# ZENG HSING INDUSTRIAL CO., LTD.

## PARENT COMPANY ONLY FINANCIAL STATEMENTS
## WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 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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**Independent Auditors' Report**

To ZENG HSING INDUSTRIAL CO., LTD

**Opinion**

We have audited the accompanying parent company only balance sheets of Zeng Hsing Industrial Co., Ltd. (the "Company") as of December 31, 2018 and 2017, and the parent company only statements of comprehensive income, the parent company only changes in equity and the parent company only cash flows for the years ended December 31, 2018 and 2017, and notes to the parent company only financial statements, including the summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements referred to above present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2018 and 2017, and the parent company only financial performance and the parent company only cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2018 the parent company only financial statements. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Impairment of accounts receivable**

As of December 31, 2018, the Company's accounts receivable and allowance for doubtful accounts amounted to NTD 1,149,265 thousand and NTD 7,497 thousand, respectively. Net accounts receivable represented 17% of the parent company only total assets and have significant impacts on the Company. The collection of accounts receivable is a key factor in the working capital management of ZENG HSING INDUSTRIAL CO., LTD and the provision for allowance for doubtful accounts would reflect the credit risk of the Company. As the adequacy of provision policy requires significant management judgement, we therefore determined the issue as a key audit mater.

Our audit procedures included, but not limited to, understanding and testing the effectiveness of internal control over assessment of client credit risk and accounts receivable collection management; assessing the reasonableness of loss allowance policy, including understanding related information to evaluate expected credit loss ratio according to historical experience, current market and future economic outlook; investigating accounts receivable details at end of the period, recalculating the reasonableness of loss allowance based on the expected credit loss ratio of each group; evaluating the reasonableness of the allowance for doubtful accounts based on individual customers with significant overdue accounts or longer aging; sampling customers to perform confirmation and reviewing the collection in subsequent period and analyzing the receivable turnover to evaluate recoverability.

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

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

As of December 31, 2018, inventories of the Company and the investees accounted for under the equity method that could have significant impacts on the financial statements. The Company starts manufacturing after receiving orders from customers, so we mainly assessed the allowance for inventory valuation losses for raw materials. Due to diversity of products and uncertainty arising from rapid changes in products, obsolete and slow-moving inventory valuation requires significant management judgement, we therefore determined the issue as a key audit mater.

Our audit procedures included, but not limited to, understanding and testing the operating effectiveness of internal controls around customer credit risk assessment and the management of collection of accounts receivable; sampling important storage locations to observe inventory counts; testing the correctness of the inventory aging schedule to make sure that the inventory aging schedule was appropriate. In addition, we also obtained the current year's reports on inventory movement and sample tested to check whether purchases and sales were supported by appropriate vouchers and to re-calculate the unit cost of inventories to evaluate the reasonableness of the net realizable value of inventory.

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

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2018 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Tu, Chin Yuan
Chen, Ming Hung
Ernst & Young, Taiwan
March 21, 2019

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
December 31, 2018 and 2017
(Expressed in Thousand New Taiwan Dollars)

| Assets | Notes | As of December 31, 2018 | As of December 31, 2017 |
|---|---|---|---|
| Current Assets | | | |
| Cash and cash equivalents | 4, 6(1) | $2,047,261 | $2,442,061 |
| Financial assets at fair value through profit or loss, current | 4, 12 | 565 | 132 |
| Accounts receivable, net | 4, 6(2) | 964,535 | 1,245,638 |
| Accounts receivable-related parties, net | 4, 6(2), 7 | 177,233 | 117,780 |
| Other receivables | | 6,164 | 20,147 |
| Other receivables-related parties | 7 | 1 | 11,427 |
| Inventories, net | 4, 6(3) | 61,261 | 56,289 |
| Prepayment | | 12,364 | 11,531 |
| Other current assets | | 4,916 | 3,948 |
| Total Current Assets | | 3,274,300 | 3,908,953 |
| Non-current assets | | | |
| Financial assets measured at cost, noncurrent | 4, 8, 12 | 200 | - |
| Bond investments with no active market, noncurrent | 8, 12 | - | 200 |
| Investments accounted for under the equity method | 4, 6(4) | 2,903,346 | 2,588,479 |
| Property, plant and equipment | 4, 6(5), 8 | 334,544 | 167,190 |
| Investment property | 4, 6(6) | 68,592 | 69,822 |
| Intangible assets | 4, 6(7) | 28,445 | 40,603 |
| Deferred tax assets | 4, 6(20) | 74,068 | 60,945 |
| Deposits-out | | 4,286 | 2,626 |
| Other long-term investments | | 4,485 | 4,485 |
| Other non-current assets | 6(8) | 9,975 | 18,454 |
| Total non-current assets | | 3,427,941 | 2,952,804 |
| Total assets | | $6,702,241 | $6,861,757 |

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

(continued)

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
December 31, 2018 and 2017
(Expressed in Thousand New Taiwan Dollars)

| Liabilities and Equity | Notes | As of December 31, 2018 | As of December 31, 2017 |
|---|---|---|---|
| Current liabilities | | | |
| Short-term loans | 4, 6(9), 12 | $220,000 | $444,500 |
| Short-term notes and bills payable | 4, 6(10), 12 | 100,000 | 230,000 |
| Financial liabilities at fair value through profit or loss, current | 4, 12 | - | 4,628 |
| Contract liabilities, current | 6(14) | 18,711 | |
| Notes payable | 12 | 2,006 | 6,154 |
| Accounts payable | 12 | 127,815 | 134,990 |
| Accounts payable-related parties | 7, 12 | 658,356 | 1,045,893 |
| Other payables | 12 | 189,986 | 160,219 |
| Other payables-related parties | 7, 12 | 97 | 1,479 |
| Current tax liabilities | 4, 6(20) | 139,500 | 85,481 |
| Long-term borrowings(including current portion with maturity less than 1 year) | 4, 6(11), 12 | 40,000 | |
| Other current liabilities | | 13,675 | 17,054 |
| Total current liabilities | | 1,510,146 | 2,130,398 |
| Non-current liabilities | | | |
| Long-term loans | 4, 6(11), 12 | 120,000 | 160,000 |
| Deferred tax liabilities | 4, 6(20) | 222,648 | 143,905 |
| Accrued pension liabilities | 4, 6(12) | 46,598 | 39,870 |
| Deposits-in | | 360 | 360 |
| Total non-current liabilities | | 389,606 | 344,135 |
| Total liabilities | | 1,899,752 | 2,474,533 |
| | | | |
| Equity attributable to the parent company | 4, 6(13) | | |
| Capital | | | |
| Common stock | | 605,356 | 605,526 |
| Additional paid-in capital | | | |
| Capital Surplus-Additional Paid-In Capital | | 1,306,540 | 1,308,533 |
| Capital Surplus-Donated Assets Received | | 314 | 314 |
| Capital Surplus-Other | | 78,498 | 78,498 |
| Total Additional paid-in capital | | 1,385,352 | 1,387,345 |
| Retained earnings | | | |
| Legal reserve | | 730,563 | 730,563 |
| Special reserve | | 176,886 | 45,286 |
| Retained earnings | | 2,067,432 | 1,797,553 |
| Total Retained earnings | | 2,974,881 | 2,573,402 |
| Other components of equity | | | |
| Exchange differences on translation of foreign operations | | (173,468) | (176,886) |
| Unrealized gains and losses on equity instrument measured at fair value through other comprehensive income, noncurrent | | 10,368 | - |
| Treasury stock | | - | (2,163) |
| Total equity | | 4,802,489 | 4,387,224 |
| Total liabilities and equity | | $6,702,241 | $6,861,757 |

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

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

| | Notes | For the Years Ended December 31, 2018 | 2017 |
|---|---|---|---|
| Net Sales | 6(14), 7 | $6,137,712 | $5,495,386 |
| Cost of Sales | 6(3), 6(17), 7 | (4,899,723) | (4,382,956) |
| Gross Profit | | 1,237,989 | 1,112,430 |
| Unrealized Intercompany Profit | 7 | (4,832) | (528) |
| Realized Intercompany Profit | | 1,585 | 1,627 |
| Gross Profit | | 1,234,742 | 1,113,529 |
| Operating Expenses | 6(16),6(17) | | |
| Selling and marketing | | (110,804) | (100,410) |
| Management and administrative | | (255,729) | (249,395) |
| Research and development | | (114,215) | (117,429) |
| Expected credit losses | 6(15) | (2,757) | - |
| Total Operating Expenses | | (480,748) | (467,234) |
| Operating Income | | 753,994 | 646,295 |
| Non-operating income and expenses | 6(18) | | |
| Other revenue | | 62,456 | 82,952 |
| Other gain and loss | | 102,523 | (239,814) |
| Financial costs | | (6,887) | (6,240) |
| Share of profit or loss of associates and joint ventures | 6(4) | 287,123 | 172,940 |
| Subtotal | | 445,215 | 9,838 |
| Income from continuing operations before income tax | | 1,196,452 | 656,133 |
| Income tax expense | 6(20) | (272,880) | (130,669) |
| Income from Continuing Operations, Net of Tax | | 923,572 | 525,464 |
| Other comprehensive income | 6(19),6(20) | | |
| Items not reclassified subsequently to profit or loss | | | |
| Remeasurements of defined benefit plans | | (9,437) | 18,831 |
| Income tax related to items not reclassified subsequently to profit or loss | | 1,896 | (3,202) |
| Items that may be reclassified subsequently to profit or loss | | | |
| Exchange differences on translation of foreign operations | | (6,034) | (158,555) |
| Income tax related to items that may be reclassified subsequently to profit or loss | | 9,452 | 26,955 |
| Total other comprehensive loss , net of tax | | (4,123) | (115,971) |
| Total comprehensive income | | $919,449 | $409,493 |
| Earnings per share (NTD) | 6(21) | | |
| Earnings per share-basic | | $15.26 | $8.68 |
| Earnings per share-diluted | | $15.20 | $8.65 |

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

ZENG HSING INDUSTRIAL CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

| | Notes | Common Stock | Additional Paid-in Capital | Legal Reserve | Special reserve | Unappropriated Earnings | Exchange Differences on Translation of Foreign Operations | Unrealized gains (losses) from Financial asset measured at fair value through other comprehensive income | Treasury stock | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2017 | 6(13) | $605,526 | $1,387,345 | $645,420 | $ - | $1,961,977 | $(45,286) | $ - | $(2,163) | $4,552,819 |
| Appropriations of earnings, 2015: | | | | | | | | | | |
| Legal reserve | | | | 85,143 | | (85,143) | | | | - |
| Special reserve | | | | | 45,286 | (45,286) | | | | |
| Cash dividends | | | | | | (575,088) | | | | (575,088) |
| Net income for the year ended December 31, 2017 | | | | | | 525,464 | | | | 525,464 |
| Other comprehensive income, net of tax for the year ended December 31,2017 | | | | | | 15,629 | (131,600) | | | (115,971) |
| Total comprehensive income | | - | - | - | - | 541,093 | (131,600) | - | - | 409,493 |
| Balance as of December 31, 2017 | 6(13) | $605,526 | $1,387,345 | $730,563 | $45,286 | $1,797,553 | $(176,886) | $ - | $(2,163) | $4,387,224 |
| | | | | | | | | | | |
| Balance as of January 1, 2018 | 6(13) | $605,526 | $1,387,345 | $730,563 | $45,286 | $1,797,553 | $(176,886) | $ - | $(2,163) | $4,387,224 |
| Impact of retroactive applications | | | | | | | | 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 |
| Appropriations of earnings, 2017: | | | | | | | | | | |
| Legal reserve | | | | | | | | | | - |
| Special reserve | | | | | 131,600 | (131,600) | | | | - |
| Cash Dividends | | | | | | (514,552) | | | | (514,552) |
| Net income for the year ended December 31, 2018 | | | | | | 923,572 | | | | 923,572 |
| Other comprehensive income, net of tax for the years ended December 31,2018 | | | | | | (7,541) | 3,418 | | | (4,123) |
| Total comprehensive income | | - | - | - | - | 916,031 | 3,418 | | - | 919,449 |
| Treasury stock acquired | 6(13) | (170) | (1,993) | | | | | | 2,163 | - |
| Balance as of December 31, 2018 | 6(13) | $605,356 | $1,385,352 | $730,563 | $176,886 | $2,067,432 | $(173,468) | $10,368 | $ - | $4,802,489 |

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

ZENG HSING INDUSTRIAL CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousand New Taiwan Dollars)

| | For the Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income before tax | $1,196,452 | $656,133 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 30,657 | 23,547 |
| Amortization | 18,871 | 19,580 |
| Loss on disposal of property, plant and equipment | - | 35,079 |
| Net loss (gain) of financial assets at fair value through (profit) or loss | (19,173) | 42,585 |
| (Gain) or loss from price recovery of inventories | 5,162 | (200) |
| Share of gain of subsidiaries, associates and joint ventures | (287,123) | (172,940) |
| Expected credit losses | 2,757 | - |
| Gain reversal for doubtful accounts | - | (5,338) |
| Unrealized Intercompany Profit | 4,832 | 528 |
| Realized Intercompany Profit | (1,585) | (1,627) |
| Interest revenue | (29,767) | (13,238) |
| Interest expense | 6,887 | 6,240 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in financial assets at fair value through profit or loss | 14,112 | (21,503) |
| Decrease in accounts receivable | 278,346 | 100,753 |
| Decrease (increase) in accounts receivable-related parties | (59,453) | 32,978 |
| Increase in inventories, net | (8,288) | (4,947) |
| Decrease (increase) in other receivables | 13,983 | (10,813) |
| Decrease (increase) in other receivables-related parties | 11,426 | (23,116) |
| Increase in prepayments | (833) | (1,513) |
| Decrease (increase) in other current assets | (968) | 998 |
| Increase in other non-current assets | (3,801) | (24,217) |
| Increase in contract liabilities | 3,093 | - |
| Decrease in notes payable | (4,148) | (14,423) |
| Decrease in accounts payable | (7,175) | (6,919) |
| (Decrease) Increase in accounts payable-related parties | (389,383) | 402,330 |
| Increase in other payables | 29,767 | 6,029 |
| (Decrease) Increase in other payables-related parties | (1,382) | 1,479 |
| (Decrease) increase in other current liabilities | 12,239 | (925) |
| Decrease in accrued pension liabilities | (2,709) | (7,736) |
| Cash generated from operations | 812,796 | 1,018,804 |
| Interest received | 29,767 | 13,238 |
| Income tax paid | (141,893) | (143,352) |
| Net cash provided by operating activities | 700,670 | 888,690 |

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

(Continued)

ZENG HSING INDUSTRIAL CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousand New Taiwan Dollars)

| | For the Years Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| (Continued) | | |
| Cash flows from investing activities: | | |
| Increase in investments accounted for under the equity method | (39,059) | - |
| Acquisition of property, plant and equipment | (187,703) | (82,413) |
| Proceeds from disposal of property, plant and equipment | - | 7,719 |
| Decrease (increase) in deposits-out | (1,660) | 1,156 |
| Increase in intangible assets | (3,511) | (13,970) |
| Dividends received | 12,402 | 273,165 |
| Net cash provided (used) in investing activities | (219,531) | 185,657 |
| Cash flows from financing activities: | | |
| Increase in short-term loans | 2,321,620 | 2,539,231 |
| Decrease in short-term loans | (2,546,120) | (2,406,126) |
| Increase in short-term notes and bills payable | 4,330,000 | 2,270,000 |
| Decrease in short-term notes and bills payable | (4,460,000) | (2,120,000) |
| Increase in long-term loans | - | 160,000 |
| Interest paid | (6,887) | (6,240) |
| Cash dividends | (514,552) | (575,088) |
| Net cash used in financing activities | (875,939) | (138,223) |
| Net increase in cash and cash equivalents | (394,800) | 936,124 |
| Cash and cash equivalents at beginning of period | 2,442,061 | 1,505,937 |
| Cash and cash equivalents at end of period | $2,047,261 | $2,442,061 |

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

ZENG HSING INDUSTRIAL CO., LTD.
Notes to Financial Statements
For the Years Ended December 31, 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 financial statements of the Company for the years ended December 31, 2018 and 2017 were authorized for issue in accordance with the resolution of the board of directors' meeting held on March 21, 2019.

## 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 Company 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 Company 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 Company elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company's principal activities consist of the sale of goods. The impacts arising from the adoption of IFRS 15 on the Company 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 Company recognized revenue when (or as) the Company satisfies a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Company's revenue recognition from sale of goods. Besides, the Company 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.

C. The Company 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 Company 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 Company as at the date of initial application was $15,618. In addition, compared with IAS 18, other current liabilities decreased by $18,711 and the contract liabilities increased by $18,711 as at December 31, 2018.

D. Please refer to Notes 4, 5 and 6 for additional disclosure note required by IFRS 15.

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

(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 Company 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 Company:

A. The Company 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:

| 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 |
| 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) | 3,825,746 |
| 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) | 3,825,746 | | |
| Total | $3,825,878 | Total | $3,825,878 |

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:

(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** |
| Financial assets at fair value through profit or loss | | | | | | |
| Held-for-trading | $132 | Measured at fair value through profit or loss | $132 | - | - | - |
| Loans and receivables (Note) | | | | | | |
| Cash and cash equivalents (excludes cash on hand) | 2,441,981 | Cash and cash equivalents (excludes cash on hand) | 2,441,981 | - | - | - |
| Accounts receivable, net | 1,363,418 | Accounts receivable, net | 1,363,418 | - | - | - |
| Other receivables | 20,147 | Measured at fair value through profit or loss | 20,147 | - | - | - |
| Debt instrument investments with no active market, noncurrent | 200 | Financial assets measured at amortized cost, noncurrent | 200 | - | - | - |
| Subtotal | 3,825,746 | Subtotal | 3,825,746 | - | - | - |
| Total | $3,825,878 | Total | $3,825,878 | $- | $- | $- |

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-noncurrent of $200 was reclassified to financial assets measured at amortized cost-noncurrent of $200, respectively.

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

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

(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 Company 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 Company elected to apply this application prospectively on January 1, 2018. This change in accounting principle did not significantly impact the Company's recognition and measurement.

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

The Company 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.

(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 Company 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 (except for short-term and low-value leases). All assets and liabilities relating to lease transactions must be reflected in the balance sheet and the depreciation expense and interest expense relating to leases must be recognized in statement of comprehensive income. Lessor accounting still uses the dual classification approach: operating lease and finance lease, however more disclosure information shall be provided.

(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.

(c) *IAS 28"Investment in Associates and Joint Ventures" — Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

(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.

*IAS 23 "Borrowing Costs"*

The amendments clarify that an entity should treats 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 Company is still currently determining the potential impact of the standards and interpretations listed under (a), the impact of the description is as follows .All other standards and interpretations have no material impact on the Company.

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The impact arising from the adoption of IFRS 16 on the Company are summarized as follows:

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

A. For the definition of a lease, the Company elects not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

(a) Leases classified as operating leases

For leases that were classified as operating leases applying IAS 17, the Company expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019 and; the Company chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

i. its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate on 1 January 2019; or
ii. an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before 1 January 2019.

The Company expects the right-of-use asset will increase by NT$8,423 and the lease liability will increase by NT$8,423 on 1 January 2019.

| 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 |
| c | Definition of a Business (Amendments to IFRS 3) | January 1, 2020 |
| d | Definition of Material Information (Amendments to IFRS 1 and 8) | January 1, 2020 |

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

(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*

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 company 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.

The carrying amount of a company 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).

(c) Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

(d) Definition of Material Information (Amendments to IFRS 1 and 8)

It mainly redefines material information as: the omission, misrepresentation or ambiguity of certain items is expected to affect the decisions made by the primary users of the general-purpose financial statements in accordance with the financial statements. The extent to which this amendment clarifies the significance will depend on the nature or size of the information, and the company will need to see whether the information is individually or in combination with other information material in the financial statements. If it is reasonably expected to have an impact on the primary user, the misrepresented information is material.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company is still currently determining the potential impact of the standards and interpretations, it is not practicable to estimate their impact on the Company at this point in time.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Statement of Compliance

The Company's financial statements for the years ended December, 31, 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

### (2) Basis of Preparation

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

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

### (3) Foreign Currency Transactions

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

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

(4) Translation of Foreign Currency Financial Statements

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

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

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

(5) Current and Non-current Distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as a current when:

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

All other liabilities are classified as non-current.

(6) Cash Equivalents

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

(7) Financial instruments

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

Financial assets and financial liabilities within the scope of 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.

(1) Financial instruments: Recognition and Measurement

**<u>The accounting policy from January 1, 2018 as follows:</u>**

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

The Company 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 Company'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:

A. purchased or originated credit-impaired financial assets. For those financial assets, the Company 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 Company 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 Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated 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 company 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 company 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 far 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.

(2) Impairment of financial assets

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

The Company 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 Company 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 Company 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.

**<u>The accounting policy before January 1, 2018 is as follows:</u>**

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

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

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 Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

(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 Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
iii. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

(4) Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

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:

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 far 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.

(5) 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.

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.

(8) Derivative financial instruments

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

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

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 though 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.

(9) Fair value measurement

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

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

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

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

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

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

(10) Inventories

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

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

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

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

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

(11) Investments accounted for under the equity method

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

The adjustments took into consideration how the subsidiaries should be accounted for in accordance with IFRS 10 and the different extent to each reporting entity IFRS applies. The adjustments are made by debiting or crediting "investments accounted for under the equity method", "share of profit or loss of associates and joint ventures accounted for under equity method", and "share of other comprehensive income of associates and joint ventures accounted for using the equity method".

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence.

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

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

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

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

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

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

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

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

(12) Property, plant and equipment

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

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

| Items | Useful Lives |
|---|---|
| Buildings and facilities | 6～50 years |
| Machinery and equipment | 6～15 years |
| Tooling equipment | 2～ 7 years |
| Transportation equipment | 5～10 years |
| Furniture, fixtures and equipment | 5～10 years |
| Miscellaneous equipment | 3～20 years |
| Leasehold improvements | The shorter of lease terms or economic useful lives |

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

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

(13) Investment property

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

Buildings 25 years

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.

(14) Leases

Company as a lessee

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

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company 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.

Company as a lessor

Leases in which the Company 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.

(15) Intangible Assets

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

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

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized. Accounting policies of the Company’s intangible assets is summarized as follows:

| | Software | Trademarks | Patents |
|---|---|---|---|
| Useful lives | 1~5 years | 1~5 years | 1~5 years |
| Method of amortization | Amortized on a straight- line basis over the estimated useful life | Amortized on a straight- line basis over the estimated useful life | Amortized on a straight- line basis over the estimated useful life |
| Sources | Outside | Outside | Outside |

(16) Impairment of Non-financial Assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

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 (company of units), then to the other assets of the unit (company of units) pro rata on the basis of the carrying amount of each asset in the unit (company of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(17) Provisions

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

(18) Treasury Stock

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

(19) Revenue recognition

**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:

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 Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

a. Sale of goods

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

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

b. Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

c. Dividends

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

(20) Borrowing cost

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

(21) Post-employment benefits

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

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

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

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

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

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

(22) Income Tax

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

Current income tax

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

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

Deferred income tax

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

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

a. When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

b. In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

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

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

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

## 5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(1) Judgement

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

(a) Operating lease commitment－Company as the lessor

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

(2) Estimates and assumptions

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

(a) Accounts receivables–estimation of impairment loss

<u>Starting from January 1, 2018:</u>

The Company 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.

Before January 1, 2018:

The Company considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. 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. Please refer to Note 6 for more details.

(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 Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Company 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 | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Cash on hand | $259 | $80 |
| Checking and savings accounts | 1,586,007 | 2,083,805 |
| Time deposits | 460,995 | 358,176 |
| Total | $2,047,261 | $2,442,061 |

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

(2) ACCOUNTS RECEIVABLE, NET

| | As of | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Accounts receivable - non related parties | $972,032 | $1,250,378 |
| Less: Allowance for doubtful accounts | (7,497) | (4,740) |
| Subtotal | 964,535 | 1,245,638 |
| Accounts receivable - related parties | 177,233 | 117,780 |
| Accounts receivable, net | $1,141,768 | $1,363,418 |

Trade receivables are generally on 45-90 day terms. The Company 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 December 31, 2017 are as follows: (Please refer to Note 12 for more details on credit risk disclosure):

| | Individually impaired | Collectively impaired | Total |
|---|---|---|---|
| As of January 1, 2017 | $- | $10,078 | $10,078 |
| Reversal for the current period | - | (5,338) | (5,338) |
| As of December 31, 2017 | $- | $4,740 | $4,740 |

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

| | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired | 1~30 days | 31-90 days | 91-360 days | Upon 361 day | Total |
| December 31, 2017 | $1,330,915 | $16,056 | $16,441 | $6 | $- | $1,363,418 |

No accounts receivables were pledged.

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

## (3) INVENTORIES, NET

a. Details as follows

| | As of | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Raw materials | $34,324 | $36,367 |
| Work in progress | 2,062 | 1,048 |
| Semi-manufactured goods | 5,289 | 7,597 |
| Finished goods | 19,586 | 11,277 |
| Total | $61,261 | $56,289 |

b. For the years ended December 31, 2018 and 2017, the Company recognized $4,899,723 and $4,382,956, respectively, in operating cost, of which $5,162 and $200 was related to gains recognized, respectively, as a result of the net realized value recovery of inventory being lower than its cost.

c. The gains from inventory price recovery were recognized in 2017 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.

## (4) INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

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

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying amount | Percentage of ownership | Carrying amount | Percentage of ownership |
| Subsidiaries: | | | | |
| Zeng Hsing Industrial Co., Ltd. (VN) | $1,561,244 | 100.00% | $1,419,139 | 100.00% |
| Zeng Hsing Industrial Co., Ltd. (BVI) | 945,334 | 100.00% | 803,598 | 100.00% |
| Shinco Technologies Limited (VN) | 330,713 | 100.00% | 306,240 | 100.00% |
| Shinco Worldwide Limited (BVI) | 14,576 | 100.00% | 15,116 | 100.00% |
| Mitsumichi Industrial Co., Ltd. | 51,479 | 53.00% | 44,386 | 53.00% |
| Subtotal | 2,903,346 | | 2,588,479 | |
| Associates | | | | |
| Taiwan Carbon Technology Co., Ltd. | 4,559 | 19.53% | 4,559 | 19.53% |
| Loss of impairment | (4,559) | | (4,559) | |
| Subtotal | - | | - | |
| Total | $2,903,246 | | $2,588,479 | |

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

a. Subsidiaries

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

For the years ended December 31, 2018 and 2017, the Company recognized share of profit or loss of associates and joint ventures and exchange differences on translation of foreign operations with report of independent accountants, the details as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Investee companies | Share of profit or loss of associates and joint ventures | Exchange differences on translation of foreign operations | Share of profit or loss of associates and joint ventures | Exchange differences on translation of foreign operations |
| Zeng Hsing Industrial Co., Ltd. (BVI) | $114,471 | $(22,121) | $50,361 | $(12,009) |
| Zeng Hsing Industrial Co., Ltd. (VN) | 132,018 | 13,293 | 97,111 | (121,941) |
| Shinco Technologies Limited (VN) | 21,679 | 2,794 | 16,237 | (24,605) |
| Shinco Worldwide Limited (BVI) | (540) | - | (5,231) | - |
| Mitsumichi Industrial Co., Ltd. | 19,495 | - | 14,462 | - |
| Total | $287,123 | $(6,034) | $172,940 | $(158,555) |

b. Investments in associates

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

| | As of | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Total assets (100%) | $134,657 | $109,238 |
| Total liabilities (100%) | 10,481 | 14,034 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Total revenue (100%) | $88,522 | $89,827 |
| Total expense (100%) | 28,972 | 28,527 |

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

c. Other investments

For the years ended December 31, 2018 and 2017, the details of the Company invested to subsidiaries by cash as follows:

| Subsidiaries | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Zeng Hsing Industrial Co., Ltd. (BVI) | $39,059 | $- |

For the years ended December 31, 2018 and 2017, the details of the Company received dividends from subsidiaries by cash as follows:

| Subsidiaries | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Zeng Hsing Industrial Co., Ltd. (BVI) | $- | $126,152 |
| Mitsumichi Industrial Co., Ltd. | 12,402 | 7,441 |
| Total | $12,402 | $133,593 |

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

(5) PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and Facilities | Machinery and equipment | Tooling equip-ment | Transportation equipment | Furniture, fix-tures and equipment | Miscellaneous equipment | Construction In Process | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | |
| As of January 1, 2018 | $21,075 | $44,195 | $29,318 | $54,520 | $2,994 | $2,555 | $52,827 | $58,298 | $265,782 |
| Additions | - | - | - | 11,330 | - | - | 4,729 | 171,644 | 187,703 |
| Disposals | - | - | - | - | - | - | - | - | - |
| Transfers | - | - | - | 8,886 | - | - | 192 | - | 9,078 |
| As of December 31, 2018 | $21,075 | $44,195 | $29,318 | $74,736 | $2,994 | $2,555 | $57,748 | $229,942 | $462,563 |
| | | | | | | | | | |
| As of January 1, 2017 | $21,075 | $119,321 | $30,230 | $31,684 | $2,994 | $8,907 | $59,825 | $- | $274,036 |
| Additions | - | - | 806 | 20,803 | - | - | 2,506 | 58,298 | 82,413 |
| Disposals | - | (75,126) | (2,047) | (17,984) | - | (6,352) | (9,734) | - | (111,243) |
| Transfers | - | - | 329 | 20,017 | - | - | 230 | - | 20,576 |
| As of December 31, 2017 | $21,075 | $44,195 | $29,318 | $54,520 | $2,994 | $2,555 | $52,827 | $58,298 | $265,782 |

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

| | Land | Buildings and Facilities | Machinery and equipment | Tooling equipment | Transportation equipment | Furniture, fixtures and equipment | Miscellaneous equipment | Construction in Process | Total |
|---|---|---|---|---|---|---|---|---|---|
| Depreciation and impairment: | | | | | | | | | |
| As of January 1, 2018 | $- | $15,172 | $17,030 | $22,892 | $1,567 | $1,912 | $40,019 | $- | $98,592 |
| Depreciation | - | 1,207 | 3,179 | 18,389 | 410 | 181 | 6,061 | - | 29,427 |
| Disposals | - | - | - | - | - | - | - | - | - |
| As of December 31, 2018 | $- | $16,379 | $20,209 | $41,281 | $1,977 | $2,093 | $46,080 | $- | $128,019 |
| As of January 1, 2017 | $- | $55,158 | $14,940 | $24,303 | $1,179 | $6,872 | $42,268 | $- | $144,720 |
| Depreciation | - | 2,676 | 3,183 | 9,451 | 388 | 369 | 6,250 | - | 22,317 |
| Disposals | - | (42,662) | (1,093) | (10,862) | - | (5,329) | (8,499) | - | (68,445) |
| As of December 31, 2017 | $- | $15,172 | $17,030 | $22,892 | $1,567 | $1,912 | $40,019 | $- | $98,592 |
| Net carrying amount as of: | | | | | | | | | |
| As of December 31, 2018 | $21,075 | $27,816 | $9,109 | $33,455 | $1,017 | $462 | $11,668 | $229,942 | $334,544 |
| As of December 31, 2017 | $21,075 | $29,023 | $12,288 | $31,628 | $1,427 | $643 | $12,808 | $58,298 | $167,190 |

a. Please refer to Note 8 for property, plant and equipment pledged as collateral.
b. There is no occurrence of capitalization of interest due to purchasing property, plant and equipment for the years ended December 31, 2018 and 2017.

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

(6) Investment property

| | Land | Buildings | Total |
|---|---|---|---|
| **Cost:** | | | |
| As of January 1, 2018 | $41,124 | $30,747 | $71,871 |
| Additions | - | - | - |
| As of December 31, 2018 | $41,124 | $30,747 | $71,871 |
| As of January 1, 2017 | $41,124 | $30,747 | $71,871 |
| Additions | - | - | - |
| As of December 31, 2017 | $41,124 | $30,747 | $71,871 |
| **Depreciation and impairment:** | | | |
| As of January 1, 2018 | $- | $2,049 | $2,049 |
| Depreciation | - | 1,230 | 1,230 |
| As of December 31, 2018 | $- | $3,279 | $3,279 |
| As of January 1, 2017 | $- | $819 | $819 |
| Depreciation | - | 1,230 | 1,230 |
| As of December 31, 2017 | $- | $2,049 | $2,049 |
| Net carrying amount: | | | |
| As of December 31, 2018 | $41,124 | $27,468 | $68,592 |
| As of December 31, 2017 | $41,124 | $28,698 | $69,822 |

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Rental income from investment property | $2,297 | $2,297 |
| Less: | | |
| Direct operating expenses from investment property generating rental income | - | - |
| Total | $2,297 | $2,297 |

No investment property was pledged.

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

Investment properties held by the Company are not measured at fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3. The fair value of the investment properties were $77,894 and $80,690 as of December 31 2018 and 2017, respectively. The fair value has been determined based on valuations performed by an independent valuer and supported by prices in the active market. The valuation methods used are comparison approach and direct capitalization method, and the inputs used are as follows:

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Net profit | $3,449 | $1,342 |
| Capitalization rate | 1.80% | 1.60% |

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

## (7) INTANGIBLE ASSETS

| | Software | Patents | Trademarks | Total |
|---|---|---|---|---|
| Cost: | | | | |
| As of January 1, 2018 | $116,758 | $4,470 | $1,846 | $123,074 |
| Addition-acquired separately | 2,538 | 888 | 85 | 3,511 |
| Exchange differences | 1,280 | - | - | 1,280 |
| As of December 31, 2018 | $120,576 | $5,358 | $1,931 | $127,865 |
| As of January 1, 2017 | $96,733 | $3,878 | $1,701 | $102,312 |
| Addition-acquired separately | 13,233 | 592 | 145 | 13,970 |
| Exchange differences | 6,792 | - | - | 6,792 |
| As of December 31, 2017 | $116,758 | $4,470 | $1,846 | $123,074 |

| | Software | Patents | Trademarks | Total |
|---|---|---|---|---|
| Amortization and impairment: | | | | |
| As of January 1, 2018 | $79,023 | $1,788 | $1,660 | $82,471 |
| Amortization | 16,665 | 256 | 28 | 16,949 |
| As of December 31, 2018 | $95,688 | $2,044 | $1,688 | $99,420 |
| As of January 1, 2017 | $61,551 | $1,577 | $1,633 | $64,761 |
| Amortization | 17,472 | 211 | 27 | 17,710 |
| As of December 31, 2017 | $79,023 | $1,788 | $1,660 | $82,471 |
| Net carrying amount as of: | | | | |
| As of December 31, 2018 | $24,888 | $3,314 | $243 | $28,445 |
| As of December 31, 2017 | $37,735 | $2,682 | $186 | $40,603 |

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

Intangible asset amortization expenses are summarized as follows:

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Operating cost | $910 | $947 |
| Selling and marketing | 1,168 | 1,175 |
| Management and administrative | 12,918 | 10,798 |
| Research and development | 1,953 | 4,790 |
| Total | $16,949 | $17,710 |

## (8) OTHER NON-CURRENT ASSETS

| | As of | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Prepayment for equipment | $8,938 | $15,495 |
| Others | 1,037 | 2,959 |
| Total | $9,975 | $18,454 |

## (9) SHORT-TERM BORROWINGS

| | As of | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Unsecured bank loans | $220,000 | $444,500 |

| | Annual ended December 31, 2018 | Annual ended December 31, 2017 |
|---|---|---|
| Interest rates | 0.85%~0.98% | 0.88%~1.1% |

The Company's unused short-term lines of credits amounted to $755,000 and $280,497 as of December 31, 2018 and 2017, respectively.

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

(10) SHORT-TERM NOTES AND BILLS PAYABLE

| Accounting title | Guarantee | As of December 31, 2018 | As of December 31, 2017 |
|---|---|---|---|
| Commercial paper payable | Ta Ching Bills Finance Corporation | $- | $80,000 |
| | Mega Bills | 100,000 | 150,000 |
| Less: discount on short-term notes and bills payable | | - | - |
| Net short-term notes and bills payable | | $100,000 | $230,000 |

| | As of December 31, 2018 | As of December 31, 2017 |
|---|---|---|
| Interest rates | 0.94% | 0.56%~0.64% |

(11) LONG-TERM LOANS

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

| Creditor | December 31, 2018 | December 31, 2017 | Rate (%) | Repayment period and methods |
|---|---|---|---|---|
| Bank of Taiwan (Secured) | $160,000 | $160,000 | 1.02% | Interests are paid monthly from December 7, 2018 through December 7, 2022. Principals are paid in 48 installments starting from the second year. |
| Subtotal | 160,000 | 160,000 | | |
| Less: current portion | (40,000) | - | | |
| Total | $120,000 | $160,000 | | |

(b) 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.

## (12) POST-EMPLOYMENT BENEFITS

### Defined contribution plan

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

Pension expenses under the defined contribution plan were $9,838 and $10,403 for the years ended December 31, 2018 and 2017, respectively.

### Defined benefits plan

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

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under discretionary accounts, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure to risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute $11,972 to its defined benefit plan during the 12 months as of 31 December 2018.

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

The defined benefits plan obligation as of 31 December 2018 and 2017 is expected to mature in 2028 and 2029.

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

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Current period service costs | $1,281 | $1,750 |
| Interest income or expense | 396 | 892 |
| Past period service costs | 16,004 | - |
| Total | $17,681 | $2,642 |

The Company recognized pension cost for high-ranking officers amounting to $1,200 for the years ended December 31, 2018 and 2017. As of December 31, 2018 and 2017, accrued pension liabilities non-current amounted to $9,407 and $8,207, respectively. In addition, the Company recognized pension expenses for early retirement in 2018 and 2017 amounting to $3,358 and $9,616, respectively.

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

| | As of | | |
|---|---|---|---|
| | December 31, 2018 | December 31, 2017 | January 1, 2017 |
| Defined benefit obligation | $97,492 | $132,186 | $156,451 |
| Plan assets at fair value | (60,301) | (100,523) | (97,021) |
| Other non-current liabilities - accrued pension liabilities recognized on the balance sheets | $37,191 | $31,663 | $59,430 |

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

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

| | As of | | |
|---|---|---|---|
| | Defined benefit obligation | Fair value of plan assets | Benefit liability (asset) |
| As of January 1, 2017 | $156,451 | $(97,021) | $59,430 |
| Current period service costs | 1,750 | - | 1,750 |
| Net interest expense (income) | 2,347 | (1,455) | 892 |
| Past service cost and gains and losses arising from settlements | - | - | - |
| Subtotal | 160,548 | (98,476) | 62,072 |
| Remeasurements of the net defined benefit liability (asset): | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | (19) | - | (19) |
| Actuarial gains and losses arising from changes in financial assumptions | (6,286) | - | (6,286) |
| Experience adjustments | (13,034) | - | (13,034) |
| Remeasurements of benefit assets | - | 508 | 508 |
| Subtotal | (19,339) | 508 | (18,831) |
| Payments from the plan | (9,023) | 9,023 | - |
| Contributions by employer | - | (11,578) | (11,578) |
| Effect of changes in foreign exchange rates | - | - | - |
| As of December 31, 2017 | $132,186 | $(100,523) | $31,663 |
| Current period service costs | 1,281 | - | 1,281 |
| Net interest expense (income) | 1,652 | (1,256) | 396 |
| Past service cost and gains and losses arising from settlements | 16,004 | - | 16,004 |
| Subtotal | 151,123 | (101,779) | 49,344 |
| Remeasurements of the net defined benefit liability (asset): | | | |
| Actuarial gains and losses arising from changes in demographic assumptions | (2,056) | - | (2,056) |
| Actuarial gains and losses arising from changes in financial assumptions | 15,182 | - | 15,182 |
| Experience adjustments | (1,105) | - | (1,105) |
| Remeasurements of benefit assets | - | (2,585) | (2,585) |
| Subtotal | 12,021 | (2,585) | (9,436) |
| Payments from the plan | (65,652) | 65,652 | - |
| Contributions by employer | - | (21,589) | (21,589) |
| Effect of changes in foreign exchange rates | - | - | - |
| As of December 31, 2018 | $97,492 | $(60,301) | $37,191 |

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

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

| | As of | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Discount rate | 1.11% | 1.25% |
| Expected rate of salary increases | 3.00% | 2.00% |

A sensitivity analysis for significant assumption as of 31 December 2018 and 2017 is as shown below:

| | Effect on the defined benefit obligation | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Increase defined benefit obligation | Decrease defined benefit obligation | Increase defined benefit obligation | Decrease defined benefit obligation |
| Discount rate increase by 0.50% | $- | $6,914 | $- | $6,258 |
| Discount rate decrease by 0.50% | 7,590 | - | 9,556 | - |
| Future salary increase by 0.50 % | 7,406 | - | 9,434 | - |
| Future salary decrease by 0.50% | - | 6,824 | - | 6,250 |

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

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

## (13) 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.

On November 8, 2018, the Company resolved to cancel 17,000 shares of treasury shares that were not transferred to employees over the period, with a total amount of $2,163. The base date for capital reduction was November 8, 2018. After the capital reduction, the paid-in capital was $605,356, and the registration of the change was completed on December 4, 2018
.

As of December 31, 2018, the issued share capital of the Company was $605,356, and the face value of each share was $10, divided into 60,535,631 shares. Each share has a right to vote and receive dividends.

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) 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. On November 8, 2018, the Company resolved to cancel 17,000 shares of treasury shares that were not transferred to employees over the period, with a total amount of $2,163. The base date for capital reduction was November 8, 2018. The registration of the change was completed on December 4, 2018.

(b) 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.

(c) 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) According to the Securities and Exchange Act of R.O.C., the shares purchased for the transfer of shares to employees shall be transferred within three years following the date of purchase. If the shares are not transferred within the period, it shall be regarded as the unissued shares of the company and shall be subject to cancellation registration. In order to maintain the company's credit and shareholders' rights, the shares bought back shall be subject to change registration within six months from the date of purchase.

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.

(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 2018 and 2017 earnings distribution and dividends per share as approved and resolved by the board of directors' meeting and shareholders' meeting on March 21, 2019 and June 13, 2018, respectively, are as follows:

| | Appropriation of earnings | | Dividend per share (NTD) | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Legal reserve | $- | $- | | |
| (Reversal)Special reserve | (13,786) | 131,600 | | |
| Cash dividends-common stock | 665,892 | 514,552 | $11 | $8.5 |
| Total | $652,106 | $646,152 | | |

The Company estimated the amounts of the employee compensation and remuneration to directors and supervisors, please refer to Note 6 (17) for more details.

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

(14) SALES

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Sale of goods | $6,064,609 | $5,465,643 |
| Repair income | 36,728 | 19,884 |
| Commission income | 27,876 | 1,714 |
| Premium income | 8,499 | 8,145 |
| Net sales | $6,137,712 | $5,495,386 |

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

(1) Disaggregation of revenue

| | Taiwan |
|---|---|
| Sale of goods | $6,064,609 |
| Repair income | 36,728 |
| Commissions | 27,876 |
| Premium income | 8,499 |
| Total | $6,137,712 |

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

(2) Contract balances

Contract liabilities - current

| | Beginning balance | Ending balance | Difference |
|---|---|---|---|
| Sales of goods | $15,618 | $18,711 | $3,093 |

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

During the period, contract liabilities decreased as performance obligations are partially satisfied and $14,042 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)

| | 2018 | 2017(Note) |
|---|---|---|
| Operating expenses – Expected credit losses | | |
| Trade receivables | $ 2,757 | $- |

Note: The Company adopted IFRS 9 on January 1, 2018. The Company 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.

The Company 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 Company's loss allowance as at December 31, 2018 is as follows:

| | Not yet due | Overdue | | | | | |
|---|---|---|---|---|---|---|---|
| | | <=30 days | 31-60 days | 61-90 days | 91-360 days | >=361 days | Total |
| Gross carrying amount | $1,119,044 | $11,089 | $6,418 | $- | $11,717 | $997 | $1,149,265 |
| Loss ratio | - | - | 10% | 20% | 50% | 100% | |
| Lifetime expected credit losses | - | - | (642) | - | (5,858) | (997) | (7,497) |
| Carrying amount | $1,119,044 | $11,089 | $5,776 | $- | $5,859 | $- | $1,141,768 |

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

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

The movement in the provision for impairment of note receivables and trade receivables during 2018 is as follows:

| | Note receivables | Trade receivables |
|---|---|---|
| Beginning balance (in accordance with IAS 39) | $- | $4,740 |
| Transition adjustment to retained earnings | - | - |
| Beginning balance (in accordance with IFRS 9) | - | 4,740 |
| Addition for the current period | - | 2,757 |
| Ending balance | $- | $7,497 |

(16) Operating lease

The Company as lessee

The Company 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 Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Lower than 1 year | $6,080 | $6,180 |
| Between 1 to 5 years | - | 6,080 |
| Total | $6,080 | $12,260 |

The expenses of operating lease were as follows:

| | 2018 | 2017 |
|---|---|---|
| Minimum lease payments | $6,180 | $6,180 |

(17) SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017:

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

| Function / Nature | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits expense | | | | | | |
| Salaries | $47,232 | $272,111 | $319,343 | $73,274 | $244,183 | $317,457 |
| Labor and health insurance | 4,224 | 18,637 | 22,861 | 6,131 | 19,078 | 25,209 |
| Pension | 2,401 | 29,676 | 32,077 | 3,207 | 20,654 | 23,861 |
| Director's remuneration | - | 5,259 | 5,259 | - | 4,986 | 4,986 |
| Others | 2,223 | 7,512 | 9,735 | 2,284 | 5,661 | 7,945 |
| Depreciation | 23,121 | 7,536 | 30,657 | 13,987 | 9,560 | 23,547 |
| Amortization | 1,014 | 17,857 | 18,871 | 1,047 | 18,533 | 19,580 |

Note: The number of employees were 335 and 376 as of December 31, 2018 and 2017, respectively. The number of directors who do not concurrently serve as employees is 7 people.

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.

The Company recognized the employees' compensation and remuneration to directors and supervisors as employee benefits expense based on profit of current year. If the board of directors resolved to distribute employees' compensation in the form of stocks, the number of stocks distributed was calculated based on the closing price one day prior to the date of resolution. The difference between the estimates and the figures resolved at shareholders' meeting will be recognized in profit or loss of the subsequent year. The details of employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2018 and 2017 are as follows:

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

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Employees' compensation | $32,000 | $28,000 |
| Remuneration to directors and supervisors | 4,700 | 4,600 |

A resolution was passed at a board of directors meeting held on March 21, 2019 to distribute $32,000 and $4,700 in cash as the employee's compensation and remuneration to directors and supervisors, respectively. No material differences existed between the estimated amount and the actual amount distributed.

No material differences existed between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2017

(18) NON-OPERATING INCOME AND EXPENSES

a. Other income

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Interest income | $29,767 | $13,238 |
| Rental revenue | 2,297 | 2,773 |
| Others | 30,392 | 66,941 |
| Total | $62,456 | $82,952 |

b. Other gains and losses

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Foreign exchange losses net | $83,722 | $(161,892) |
| (Losses) gains on financial assets at fair value through profit or loss | 19,173 | (42,585) |
| Losses on disposal of property, plant and equipment | - | (35,079) |
| Others | (372) | (258) |
| Total | $102,523 | $(239,814) |

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

## (19) COMPONENTS OF OTHER COMPREHENSIVE INCOME

a. For the year ended December 31, 2018

| | Arising during the period | Other comprehensive income, before tax | Income tax relating to components of other comprehensive income | Other comprehensive income, net of tax | After-tax amount |
|---|---|---|---|---|---|
| Not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Remeasurements of defined benefit plans | $(9,437) | $- | $(9,437) | $1,896 | $7,541 |
| To be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | (6,034) | - | (6,034) | 9,452 | 3,418 |
| Total of other comprehensive income | $(15,471) | $- | $(15,471) | $11,348 | $(4,123) |

b. For the year ended December 31, 2017

| | Arising during the period | Other comprehensive income, before tax | Income tax relating to components of other comprehensive income | Other comprehensive income, net of tax | After-tax amount |
|---|---|---|---|---|---|
| Not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Remeasurements of defined benefit plans | $18,831 | $- | $18,831 | $(3,202) | $15,629 |
| To be reclassified to profit or loss in subsequent periods: | | | | | |
| Exchange differences resulting from translating the financial statements of a foreign operation | (158,555) | - | (158,555) | 26,955 | (131,600) |
| Total of other comprehensive income | $(139,724) | $- | $(139,724) | $23,753 | $(115,971) |

## (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

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

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

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Current income tax expense: | | |
| Current income tax charge | $189,604 | $130,512 |
| Adjustments in respect of current income tax of prior periods | 6,308 | - |
| Deferred income tax expense: | | |
| Deferred income tax expense related to origination and reversal of temporary differences | 62,343 | 157 |
| Deferred tax expense relating to changes in tax rate or the imposition of new taxes | 14,625 | - |
| Income tax expense recognized in profit or loss | $272,880 | $130,669 |

b. Income tax relating to components of other comprehensive income

| | For the years ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Deferred income tax (benefit) expense: | | |
| Exchange differences on translation of foreign operations | $(9,452) | $(26,955) |
| Remeasurements of defined benefit plans | (1,896) | 3,202 |
| Income tax relating to reclassified to profit or loss | $(11,348) | $(23,753) |

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

| | For the years ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Accounting profit before tax from continuing operations | $1,196,452 | $656,133 |
| The amount of tax at each statutory income tax rate | $239,290 | $111,543 |
| Tax effect of non-deductible expenses | (49,686) | 4,641 |
| Tax effect of deferred tax assets and liabilities | 76,968 | - |
| 10% surtax on unappropriated earnings | - | 14,485 |
| Adjustments in respect of current income tax of prior periods | 6,308 | - |

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

| | | |
|---|---|---|
| Total income tax expenses recorded in profit or loss | $272,880 | $130,669 |

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

i. For the year ended December 31, 2018

| Items | Balance as of January 1 | Recognized in profit or loss | Recognized in other comprehensive income | Balance as of December 31 |
|---|---|---|---|---|
| Temporary difference | | | | |
| Excessive amount of allowance for doubtful accounts | | | | |
| Unrealized foreign currency exchange gain or loss | $1,623 | $(512) | $- | $1,111 |
| Provision for allowance to reduce inventories to market value | 1,776 | 1,346 | - | 3,122 |
| Impairment of long-term investment under equity method | 775 | 137 | - | 912 |
| Defined benefit Liability | 9,403 | 691 | 1,896 | 11,990 |
| Reserve for land appreciation tax | (87) | - | - | (87) |
| Investment income under equity method | (143,178) | (78,630) | - | (221,808) |
| Exchange differences on translation of foreign operations | 46,728 | - | 9,452 | 56,180 |
| Deferred income tax expense (benefit) | | $(76,968) | $11,348 | |
| Deferred income tax assets (liabilities) | $(82,960) | | | $(148,580) |
| The information represent in balance statement | | | | |
| Deferred income tax assets | $60,945 | | | $74,068 |
| Deferred income tax liabilities | $(143,843) | | | $(222,648) |

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

ii. For the year ended December 31, 2017

| Items | Balance as of January 1 | Recognized in profit or loss | Recognized in other comprehensive income | Balance as of December 31 |
|---|---|---|---|---|
| Temporary difference | | | | |
| Excessive amount of allowance for doubtful accounts | | | | |
| Unrealized foreign currency exchange gain or loss | $(5,479) | $7,102 | $- | $1,623 |
| Provision for allowance to reduce inventories to market value | 1,810 | (34) | - | 1,776 |
| Impairment of long-term investment under equity method | 775 | - | - | 775 |
| Defined benefit Liability | 14,289 | (1,684) | (3,202) | 9,403 |
| Reserve for land appreciation tax | (87) | - | - | (87) |
| Investment income under equity method | (137,637) | (5,541) | - | (143,178) |
| Exchange differences on translation of foreign operations | 19,773 | - | (26,955) | 46,728 |
| Deferred income tax expense (benefit) | | $(157) | $23,753 | |
| Deferred income tax assets (liabilities) | $(107,556) | | | $(82,960) |
| The information represent in balance statement | | | | |
| Deferred income tax assets | $37,287 | | | $60,945 |
| Deferred income tax liabilities | $(150,253) | | | $(143,843) |

iii. As of December 31, 2018 and 2017, deferred tax assets that have not been recognized as they may not be used to offset taxable profits as follows:

None.

iv. As of December 31, 2018 and 2017, the taxable temporary differences of unrecognized deferred tax liabilities associated with investment in subsidiaries as follows:

None.

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

e. The assessment of income tax returns

The tax authorities have assessed income tax returns of the Company through 2016.

(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 Company 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

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net profit attributable to the parent Company | $923,572 | $525,464 |
| Weighted-average number of ordinary shares for basic earnings per share(thousand shares) | 60,536 | 60,536 |
| Earnings per share-basic (NTD) | $15.26 | $8.68 |

b. Earnings per share-diluted

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net profit attributable to the parent Company | $923,572 | $525,464 |
| Weighted-average number of ordinary shares for basic earnings per share(thousand shares) | 60,536 | 60,536 |
| Effect of dilution: | | |
| Employee bonus- stock(thousand shares) | 237 | 216 |
| Weighted average number of common stocks after dilution (thousand shares) | 60,773 | 60,752 |
| Diluted earnings per share (NTD) | $15.20 | $8.65 |

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.

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

## 7. RELATED PARTY TRANSACTIONS

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

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

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

a. Sales

(a) Commission income

Transactions of materials and supplies sold to related parties for the years ended December 31, 2018 and 2017 are summarized as follows:

i. For the year ended December 31, 2018

| Name of Related Parties | Price | Cost | Commission income |
|---|---|---|---|
| Zeng Hsing Industrial Co., Ltd. (VN) | $509,045 | $488,670 | $20,375 |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 140,991 | 133,982 | 7,009 |
| Mitsumichi Industrial Co., Ltd. | 1,889 | 2,958 | (1,069) |
| | $651,925 | $625,610 | $26,315 |

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

ii. For the year ended December 31, 2017

| Name of Related Parties | Price | Cost | Commission income |
|---|---|---|---|
| Zeng Hsing Industrial Co., Ltd. (VN) | $263,035 | $263,859 | $(824) |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 197,829 | 194,408 | 3,421 |
| Mitsumichi Industrial Co., Ltd. | 4,379 | 6,186 | (1,807) |
| | $465,243 | $464,453 | $790 |

Unrealized intercompany profit resulted from the abovementioned transactions amounted to $4,832 and $528 during 2018 and 2017, respectively. Sales prices and the terms between related parties are not significantly different from any third parties.

For the years ended December 31, 2018 and 2017, the trade credit terms for related parties were the same as general customers. For domestic customers, the credit terms were 30 to 60 days. For foreign customers, they were 60 to 120 days. The outstanding amounts at the end of the year were unsecured, interest-free and must be settled in cash. Accounts receivable from related parties did not have any guarantees.

b. Purchase

| | For the years ended December 31, | |
|---|---|---|
| Name of Related Parties | 2018 | 2017 |
| Zeng Hsing Industrial Co., Ltd. (VN) | $3,600,300 | $2,855,483 |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 998,810 | 1,125,406 |
| Zhangjiagang Zenghsing Trading CO., Ltd. | 30,251 | 41,095 |
| Mitsumichi Industrial Co., Ltd. | 38,311 | 35,165 |
| Shinco Technologies Limited (VN) | 1,648 | 11,268 |
| Total | $4,669,320 | $4,068,417 |

For the years ended December 31, 2018 and 2017, the payment terms for related parties were same as general supplies, from one to three months.

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

c. Accounts receivable

| Name of Related Parties | As of December 31, 2018 | As of December 31, 2017 |
|---|---|---|
| Zeng Hsing Industrial Co., Ltd. (VN) | $152,071 | $53,962 |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 21,566 | 60,871 |
| Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd. | 3,215 | 2,234 |
| Mitsumichi Industrial Co., Ltd. | 381 | 668 |
| Shinco Technologies Limited (VN) | - | 45 |
| Total | $177,233 | $117,780 |

d. Accounts payable

| Name of Related Parties | As of December 31, 2018 | As of December 31, 2017 |
|---|---|---|
| Zeng Hsing Industrial Co., Ltd. (VN) | $499,679 | $721,416 |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 147,790 | 308,150 |
| Zhangjiagang Zenghsing Trading CO., Ltd. | 4,582 | 5,671 |
| Mitsumichi Industrial Co., Ltd. | 6,192 | 7,422 |
| Shinco Technologies Limited (VN) | 113 | 3,234 |
| Total | $658,356 | $1,045,893 |

e. Other receivables

| Name of Related Parties | As of December 31, 2018 | As of December 31, 2017 |
|---|---|---|
| Zeng Hsing Industrial Co., Ltd. (VN) | $- | 11,427 |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 1 | - |
| Total | $1 | $11,427 |

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

f. Other Payables

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | $- | $1,479 |
| Mitsumichi Industrial Co., Ltd. | 97 | - |
| Total | $97 | $1,479 |

g. Premium income

| | As of | |
|---|---|---|
| Name of Related Parties | December 31, 2018 | December 31, 2017 |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | $8,499 | $8,145 |

h. Premium expenses (established as other selling expense)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Mitsumichi Industrial Co., Ltd. | $17,727 | $13,550 |

i. Key management personnel compensation

| | For the years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Short-term employee benefits | $35,314 | $33,232 |
| Post-employment Benefits | 1,751 | 1,725 |
| Total | $37,065 | $34,957 |

## 8. ASSETS PLEDGED AS COLLATERAL

The following assets were pledged:

| | As of | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Property, Plant and Equipment-land | $21,075 | $21,075 |
| Bond investments in inactive market, noncurrent | (Note) | 200 |
| Financial assets measured at amortized cost-noncurrent | 200 | (Note) |
| Total | $21,275 | $21,275 |

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 IFRS9.

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

## 9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The important contracts of construction in progress

a. As of 31 December 31, 2018

| Contracting parties | Subject matter | Total contract amount | Contract amount paid as of December 31 2018 |
|---|---|---|---|
| Company A | Property | $450,612 | $196,085 |
| Company B | Property | 41,975 | 15,540 |
| Company C | Property | 57,029 | 11,976 |
| Company B | Property | 17,029 | 5,109 |

b. As of 31 December 2017
None.

(2) The Company entered into the financial guarantees to related parties: refer to Table 1 on page 90.

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT SUBSEQUENT EVENTS

None.

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

12. OTHERS

(1) Categories of financial instruments

| | As of | |
|---|---|---|
| | December 31, 2018 | December 31, 2017 |
| Financial Assets | | |
| Financial assets at fair value through profit or loss: | | |
| Held for trading | (Note) | $132 |
| Designated at fair value through profit or loss at initial recognition | $565 | (Note) |
| Financial assets measured at amortized cost | | |
| Cash and cash equivalents (excludes cash on hand) | 2,047,002 | (Note) |
| Notes and accounts receivable (includes related party) | 1,141,768 | (Note) |
| Other receivables (includes related party) | 6,165 | (Note) |
| Financial assets measured at amortized cost, noncurrent | 200 | (Note) |
| Subtotal | 3,195,700 | 132 |
| Loans and receivables | | |
| Cash and cash equivalents (excludes cash on hand) | (Note) | 2,441,981 |
| Notes and accounts receivable (includes related party) | (Note) | 1,363,418 |
| Other receivables (includes related party) | (Note) | 31,574 |
| Debt instrument investments with no active market, noncurrent | (Note) | 200 |
| Subtotal | (Note) | 3,837,173 |
| Total | $3,195,700 | $3,837,305 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Financial Liabilities | | |
| Financial liabilities carried at amortized cost: | | |
| Short-term loans | $220,000 | $444,500 |
| Short-term notes and bills payable | 100,000 | 230,000 |
| Notes and accounts payables (includes related party) | 788,177 | 1,187,037 |
| Other payables (includes related party) | 190,083 | 161,698 |
| Long-term loans (including long-term loans due within one year) | 160,000 | 160,000 |
| Subtotal | 1,458,260 | 2,183,325 |
| Financial liabilities at fair value through profit or loss: Held for trading | - | 4,628 |
| Total | $1,458,260 | $2,187,863 |

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

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

(3) Market risk

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

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

Foreign currency risk

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

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

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

a. When NTD strengthens/weakens against USD by 1%, the profit for the years ended December 31, 2018 and 2017 is increased /decreased by $15,560 and $22,204 respectively; and no impact on the equity.

b. When NTD strengthens/weakens against VND by 1%, the profit for the years ended December 31, 2018 and 2017 is increased/decreased by $15,163 and $14,322, respectively; and no impact on the equity.

<u>Interest rate risk</u>

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

The interest rate sensitivity analysis is performed on the borrowings with variable interest rates as of the end of the reporting period. At the reporting date, a change of 10 basis points of interest rate will result in a decrease of $160 and $160 for the years ended December 31, 2018 and 2017, respectively.

(4) Credit risk management

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

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

Each unit of the Company manages credit risk by following the policies, procedures and controls of credit risk. The credit risk assessment of all counterparties is based on factors such as the financial status of the counterparty, the rating of the credit rating agency, past historical trading experience, the current economic environment and the Company's internal rating criteria. The Company also uses certain credit enhancement tools (such as advance receipts and insurance) at appropriate times to reduce the credit risk of specific counterparties.

As of December 31, 2018 and 2017, amounts receivables from top ten customers represented 79.51% and 87.87% of the total trade receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

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

(5) Liquidity risk management

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

| Non-derivative financial instruments | < 1 year | 2 ~ 3 years | 4 ~ 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| As of December 31, 2018 | | | | | |
| Short-term loans | $220,000 | $- | $- | $- | $220,000 |
| Short-term notes and bills payable | 100,000 | - | - | - | 100,000 |
| Payables | 788,177 | - | - | - | 788,177 |
| Long-term loans | 41,632 | 81,224 | 40,480 | - | 163,336 |

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

| Non-derivative financial instruments | < 1 year | 2 ~ 3 years | 4 ~ 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| As of December 31, 2017 | | | | | |
| Short-term loans | $444,500 | $- | $- | $- | $444,500 |
| Short-term notes and bills payable | 230,000 | - | - | - | 230,000 |
| Payables | 1,187,037 | - | - | - | 1,187,037 |
| Long-term loans | 1,632 | 41,632 | 41,440 | 80,960 | 165,664 |

| Derivative financial instruments | < 1 year | 2 ~ 3 years | 4 ~ 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| As of December 31, 2018 | | | | | |
| Inflow | $565 | $- | $- | $- | $565 |
| Outflow | - | - | - | - | - |
| Net | $565 | $- | $- | $- | $565 |
| As of December 31, 2017 | | | | | |
| Inflow | $132 | $- | $- | $ | $132 |
| Outflow | (4,628) | - | - | - | (4,628) |
| Net | $(4,496) | $- | $- | $- | $(4,496) |

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

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for 2018:

| | Short-term loans | Short-term notes and bills payable | Long-term loans | Total liabilities from financing activities |
|---|---|---|---|---|
| As of January 1, 2018 | $440,500 | $230,000 | $160,000 | $834,500 |
| Cash flow | (224,500) | (130,000) | - | (354,500) |
| As of December 31, 2018 | $220,000 | $100,000 | $160,000 | $480,000 |

Reconciliation of liabilities for 2017:

Not applicable.

(7) Fair value of financial instruments

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

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

i. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

ii. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures, etc.) at the reporting date.

iii. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

iv. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

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

v. The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

b. Fair value of financial instruments measured at amortized cost

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

c. Fair value measurement hierarchy for financial instruments

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

(8) Derivative financial instruments

The Company's derivative financial instruments include a foreign exchange swap and a cross currency swap. The related information for derivative instruments not qualified for hedge accounting and not yet settled as of December 31, 2018 and 2017 is as follows:

Foreign Exchange Swap and Cross Currency Swap

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

| Contract | Contract amount | Maturity |
|---|---|---|
| As of December 31, 2018 | | |
| Foreign Exchange Swap | Sell USD 3,000,000 | 2018/10/02-2019/02/20 |
| As of December 31, 2017 | | |
| Foreign Exchange Swap | Sell USD 38,000,000 | 2017/10/13-2018/03/26 |

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

(9) Fair value measurement hierarchy

(a) Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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

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

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

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

As of December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Foreign exchange swap and cross currency swap | $- | $565 | $- | $565 |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Foreign exchange swap and cross currency swap | - | - | - | - |

As of December 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Foreign exchange swap and cross currency swap | $- | $132 | $- | $132 |
| Financial liabilities: | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Foreign exchange swap and cross currency swap | - | 4,628 | - | 4,628 |

Transfers between Level 1 and Level 2 during the period

During 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

(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.

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

As of December 31, 2018

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets not measured at fair value but for which the fair value is disclosed: | | | | |
| Investment property (Note 6. (6)) | $- | $- | $77,894 | $77,894 |

As of December 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets not measured at fair value but for which the fair value is disclosed: | | | | |
| Investment property (Note 6. (6)) | $- | $- | $80,690 | $80,690 |

(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

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Foreign Currency | Exchange rate | NTD | Foreign Currency | Exchange rate | NTD |
| Financial assets | | | | | | |
| Monetary item: | | | | | | |
| USD | $85,008 | 30.733 | $2,612,549 | $125,097 | 29.848 | $3,733,895 |
| Investment using the equity method | | | | | | |
| VND | 1,430,460,289 | 0.001325 | 1,895,360 | 1,313,224,003 | 0.001314 | 1,725,576 |
| Financial liabilities | | | | | | |
| Monetary item: | | | | | | |
| USD | 21,723 | 30.733 | 667,602 | 35,472 | 29.848 | 1,058,768 |

Due to the large number of functional currencies used in the Company, it's impossible to disclose foreign exchange gains and losses on the basis of each monetary item which has significant impact. The Company recognized $83,722 and $(161,892) for foreign exchange gains and losses for the years ended December 31, 2018 and 2017, respectively.

(11) Capital management

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

13. ADDITIONAL DISCLOSURES

(1) Information at significant transactions

(a) Financing provided: none.

(b) Endorsement/guarantee provided: Table 1 on page 98.

(c) Marketable securities held: none.

(d) Marketable securities acquired or disposed of that cost or amounted to at least $300 million or 20% of the paid-in capital: none.

(e) Acquisition of individual real estate that cost at least $300 million or 20% of the paid-in capital: none.

(f) Disposal of individual real estate at prices of at least $300 million or 20% of the paid-in capital: none.

(g) Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital: refer to Table 2 on pages 99 and 100.

(h) Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital: refer to page 101.

(i) Information about derivatives of investees over which the Company has a controlling interest: refer to 12(8).

(j) Inter-company relationships and significant intercompany transactions: refer to Table 2 on pages 99 and 100.

(2) Information on investees

(a) Names, locations, and related information of investees on which the Company exercises significant influence: refer to Table 3 on pages 101 to 103.

(b) Financing provided: none.

(c) Endorsement/guarantee provided: none.

(d) Marketable securities held: refer to Table 4 on page 104.

(e) Marketable securities acquired or disposed of that cost or amounted to at least $300 million or 20% of the paid-in capital: none.

(f) Acquisition of individual real estate that cost at least $300 million or 20% of the paid-in capital: none.

(g) Disposal of individual real estate at prices of at least $300 million or 20% of the paid-in capital: none.

(h) Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital: refer to Table 2 on pages 99 to 100.

(i) Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital: refer to Table 5 on page 104.

(j) Information about derivatives of investees over which the Company has a controlling interest: none.

(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 105.

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

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE 1

| Note1 | Endorser/ Guarantor | Company name | Relationship (Note 2) | Limit of guarantee/ endorsement amount for receiving party (Note 3) | Maximum balance for the period | Ending balance | Actual amount provided | Amount of collateral guarantee/ endorsement | Ratio of Accumulated Amount of Guarantee Provided to Net Equity of the Latest Financial Statements | Guaranty Limited Amount (Note 4) | Parent company to subsidiary | Subsidiary to parent company | To Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0 | Zeng Hsing Industrial CO., LTD. | Zeng Hsing Industrial CO., Ltd. (VN) | (2) | $1,440,747 | $737,592 (USD24,000,000) | $414,896 (USD13,500,000) | $- | $- | 8.64% | $1,920,996 | 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 endorsemen t/guarantee in proportion to its shareholding percentage.

Note 3: The amount of guarantees/endorsements shall not exceed 30% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of December 31, 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 December 31, 2018.

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

RELATED PARTY TRANSACTIONS FOR PURCHASES AND SALES AMOUNTS EXCEEDING THE LOWER OF $100 MILLION OR 20 PERCENT OF CAPITAL STOCK
FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE 2

| Company Name | Counter Party | Nature of Relationship (Note 1) | Transactions | | | | Details of non-arm's length transaction | | Notes and accounts receivable (payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchases (Sales) | Amount | % to Total | Term | Unit price | Term | Balance | % to Total | |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | Zeng Hsing Industrial CO., Ltd. | 2 | Sales | $998,810 | 18.37 % | There is no difference with other clients | Regular | Regular | Account receivable $147,790 (RMB33,003,076) | 18.75% | - |
| Zeng Hsing Industrial CO., Ltd. | Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 1 | Purchases | $998,810 | 18.37 % | There is no difference with other clients | Regular | Regular | Account payable and other account payable $(147,790) | (18.75%) | - |
| Zeng Hsing Industrial CO., Ltd. | Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 1 | Sales (Note 1) | $140,991 | 2.30% | There is no difference with other clients | Regular | Regular | Account receivable $21,566 | 1.89% | - |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | Zeng Hsing Industrial CO., Ltd. | 2 | Purchases | $140,991 | 2.30% | There is no difference with other clients | Regular | Regular | Account payable $(21,566) (RMB4,818,191) | (1.89%) | - |
| Zeng Hsing Industrial CO., Ltd. (VN) | Zeng Hsing Industrial CO., Ltd. | 2 | Sales | $3,600,300 | 66.21 % | There is no difference with other clients | Regular | Regular | Account receivable $499,679 （VND 378,667,578,176） | 63.63% | - |
| Zeng Hsing Industrial CO., Ltd. | Zeng Hsing Industrial CO., Ltd. (VN) | 1 | Purchases | $3,600,300 | 66.21 % | There is no difference with other clients | Regular | Regular | Account payable $(499,679) | (63.63%) | - |
| Zeng Hsing Industrial CO., Ltd. | Zeng Hsing Industrial CO., Ltd. (VN) | 1 | Sales (Note 2) | $509,045 | 8.29% | There is no difference with other clients | Regular | Regular | Account receivable $152,071 | 13.32% | - |

# ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

| Company Name | Counter Party | Nature of Relationship (Note 1) | Transactions | | | | Details of non-arm's length transaction | | Notes and accounts receivable (payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchases (Sales) | Amount | % to Total | Term | Unit price | Term | Balance | % to Total | |
| Zeng Hsing Industrial CO., Ltd. (VN) | Zeng Hsing Industrial CO., Ltd. | 2 | Purchases | $509,045 | 8.29% | There is no difference with other clients | Regular | Regular | Account payable $(152,071) (VND115,605,640,873) | (13.32%) | - |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. | 3 | Sales | $216,523 | 3.25% | There is no difference with other clients | Regular | Regular | Account Receivable and other account receivable $22,957 (RMB5,128,719) | 2.20% | - |
| Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. | Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | 3 | Purchases | $216,523 | 3.25% | There is no difference with other clients | Regular | Regular | Account payable $22,957 (RMB5,128,719) | (2.20%) | - |
| Zhangjiagang Zenghsing Trading Co., Ltd. | Zeng Hsing Industrial CO., Ltd. (VN) | 3 | Sales | $197,178 | 2.96% | There is no difference with other clients | Regular | Regular | Account receivable $45,874 (RMB10,248,427) | 4.39% | - |
| Zeng Hsing Industrial CO., Ltd. (VN) | Zhangjiagang Zenghsing Trading Co., Ltd. | 3 | Purchases | $197,178 | 2.96% | There is no difference with other clients | Regular | Regular | Account payable $(45,874) (VND34,844,049,423) | (4.39%) | - |

Note 1: “1” represents the transactions from the parent company to a subsidiary.
“2” represents the transactions from a subsidiary to the parent company.
“3” represents the transaction between subsidiaries.

Note 2: The Company reported the net sales of triangle trade and recognized commission of $7,009 for the year ended December 31, 2018.

Note 3: The Company reported the net sales of triangle trade and recognized commission of $20,375 for the year ended December 31, 2018.

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

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO OVER NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

| 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 | Zeng Hsing Industrial CO., Ltd. (VN) | Subsidiary | $152,071 | 4.68 | $- | - | $124,028 | $- | accounts receivable-customers |

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE 3

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as at December 31, 2018 | | | Net Income (Losses) of the Investee | Equity in the Earnings (Losses) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 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 (USD100,000) | $3,086 (USD100,000) | 10,000 | 100% | $14,576 | $(5,231) | $(5,231) | |

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

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as at December 31, 2018 | | | Net Income (Losses) of the Investee | Equity in the Earnings (Losses) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2018 | December 31, 2017 | Shares | Percentage of Ownership | Carrying Value | | | |
| 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 (USD17,873,452) | 547,316 (USD16,573,452) | 17,873 | 100% | 945,334 | 114,471 | 114,471 | Note 1 |
| Zeng Hsing Industrial Co.,Ltd. (BVI) | Arcoris Pte Ltd. | 8 Cross Street #24-03/04 Pwc Building Singapore (048424) | Holding company | 129,291 (USD4,030,000) | 125,273 (USD3,900,000) | 4,030,000 | 100% | 117,740 | (1,026) | (1,026) | |
| Zeng Hsing Industrial Co.,Ltd. (BVI) | Jetsun Technology Co.,Ltd (Seychelles) | Global Gateway 8, Rue de la Perle Providence Mahe Seychelles | Holding company | 32,239 (USD1,100,000) | - | 1,200,000 | 100% | 34,621 | (587) | (587) | |
| Jetsun Technology Co.,Ltd (Seychelles) | Jetsun Technology Company Limited | Bing Doung, Vietnam | Holding company | 39,494 (USD1,204,000) | - | - | 100% | 34,621 | VND (446,064,010) | (585) | |

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

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as at December 31, 2018 | | | Net Income (Losses) of the Investee | Equity in the Earnings (Losses) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 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 (USD35,000,000) | 1,049,554 (USD35,000,000) | - | 100% | 1,561,244 | VND 100,699,888,823 | 132,018 | |
| Zeng Hsing Industrial CO., Ltd. | Shinco Technologies Limited (VN) | Bing Doung, Vietnam | Material die-casting of metal of aluminum, zinc and magnesium alloy. | 347,158 (USD11,173,331) | 347,158 (USD11,173,331) | - | 100% | 330,713 | VND16,536,396,895 | 21,679 | |
| 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% | 51,479 | 36,784 | 19,495 | |

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

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

MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE 4

| Securities Held By | Type | Name of securities | Relationship with the Company | Financial Statement Account | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Shares/Units | Carrying Value | Ownership Percentage | Market Value or Net Asset Value |
| ARCORIS PTE LTD | Stocks | HEYDAY INTERNATIONAL LIMITED | non-relationship | Financial assets measured at cost | 604,800 shares | $32,056 | 15% | $32,056 |

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO OVER NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE 5

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts | Note |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Amounts | Action Taken | | | |
| Zeng Hsing Industrial CO., Ltd. (VN) | Zeng Hsing Industrial CO., Ltd. | Subsidiary | $499,679 (VND 378,667,578,176) | 5.90 | $- | - | $499,679 （VND 378,667,578,176） | $- | accounts receivable-customers |
| Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. | Zeng Hsing Industrial CO., Ltd. | Subsidiary | $147,790 ( RMB 33,033,076) | 4.37 | $- | - | $147,790 (RMB 33,033,076) | $- | accounts receivable-customers |

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

INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE 6

| Investee Company | Main Businesses and Products | Total Amount of Paid-in Capital | Method of Investment | Accumulated Outflow of Investment from Taiwan as at January 1, 2018 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as at December 31, 2018 | Percentage of Ownership | Equity in Earnings (Losses) Note 1 | Carrying Value as at December 31, 2018 | Accumulated Inward Remittance of Earnings as at December 31, 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 (USD9,103,039) | - | - | $304,199 (USD9,103,039) | 100% | $87,073 | $642,905 | $416,843 (USD9,288,961) (RMB27,000,000) |
| Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. | Selling household sewing machines and spare parts. | USD500,000 | Indirect investments through Zeng Hsing (BVI) | $14,931 (USD500,000) | - | - | $14,931 (USD500,000) | 100% | $27,800 | $156,215 | $- |
| Zhangjiagang Zenghsing Trading Co., Ltd. | Selling household sewing machines and spare parts | RMB1,000,000 | Indirect investments through Zeng Hsing (BVI) | $- | - | - | $- | 100% | RMB2,547,371 | RMB7,853,281 | RMB9,197,561 |
| Shanghai Debra Trading Company Limited | Selling household sewing machines and spare parts | RMB1,000,000 | Indirect investments through Zeng Hsing (BVI) | $- | - | - | $- | 100% | RMB(1,177) | RMB998,823 | - |

| Accumulated investment in Mainland China as of December 31, 2018 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|---|---|---|
| $319,130 (USD9,603,039) | $459,409(Note2) (USD13,848,355) | $2,881,493 |

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

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