997      |
| Financial liabilities |                     |                  |             |                     |                  |             |                     |                  |             |
| Monetary item:        |                     |                  |             |                     |                  |             |                     |                  |             |
| USD                   | \$10,210            | 30.500           | \$311,405   | \$8,138             | 29.848           | \$242,903   | \$17,745            | 30.4360          | \$540,087   |
| CNY                   | 57,668              | 4.6041           | 265,509     | 54,053              | 4.5835           | 247,752     | 57,735              | 4.4894           | 259,196     |
| VND                   | 126,362,756         | 0.001329         | 167,936     | 204,160,124         | 0.001314         | 268,266     | 79,504,952          | 0.001424         | 113,215     |

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 \$81,381 and \$(116,804) for foreign exchange gain (losses) for the six-month periods ended June 30, 2018 and 2017, respectively.

(11) 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.

(12) In order to facilitate the analysis and comparison, some of the accounts of the financial statements as of December 31, 2017 and June 30, 2017 have been properly reclassified.



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Notes to Consolidated Financial Statements (Continued)  
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13. ADDITIONAL DISCLOSURES

1. Information on significant transactions

- (1) Financing provided: none.
- (2) Endorsement/guarantee provided: Table 1 on page 101.
- (3) Marketable securities held: Table 2 on page 102.
- (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 102 to 103.
- (8) Receivable from related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 4 on page 104.
- (9) Information about derivatives of investees over which the Group has a controlling interest: refer to Note 12. (8).
- (10) Inter-company relationships and significant intercompany transactions: refer to Table 3 on page 102 to 103.

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 105 to 106.

3. Information on investment in Mainland China

The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: refer to Table 6 on page 107 to 108.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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.

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 June 30, 2018

|                    | Taiwan             | China            | Vietnam            | Adjustments<br>and<br>eliminations<br>(Note 1) | Consolidated       |
|--------------------|--------------------|------------------|--------------------|------------------------------------------------|--------------------|
| Revenue            |                    |                  |                    |                                                |                    |
| External customers | \$1,744,223        | \$53,383         | \$54,112           | \$-                                            | \$1,851,718        |
| Inter-segment      | 12,629             | 395,234          | 1,035,946          | (1,443,809)                                    | -                  |
| Total revenue      | <u>\$1,756,852</u> | <u>\$448,617</u> | <u>\$1,090,058</u> | <u>\$(1,443,809)</u>                           | <u>\$1,851,718</u> |
| Segment profit     | <u>\$558,248</u>   | <u>\$56,264</u>  | <u>\$57,699</u>    | <u>\$(140,992)</u>                             | <u>\$531,219</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. For the six-month periods ended June 30, 2018

|                    | Taiwan             | China            | Vietnam            | Adjustments<br>and<br>eliminations<br>(Note 1) | Consolidated       |
|--------------------|--------------------|------------------|--------------------|------------------------------------------------|--------------------|
| Revenue            |                    |                  |                    |                                                |                    |
| External customers | \$2,684,483        | \$116,971        | \$98,359           | \$-                                            | \$2,899,813        |
| Inter-segment      | 28,707             | 695,665          | 1,521,740          | (2,246,112)                                    | -                  |
| Total revenue      | <u>\$2,713,190</u> | <u>\$812,636</u> | <u>\$1,620,099</u> | <u>\$(2,246,112)</u>                           | <u>\$2,899,813</u> |
| Segment profit     | <u>\$512,272</u>   | <u>\$39,659</u>  | <u>\$96,312</u>    | <u>\$(134,295)</u>                             | <u>\$513,948</u>   |

c. For the three-month periods ended June 30, 2017

|                    | Taiwan             | China            | Vietnam            | Adjustments<br>and<br>eliminations<br>(Note 1) | Consolidated       |
|--------------------|--------------------|------------------|--------------------|------------------------------------------------|--------------------|
| Revenue            |                    |                  |                    |                                                |                    |
| External customers | \$1,581,731        | \$63,203         | \$42,869           | \$-                                            | \$1,687,803        |
| Inter-segment      | 6,027              | 360,982          | 960,747            | (1,327,756)                                    | -                  |
| Total revenue      | <u>\$1,587,758</u> | <u>\$424,185</u> | <u>\$1,003,616</u> | <u>\$(1,327,756)</u>                           | <u>\$1,687,803</u> |
| Segment profit     | <u>\$334,180</u>   | <u>\$26,939</u>  | <u>\$16,274</u>    | <u>\$(53,226)</u>                              | <u>\$324,167</u>   |

d. For the six-month periods ended June 30, 2017

|                    | Taiwan             | China            | Vietnam            | Adjustments<br>and<br>eliminations<br>(Note 1) | Consolidated       |
|--------------------|--------------------|------------------|--------------------|------------------------------------------------|--------------------|
| Revenue            |                    |                  |                    |                                                |                    |
| External customers | \$2,455,555        | \$119,989        | \$85,784           | \$-                                            | \$2,661,328        |
| Inter-segment      | 15,800             | 672,307          | 1,389,763          | (2,077,870)                                    | -                  |
| Total revenue      | <u>\$2,471,355</u> | <u>\$792,296</u> | <u>\$1,475,547</u> | <u>\$(2,077,870)</u>                           | <u>\$2,661,328</u> |
| Segment profit     | <u>\$237,368</u>   | <u>\$43,145</u>  | <u>\$16,409</u>    | <u>\$(57,682)</u>                              | <u>\$239,240</u>   |

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Note1: Inter-segment transactions are eliminated on consolidation and recorded under the “adjustment and elimination” column.

The related information of operating segment asset as of June 30, 2018, December 31, 2017 and June 30, 2017 are listed as follows:

Segment Assets:

|                   | Taiwan      | China       | Vietnam     | Adjustments and<br>eliminations | Consolidated |
|-------------------|-------------|-------------|-------------|---------------------------------|--------------|
| June 30, 2018     | \$8,196,544 | \$1,122,711 | \$2,649,453 | \$(4,877,644)                   | \$7,091,064  |
| December 31, 2017 | \$7,948,131 | \$1,106,827 | \$2,407,409 | \$(4,723,077)                   | \$6,739,290  |
| June 30, 2017     | \$7,584,232 | \$1,207,257 | \$2,418,113 | \$(4,598,291)                   | \$6,611,311  |

Segment Liabilities:

|                   | Taiwan      | China     | Vietnam   | Adjustments and<br>eliminations | Consolidated |
|-------------------|-------------|-----------|-----------|---------------------------------|--------------|
| June 30, 2018     | \$2,782,920 | \$363,263 | \$819,890 | \$(1,185,084)                   | \$2,780,989  |
| December 31, 2017 | \$2,496,586 | \$379,770 | \$681,832 | \$(1,244,435)                   | \$2,313,753  |
| June 30, 2017     | \$2,336,915 | \$353,306 | \$655,830 | \$(877,204)                     | \$2,468,847  |

# 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 SIX MONTHS ENDED JUNE 30, 2018

TABLE 1

| No.<br>(Note 1) | Endorser/<br>Guarantor                           | Company<br>name                               | Relationship<br>(Note 2) | Limit of<br>guarantee/<br>endorsement<br>amount for<br>receiving party<br>(Note 3) | Maximum<br>balance for the<br>period | Ending balance               | Actual amount<br>provided  | Amount of<br>collateral<br>guarantee/<br>endorsement | Ratio of<br>Accumulated<br>Amount of<br>Guarantee<br>Provided to Net<br>Equity of the<br>Latest Financial<br>Statements | Guaranty<br>Limited<br>Amount<br>(Note 4) | Parent<br>company to<br>subsidiary | Subsidiary<br>to parent<br>company | To<br>Mainland<br>China |
|-----------------|--------------------------------------------------|-----------------------------------------------|--------------------------|------------------------------------------------------------------------------------|--------------------------------------|------------------------------|----------------------------|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------|------------------------------------|-------------------------|
| 0               | Zeng<br>Hsing<br>Industrial<br>CO., Ltd.<br>LTD. | Zeng Hsing<br>Industrial<br>CO., Ltd.<br>(VN) | (2)                      | \$1,283,452                                                                        | \$503,250<br>(USD16,500,000)         | \$503,250<br>(USD16,500,000) | \$58,579<br>(USD1,920,632) | \$-                                                  | 11.76%                                                                                                                  | \$1,711,270                               | 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 June 30, 2018.

Note 4: Limit of total guarantee/endorsement amount shall not exceed 40% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of June 30, 2018.

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 SIX MONTHS ENDED June 30, 2018

TABLE 2

| Securities Held By | Type   | Type and name of securities  | Relationship with the Company | Financial Statement Account                                       | June 30, 2018  |                |                      |                                 |
|--------------------|--------|------------------------------|-------------------------------|-------------------------------------------------------------------|----------------|----------------|----------------------|---------------------------------|
|                    |        |                              |                               |                                                                   | Shares/Units   | Carrying Value | Ownership Percentage | Market Value or Net Asset Value |
| ARCORIS PTE LTD    | Stocks | HEYDAY INTERNATIONAL LIMITED | non-relationship              | Financial assets at fair value through other comprehensive income | 604,800 shares | \$32,056       | 15%                  | \$32,056                        |

RELATED PARTY TRANSACTIONS FOR PURCHASES AND SALES AMOUNTS EXCEEDING THE LOWER OF \$100 MILLION OR 20 PERCENT OF CAPITAL STOCK

FOR THE SIX MONTHS ENDED JUNE 30, 2018

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         | \$481,627   | 16.61%     | There is no difference with other clients | Regular                                 | Regular | Account payable \$(268,914)                                        | 3.79%      | -    |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | Zeng Hsing Industrial CO., Ltd.                          | 2                               | Sales             | \$481,627   | 16.61%     | There is no difference with other clients | Regular                                 | Regular | Account receivable and other receivables \$268,914 (RMB58,368,870) | 3.79%      | -    |
| Zeng Hsing Industrial CO., Ltd.                          | Zeng Hsing Industrial CO., Ltd. (VN)                     | 1                               | Purchases         | \$1,497,414 | 51.64%     | There is no difference with other clients | Regular                                 | Regular | Account payable \$(594,824 )                                       | 8.39%      | -    |

# 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             | \$1,497,414 | 51.64%     | There is no difference with other clients | Regular                                 | Regular | Account receivable \$594,824 (VND443,675,160,030)                                           | 8.39%      | -    |
| Zeng Hsing Industrial CO., Ltd. (VN) | Zeng Hsing Industrial CO., Ltd.      | 2                               | Purchases         | \$244,076   | 8.42%      | There is no difference with other clients | Regular                                 | Regular | Account payable, payables on equipment and other payables \$(209,674) (VND 157,270,098,030) | 2.96%      | -    |
| Zeng Hsing Industrial CO., Ltd.      | Zeng Hsing Industrial CO., Ltd. (VN) | 1                               | Sales (Note2)     | \$244,076   | 8.42%      | There is no difference with other clients | Regular                                 | Regular | Account receivable \$209,674                                                                | 2.96%      | -    |

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 \$1,741 for the six-month periods ended June 30, 2018.

Note3: 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 SIX MONTHS ENDED JUNE 30, 2018

TABLE 4

| Company Name                                             | Related Party                        | Nature of Relationship | Ending Balance                     | Turnover Rate | Overdue |              | Amounts Received in Subsequent Period | Loss allowance | Note                          |
|----------------------------------------------------------|--------------------------------------|------------------------|------------------------------------|---------------|---------|--------------|---------------------------------------|----------------|-------------------------------|
|                                                          |                                      |                        |                                    |               | Amounts | Action Taken |                                       |                |                               |
| Zeng Hsing Industrial CO., Ltd. (VN)                     | Zeng Hsing Industrial CO., Ltd.      | Subsidiary             | \$594,824<br>(VND 443,675,160,030) | 4.64          | \$-     | -            | \$335,312<br>(VND 252,303,957,195)    | \$-            | accounts receivable-customers |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | Zeng Hsing Industrial CO., Ltd.      | Subsidiary             | \$268,914<br>(RMB 58,368,870)      | 3.34          | \$-     | -            | \$92,300<br>(RMB20,047,287)           | \$-            | accounts receivable-customers |
| Zeng Hsing Industrial CO., Ltd.                          | Zeng Hsing Industrial CO., Ltd. (VN) | Subsidiary             | \$209,674                          | 3.55          | \$-     | -            | \$32,891                              | \$-            | 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 SIX MONTHS ENDED JUNE 30, 2018

TABLE 5

| Investor Company                     | Investee Company                      | Location                                                                                 | Main Businesses and Products                      | Original Investment Amount |                            | Balance as of June 30, 2018 |                         |                | Net Income (Losses) of the Investee | Equity in the Earnings (Losses) | Note   |
|--------------------------------------|---------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------|----------------------------|-----------------------------|-------------------------|----------------|-------------------------------------|---------------------------------|--------|
|                                      |                                       |                                                                                          |                                                   | June 30, 2018              | December 31, 2017          | 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<br>(USD100,000)    | \$3,086<br>(USD100,000)    | 10,000                      | 100%                    | \$14,642       | \$(474)                             | \$(474)                         |        |
| 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                       | 586,375<br>(USD17,873,452) | 547,316<br>(USD16,573,452) | 17,873                      | 100%                    | 879,973        | 24,724                              | 24,724                          | 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<br>(USD3,900,000)  | 125,273<br>(USD3,900,000)  | 3,900,000                   | 100%                    | 105,302        | (3,446)                             | (3,446)                         |        |

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

| Investor Company                | Investee Company                     | Location            | Main Businesses and Products                                           | Original Investment Amount   |                              | Balance as of June 30, 2018 |                         |                | Net Income (Losses) of the Investee | Equity in the Earnings (Losses) | Note |
|---------------------------------|--------------------------------------|---------------------|------------------------------------------------------------------------|------------------------------|------------------------------|-----------------------------|-------------------------|----------------|-------------------------------------|---------------------------------|------|
|                                 |                                      |                     |                                                                        | June 30, 2018                | December 31, 2017            | Shares                      | Percentage of Ownership | Carrying Value |                                     |                                 |      |
| Zeng Hsing Industrial CO., Ltd. | Zeng Hsing Industrial CO., Ltd. (VN) | Bing Doung, Vietnam | Manufacturing household sewing machines                                | 1,049,554<br>(USD35,000,000) | 1,049,554<br>(USD35,000,000) | -                           | 100%                    | 1,509,145      | VND56,730,462,429                   | 73,636                          |      |
| Zeng Hsing Industrial CO., Ltd. | Shinco Technologies Limited (VN)     | Bing Doung, Vietnam | Material die-casting of metal of aluminum, zinc and magnesium alloy.   | 347,158<br>(USD11,173,331)   | 347,158<br>(USD11,173,331)   | -                           | 100%                    | 318,628        | VND6,691,662,811                    | 8,686                           |      |
| Zeng Hsing Industrial CO., Ltd. | Taiwan Carbon Technology CO., Ltd.   | Taichung, Taiwan    | Manufacturing carbon fiber, fire resistant fiber and related products. | 24,105                       | 24,105                       | 2,500,000                   | 19.53%                  | -              | -                                   | -                               |      |
| Zeng Hsing Industrial CO., Ltd. | Mitsumichi industrial CO. Ltd        | Taichung, Taiwan    | Manufacturing household sewing machines                                | 31,330                       | 31,330                       | 1,378,000                   | 53.00%                  | 37,155         | 9,757                               | 5,171                           |      |

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

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

INFORMATION OF INVESTMENT IN MAINLAND CHINA

FOR THE SIX MONTHS ENDED JUNE 30, 2018

(a)

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 January 1, 2018 | Investment Flows |        | Accumulated Outflow of Investment from Taiwan as of June 30, 2018 | Percentage of Ownership | Equity in Earnings (Losses) Note 1 | Carrying Value as of June 30, 2018 | Accumulated Inward Remittance of Earnings as of June 30, 2018 |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------|-----------------------------------------------|---------------------------------------------------------------------|------------------|--------|-------------------------------------------------------------------|-------------------------|------------------------------------|------------------------------------|---------------------------------------------------------------|
|                                                                            |                                                                                      |                                 |                                               |                                                                     | 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<br>(USD9,103,039)                                         | -                | -      | \$304,199<br>(USD9,103,039)                                       | 100%                    | \$16,888                           | \$590,059                          | \$416,843<br>(USD9,288,961)<br>(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<br>(USD500,000)                                            | -                | -      | \$14,931<br>(USD500,000)                                          | 100%                    | \$13,146                           | \$145,634                          | \$-                                                           |

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

| Investee Company                         | Main Businesses and Products                      | Total Amount of Paid-in Capital | Method of Investment                          | Accumulated Outflow of Investment from Taiwan as of January 1, 2018 | Investment Flows |        | Accumulated Outflow of Investment from Taiwan as of June 30, 2018 | Percentage of Ownership | Equity in Earnings (Losses) Note 1 | Carrying Value as of June 30, 2018 | Accumulated Inward Remittance of Earnings as of June 30, 2018 |
|------------------------------------------|---------------------------------------------------|---------------------------------|-----------------------------------------------|---------------------------------------------------------------------|------------------|--------|-------------------------------------------------------------------|-------------------------|------------------------------------|------------------------------------|---------------------------------------------------------------|
|                                          |                                                   |                                 |                                               |                                                                     | Outflow          | Inflow |                                                                   |                         |                                    |                                    |                                                               |
| Zhangjiagang Zenghsing Trading Co., Ltd. | Selling household sewing machines and spare parts | RMB1,000,000                    | Indirect investments through Zeng Hsing (BVI) | \$-                                                                 | -                | -      | \$-                                                               | 100%                    | RMB(146,361)                       | RMB5,159,549                       | RMB9,197,561                                                  |

| Accumulated investment in Mainland China as of June 30, 2018 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--------------------------------------------------------------|--------------------------------------------------------------|---------------------------|
| \$319,130<br>(USD9,603,039)                                  | \$459,409(Note2)<br>(USD13,848,355)                          | \$2,566,904               |

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 capitalization of retained earnings in China in the amount of USD 4,245,316 was exempted to be included in the upper limit on investment.

- (b) As of June 30, 2018, information on significant transactions and prices, payments, etc. between the parent company and subsidiaries, please refer Table 3 on page 102 to 103. The amount of unrealized gains arising from the aforementioned significant transactions was \$2,817.