

Stock Code: 1558

ZENG HSING INDUSTRIAL CO., LTD.

2019 Annual Report

Notice to readers

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

Taiwan Stock Exchange Market Observation Post System:

<https://mops.twse.com.tw>

Printed on 11 May 2020

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I. Letter to the Shareholders

Dear Shareholders,

I would like to thank you all for supporting Zeng Hsing Industrial Co. Limited (hereinafter referred to as “the Company”). Over the past year, the domestic sewing machine shipments of ZENG HSING in 2019 reached 3 million units. The management team of ZENG HSING upheld the diligent and pragmatic spirit to steer through the tough market with all employees’ dedicated work to achieve the outstanding result of \$11.16 earnings per share in 2019.

In the future, the devoted team at ZENG HSING will continue to improve products and technologies, retain the long-term relationship with customers to introduce market-oriented models, and actively develop the emerging markets to promote the culture of sewing and lead the group to a new realm of production service.

The following is a report on the business results in the past year and future prospects of ZENG HSING.

1.1. 2019 Operating Results

(i) Operating plan performance (Consolidated)

In the financial year of 2019, the gross profit of the consolidated business for the year amounted to NT\$59.36 billion, which decreased 11% from NT\$66.70 billion in 2018. The consolidated net profit for the year was NT\$9.05 billion, which decreased 29.41% from NT\$12.82 billion in 2018. Budget implementation (Consolidated)

(ii) Budget implementation (Consolidated)

(iii) Profitability analysis (Consolidated)

	2019	2018
Interest Income	41,043	41,868
Interest Expenses	4,215	8,027
Return on Assets (%)	10.43	13.98
Return on Shareholders’ Equity (%)	14.26	20.29
Operating Income to Paid-in Capital Ratio (%)	140.58	172.16
Pre-tax Income to Paid-in Capital Ratio (%)	149.42	211.74
Net Margin	11.59	14.11
Earnings Per Share	11.16	15.26

(iv) Research and development status (Consolidated)

Since the Company’s inception, we continue to invest in our people and products every year to stay competitive in the market. In 2019, NT\$105,013 thousand was spent on research and development, accounting for 1.77% of net revenue. In 2018, NT \$ 114,216 thousand of research and development accounted for 1.71% of net revenue, which was almost the same in these two years.

1.2. Overview of 2020 Business Plan

1.2.1. Current Operating Policy

1.
 - Develop our corporate strategy and vision
 - Implement target management
 - Establish strategies as guidelines
 - Integrate all the Company's resources
 - Set targets for all subsidiaries of the Company
 - Improve overall business performance
2.
 - Continue to develop new products
 - Strengthen existing production lines
 - Optimize product user interfaces
 - Provide online training videos and lessons
 - Cooperate with educational entities to improve the current product functions to offer a more diverse product portfolio
3.
 - Provide the customer with multiple services
 - Improve customer relationship management
 - Understand customer needs and therefore increase and improve the selection of products the Company offers
 - Provide services that strengthen long-term customer value and relationships
4.
 - Develop automated equipment and optimize inspection procedures to improve overall production quality and efficiency
5.
 - Identify key employees and develop their skillsets by planning and conducting a variety of functional trainings
 - Continue to improve learning facilities and the management of learning programs.
 - By continuing to improve the learning facilities, Zeng Hsing hopes that employees will take advantage of these resources to enhance their professional abilities.
 - Conduct performance interviews and establish a comprehensive promotion system.
6.
 - Continue to promote eco-friendly product management
 - Implement the ISO 14001 environmental management system
 - Follow the EU environmental procurement policies
7.
 - Continue to promote the Company's greenhouse gas system ISO 14064-1 and energy management system ISO 50001.
8.
 - MES/ SPC (Manufacturing Execution System (MES), Statistical Process Control (SPC)). The system was introduced to improve processes, increase production efficiency and monitor online process performance at any time.
9.
 - Develop machine networking and big data collection
 - Effectively manage various costs, energy and improve production efficiency and quality control.

1.2.2. Sales forecast and Basis of Forecast

1. Sales forecast

Unit: thousands

Product	2020 Expected Sales Volume
Sewing Machine	3,050

2. Basis of Forecast

- The expected sales volume is based on the actual sales in 2020 and the industry environment.
- The market should be considered and the production capacity and customer demand

1.2.3. Future Strategies

1. Continue to strive for innovation, accelerate the development of new products to bring to markets and increase the value and optimization of products
2. Develop and plan core products, establish key technologies and patents and strengthen IP (Intellectual Property) rights
3. Make plans to develop more diversified marketing channels and integration of regional sales. By introducing new products, Zeng Hsing hopes to gain new customers and increase market share by providing technical support and added value to customers and establish collaborative relationships with high value customers.
4. Strengthen supplier integrated management, establish and improve management methods and develop procurement capabilities. Through evaluation and elimination procedures, the Company will ensure a stable quality for supply and reduce purchase costs.
5. Actively expand vertical integration capabilities and establish a second growth momentum to ensure revenue growth, optimize internal process management and accelerate the development of automation to ensure that people, machines, and materials can operate at the best performance possible.

1.2.4 .The Impact of the External Competitive Environment, Regulatory Environment, and Macro environment

1. External competitive environment

There has been a reduction in prices in the sewing machine market. Zeng Hsing needs to reduce production costs and find ways to improve process technology to reduce the pressure of declining prices.

2. Regulatory environment

Regulation changes in domestic and foreign policies in recent years have not materially affected the Company’s financial performance. Zeng Hsing observes domestic and foreign political and economic situations and acts accordingly and responsibly. Zeng Hsing communicates with its accountants, lawyers and external experts when required to make sure the Company will follow all required regulations.

3. Macro environment

Over the past year, the global economic environment was still affected by the trade war. The overall performance of the sewing machine market was dissatisfactory, and the wages and price costs in Taiwan, mainland China and Vietnam continued to rise, which affected the overall profit of the group. Fortunately, with the dedication of all employees, the Company maintained fair operating performance. Nonetheless there is still room for improvement, such as adjusting pace, accelerating investment in equipment, enhancing technology and precision processing technique, establishing network, developing automation and continuing to promote the culture of sewing in the future so that more people will have first-hand experience of the art of sewing, and that the product development and design can be directed more accurately toward meeting market demand.

We will also continue to address the issue of corporate social responsibility, uphold the welfare of the society, the environment and stakeholders, maintain the balance between the sustainable development of the environment and the Company to meet international standards, and truly become an enterprise at the international level.

On behalf of all employees of the Company, I sincerely thank all shareholders for your long-term support and recognition of the Company. We look forward to your continuous guidance and suggestions in the future.

Sincerely yours,
Chairman

CHIH-CHENG LIN

II. Company Profile

2.1 Date of Incorporation: January 3, 1975

2.2 Company History:

Year	Milestone
1968	◆In May, Xin Xing Industrial Co. was founded with capital of NT\$400,000. Xin Xing was the name of the company before it was changed to Zeng Hsing Industrial Co. Ltd in 1978.
1975	◆Established Zeng Hsing Industrial Co. Ltd with NT\$4,000,000 in capital.
1977	◆NT\$9,000,000 in cash was introduced, increasing capital by a further NT\$13,000,000
1978	◆In June, the Company increase cash capital in the amount of NT\$500,000, bringing the capital of the Company to NT\$13,500,000
1980	◆In June, the Company Cooperated with Riccar Co., Ltd., Japan for technical joint venture and started to assemble the light weight aluminum household sewing machine.
1981	◆In November, the Company increased capital in the amount of NT\$1,350,000 and the capital totaled NT\$14,850,000.
1982	◆In September, Capital surplus transferred to common stock in the amount of NT\$8,316,000 and the capital totaled NT\$23,166,000. The Company was awarded the “Excellent Exporters” by Ministry of Economic Affairs, R.O.C. of the same year.
1983	◆In June, the Company increased its capital by cash to NT\$29,853,000. ◆In November, the Company increased its capital by capital reserve to NT\$48,063,330.
1989	◆The Company increased its capital by unappropriated retained earnings to NT\$66,063,330 in June and was recognized the Role Model of Industrial and Commercial Industries by the Taichung Government.
1990	◆In November, the Company increased its capital by cash to NT\$68,099,580.
1993	◆In February, the Company was certified by the Bureau of Commodity Inspection and Quarantine, Ministry of Economic Affairs to be the first sewing machine manufacturer to meet the ISO 9002 International Standard.
1994	◆The Company was recognized by the British Standard Institution (“BSI”) in January.
1996	◆In March, the Company increased its capital by cash and unappropriated retained earnings to NT\$95,339,410.
1998	◆In February, the Company increased its capital with unappropriated retained earnings to NT\$123,939,410. ◆In March, the Company reinvested in Zhangjiagang Zesting Machinery & Electronics Co., Ltd. in China to manufacture household sewing machines. ◆In December, the Company increased its capital with unappropriated retained earnings to NT\$185,909,110.
1999	◆In August, the Company increased its capital by cash and unappropriated retained earnings to NT\$200,781,840.

Year	Milestone
2002	◆In September, the Company increased its capital with unappropriated retained earnings to NT\$220,860,020.
2003	◆Applied to be listed on Taiwan's Emerging Stock Board. ◆In September, the Company increased its capital with unappropriated retained earnings and employee bonus to NT\$267,081,230.
2004	◆Registered to be listed on Taiwan's Emerging Stock Board. ◆In October, the Company increased its capital with unappropriated retained earnings and employee bonus to NT\$352,205,590. ◆In December, the Company reinvested in Zeng Hsing Industrial Co., Ltd. in Vietnam.
2006	◆In June, the Company received "Enterprise Operation Headquarters Certification" of the Ministry of Economic Affairs, R.O.C. ◆In December, the employees of the Company exercised stock option rights and increased its capital to NT\$368,015,590.
2007	◆In March, Industrial Development Bureau, MOEA reviewed and approved "the Plan for Leading New Product Development". ◆In April, the employees of the Company exercised stock options and increased its capital to NT\$368,115,590. ◆Awarded ISO 14001 certification in May. ◆In December, the Company increased its capital through employee stock options and cash to NT\$426,755,590 and its stocks were formally listed on the OTC stock exchange market in Taiwan. ◆In December, the Company reinvested in Shinco Technologies Co., Ltd., an aluminum die casting and CNC processing factory, in Vietnam.
2008	◆In December, the employees of the Company exercised stock options and increased its capital to NT\$ 434,648,090.
2009	◆In June, the employees of the Company exercised stock options and increased its capital to NT\$434,788,090. ◆In July, Industrial Development Bureau, MOEA approved "the Plan for Leading New Product Development- Computerized Embroidery Sewing Machine". ◆In November, the Company increased its capital by cash to NT\$469,788,090. ◆Awarded the certification of CG6005 General Assessment Criteria for the Corporate Governance System.
2010	◆Awarded the Forbes Asia's 200 Best under a Billion. ◆Certified by Dun and Bradstreet in November and is identified as D-U-N-S65-637-5037. ◆In November, the Company was awarded excellent bonded factory of 2009.
2011	◆In March, three models were evaluated as excellent performance products by German Consumer Organization. ◆The new plant, Shinco Technologies Limited, in Vietnam was completed.

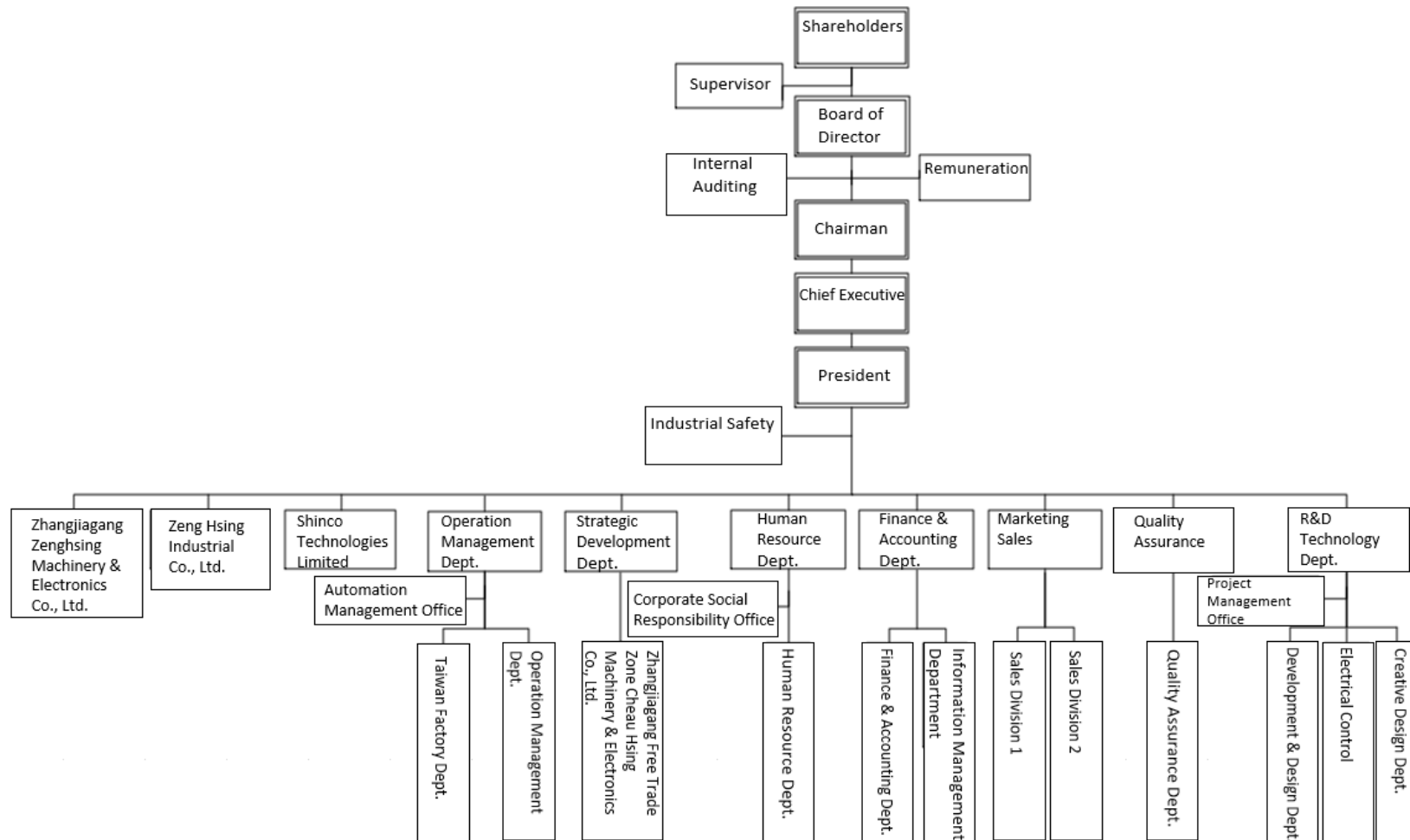
Year	Milestone
	<ul style="list-style-type: none"> ◆In August, the Company increased its capital with unappropriated retained earnings to NT\$483,881,730. ◆In September, the Company won the silver medal for training quality assessment of TTQS. ◆In October, the Company was certified TOSHMS & OHSAS 18001. ◆Implemented treasury stock buyback, and acquired 1,219,000 shares from August 29 to October 28. ◆In December, the Company decreased its capital with treasury stock retired to NT\$471,691,730.
2012	<ul style="list-style-type: none"> ◆In April, the Company increased its capital by cash to NT\$516,691,730. ◆Awarded Forbes Asia's 200 Best Under a Billion. ◆In October, the Company was awarded excellent bonded factory of 2011.
2013	<ul style="list-style-type: none"> ◆Awarded the certification of CG6007 General Assessment Criteria for the Corporate Governance System. ◆In July, the Company increased its capital with unappropriated retained earnings to NT\$542,526,310. ◆In December, the Company increased its capital by cash to NT\$605,526,310.
2014	<ul style="list-style-type: none"> ◆In October, the Company was awarded excellent bonded factory of 2013. ◆In October, the Company received "2nd Annual Golden Laurel Wreath Award" of Taipei Exchange. ◆In December, the Company was listed on the Taiwan Stock Exchange.
2015	<ul style="list-style-type: none"> ◆In August, the Company issued its first Corporate Social Responsibility (CSR) report. ◆In October, the Company was awarded excellent bonded factory of 2014. ◆Implemented treasury stock buyback, and acquired 17,000 shares from August 29 to October 27. ◆In November, Zeng Hsing in Vietnam had its 10 year anniversary and the 2nd plant in Vietnam held a grand opening ceremony.
2016	<ul style="list-style-type: none"> ◆Established "Riccar Handmade Flagship Store", the outlet for customer to try sewing. ◆Certified by ISO 14001:2015 & 9001:2015 international standard and certified by TUV Rheinland. ◆In October, the Company was awarded excellent bonded factory of 2015.
2017	<ul style="list-style-type: none"> ◆Introduced the ISO14064-1 system to meet its corporate social responsibility. ◆Held Groundbreaking Ceremony of the headquarters in Taiwan in September. ◆In October, the Company was awarded excellent bonded factory of 2016.
2018	<ul style="list-style-type: none"> ◆In May, the Company has been established for 50 years. ◆was awarded ISO 50001 certification in June. ◆In October, the Company was awarded excellent bonded factory of 2017. ◆Zeng Hsing (VN II) introduced ISO energy management system.

Year	Milestone
2019	<ul style="list-style-type: none"> ◆In October, the Company was awarded excellent bonded factory of 2018. ◆In December, the Taiwan Operations Headquarters was completed. ◆Zeng Hsing (VN I) introduced ISO energy management system.
2020	<ul style="list-style-type: none"> ◆K series household sewing machine obtained carbon footprint (ISO14067) verification statement. ◆The treasury stocks will be bought back during 2020/03/27-2020/05/26 .

III. Corporate Governance Report

3.1 Organizational System

3.1.1 Organizational Structure



3.1.2 Major Departments and Their Scope of Operations

Department	Functions
Internal Auditing Office	<ul style="list-style-type: none"> ◆ Draw up annual group audit plan according to the competent authority's requirements. ◆ Implement, monitor and review the self-inspections of the Group's internal control.
Strategic Development Department	<ul style="list-style-type: none"> ◆ Adhering to the resolutions of the board of directors to lead other managers, the department is responsible for formulating important policies of the Company and all related companies. ◆ Plan, formulate and promote the Group's medium and long-term strategies. (hereinafter referred to as "the Company") ◆ Assist with the management and development of business units and departments.
Operation Management Department	<ul style="list-style-type: none"> ◆ Establish global logistics management to plan global production capacity layout based on company operating goals ◆ Integrate major suppliers of production equipment, regularly conduct market inquiries and bargains, and grasp market information.
Quality Assurance Department	<ul style="list-style-type: none"> ◆ Plan group quality assurance system and policy according to group strategy ◆ Supervise quality performance of the Group's production bases.
R&D Technology Department	<ul style="list-style-type: none"> ◆ Identify market and customer trends and research and develop the best product to satisfy customer and market demands ◆ Integrate R&D technical resources and improve R&D efficiency
Marketing Sales Department	<ul style="list-style-type: none"> ◆ Formulate comprehensive product pricing strategy ◆ Formulate the future market and product blueprint
Human Resources Department	<ul style="list-style-type: none"> ◆ Formulate group human resources development strategies and goals according to the group's medium and long-term strategy ◆ Plan group performance management strategy and policy
Finance & Accounting Department	<ul style="list-style-type: none"> ◆ Master the economic pulse of the world, improve the financial structure of the group and apply appropriate financial tools for comprehensive planning. ◆ Manage group funds steadily and effectively and provide decision maker timely management information.
Zeng Hsing Industrial CO., LTD Subsidiary Taiwan Factory Department	<ul style="list-style-type: none"> ◆ Implement global factory integration, planning and factory office construction supervision and management in line with company development and operational requirements.

3.2 Directors, Supervisors and Management Team

3.2.1 Directors and Supervisors

Director and supervisor information (1)

2020.04.30 Unit: shares

Title (Note 1)	Nationality / Country of Origin	Name	Date Elected	Term (Years)	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Underage Children Shareholding		Shareholding by Nominee Arrangement		Experience (Education) (Note 3)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
						Shares	% (Note 7)	Shares	% (Note 8)	Shares	%	Shares	%			Title	Name	Relation	
Chairman	Taiwan	CHIH- CHENG LIN	06/13/2018	3	12/28/2007	937,000	155%	937,000	155%	233,500	037%	0	0%	Bachelor of Industrial Engineering, Feng Chia University EMBA of National Chung Hsing University General Manager of Zeng Hsing Industrial Co., Ltd.	Chairman of Zeng Hsing Machinery & Electronics Co., Ltd. Chairman of Zhangjiagang Zeng Hsing Trading Co., Ltd. Director of Shinco Worldwide Ltd. (BVI) Director of Zeng Hsing Industrial Co., Ltd. (BVI) Chairman of Zeng Hsing Industrial Co., Ltd. (VN) Chairman of Shinco Technologies Limited (VN) Chairman of Mitsumichi Industrial Co. Ltd. Chairman of Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	NA	NA	NA	NA

Title (Note 1)	Nationality / Country of Origin	Name	Date Elected	Term (Years)	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Underage Children Shareholding		Shareholding by Nominee Arrangement		Experience (Education) (Note 3)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
						Shares	% (Note 7)	Shares	% (Note 8)	Shares	%	Shares	%			Title	Name	Relation	
Director	Taiwan	RUIZ- HEN HONG	06/13/2018	3	12/28/2007	1,945,760	321%	1,945,760	321%	10,000	0.02%	0	0%	Master of Industrial Engineering & Management National Chin-Yi University of Technology Director of Zeng Hsing Industrial Co., Ltd.	Director of Jie Hong Ltd. Chairman of Buo Rei Te Co. Ltd.	NA	NA	NA	NA
Director	Taiwan	CHONG - GUANG TSAI	06/13/2018	3	06/13/2018	655,527	1.08%	382,334	0.63%	382,334	0.63%	0	0%	Bachelor of Shih Chien University Manager of Can xin investment Co., Ltd.	Director of Buo Rei Te Co. Ltd. Chairman of Yirujie Investment Co., Ltd. Director of Chan yao enterprise Co., Ltd.	Vice- General Manager Marketing departmen t	CHON G-TING TSAI	brothers	NA
Director	Taiwan	FEN-GJI LI	06/13/2018	3	12/28/2007	1,065,628	1.76%	980,628	1.62%	856	0.00%	0	0%	Graduated from Own Lead Primary School Supervisor of Zeng Hsing Industrial Co., Ltd.	Director of Yingfeng Aluminum Industry Co., Ltd. Chairman of Quancheng Machinery Co., Ltd.	NA	NA	NA	NA
Director	Taiwan	SHU- CHENG LIAO	06/13/2018	3	12/28/2007	876,610	1.45%	876,610	1.45%	13,499	0.17%	300,000	0.50%	Graduated from National Chin-Yi University of Technology Director of Zeng Hsing Industrial Co., Ltd.	General Manager of Long Huan Enterprise Ltd. Chairman of Shenghong Investment Co., Ltd.	NA	NA	NA	NA

Title (Note 1)	Nationality / Country of Origin	Name	Date Elected	Term (Years)	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Underage Children Shareholding		Shareholding by Nominee Arrangement		Experience (Education) (Note 3)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
						Shares	% (Note 7)	Shares	% (Note 8)	Shares	%	Shares	%			Title	Name	Relation	
Independent Director	Taiwan	ZHI- SHENG WU	06/13/2018	3	06/18/2005	0	0.00%	0	0.00%	0	0.00%	0	0%	Bachelor of Information Management, University of Tamkang Master of department of management science, National Chiao Tung University Vice-President Hongkong and Shanghai Banking Corporation	Vice- Chairman Turvo International Co., Ltd. Director of Turvo International Co., Ltd. Director of Zhu Ling Investment Director of Matec Southeast Asia (Thailand) Co., Ltd.	NA	NA	NA	NA

Title (Note 1)	Nationality / Country of Origin	Name	Date Elected	Term (Years)	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Underage Children Shareholding		Shareholding by Nominee Arrangement		Experience (Education) (Note 3)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
						Shares	% (Note 7)	Shares	% (Note 8)	Shares	%	Shares	%			Title	Name	Relation	
Independent Director	Taiwan	MING- LIANG TANG	06/13/2018	3	06/18/2005	0	000%	0	000%	0	000%	0	000%	Bachelor of Department of Accountancy , National Cheng Kung University Master of Department of Accountancy , National Cheng Kung University Manager of Ernst & Young LLP CFO of Dongguan Rongtai Plastic Material Co., Ltd. Partner of Sunpower Accounting	Partner of Sunpower Accounting LUNG PIEN VACUUM INDUSTRY CO.,LTD Member of the Salary and Remuneration Committee / Independent Director / Audit Committee Member of the Salary and Remuneration Committee of Zeng Hsing Industrial Co., Ltd. LAGIS ENTERPRISE CO., LTD. Independent Director / Member of the Audit Committee / Member of the Compensation Committee	NA	NA	NA	NA
Independent Director	Taiwan	JUN- MING XU	06/13/2018	3	06/18/2005	0	0%	0	0%	0	0%	0	0%	Syracuse U. (Ph. D)- Finance Associate Professor of Department of Business Administration and Lecture Director of Tunghai University Dean of Department of Finance, Tunghai University	Professor of Department of Finance, Chung Hsing University Independent Director of Horizon Securities Co., Ltd. Independent Director Sinon Co., Ltd.	NA	NA	NA	A

Title (Note 1)	Nationality / Country of Origin	Name	Date Elected	Term (Years)	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Underage Children Shareholding		Shareholding by Nominee Arrangement		Experience (Education) (Note 3)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
						Shares	% (Note 7)	Shares	% (Note 8)	Shares	%	Shares	%			Title	Name	Relation	
Supervisor	Taiwan	HUI-YU HUANG	06/13/2018	3	12/28/2007	0	0%	0	0%	0	0%	0	0%	EMBA of National Chung Hsing University Dean of Accounting Hung Kuang University Audit Manager Zhongxin United Accounting Secretary of Hung Kuang University office of Secretaries	Partner of Yangtze Accounting	NA	NA	NA	NA
Supervisor	Taiwan	BAI- SONG ZHANG	06/13/2018	3	06/18/2015	200984	0.33%	200984	0.33%	613,840	101%	0	0%	EMBA of Feng Chia University Other Career Development Center Manager of Zeng Hsing Industrial Co., Ltd. New Business Development Manager of Zeng Hsing Industrial Co., Ltd. Chief Project Manager of Zeng Hsing Industrial Co., Ltd.	NA	Supervisor	ZHEN- SHUN HE	Brother-in-law	NA

Title (Note 1)	Nationality / Country of Origin	Name	Date Elected	Term (Years)	Date First Elected (Note 2)	Shareholding when Elected		Current Shareholding		Spouse & Underage Children Shareholding		Shareholding by Nominee Arrangement		Experience (Education) (Note 3)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks (Note 4)
						Shares	% (Note 7)	Shares	% (Note 8)	Shares	%	Shares	%			Title	Name	Relation	
Supervisor	Taiwan	ZHEN- SHUN HE (Note 5)	06/13/2018	3	12/28/2007	611,636	1.01%	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Taya elementary school Factory director of Zeng Hsing Industrial Co., Ltd.	NA	Supervisor	BAI- SONG ZHAN G	wife's brother	NA
Supervisor	Taiwan	MENG- ZONG HE (Note 9)	06/14/2019	2	6/14/2019	1,065,673	1.76%	1,065,673	1.76%	0	0.00%	0	0%	Graduated from Chia- Yi Senior Commercial Vocation school Director	Chairman of Chan Yao Enterprise Co., Ltd.	Supervisor	BAI- SONG ZHAN G	Uncle	NA

Note 1: The name of the corporate shareholder shall include both the names of the corporate shareholder and the representative of the entity.

Note 2: Fill in the time the person is first elected. If there is any interruption of the terms, please note.

Note 3: Experiences related to the current position. For positions held in an audit certification accounting firm or related businesses in the period concerned, the title and responsible duties shall be provided.

Note 4: Where the chairperson of the board of directors and the general manager or person of an equivalent post (the highest level manager) of a company are the same person, spouses, or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness, necessity thereof, and the measures adopted in response thereto (For example, increase the number of independent directors, and there should be more than half of the directors who do not serve as employees or managers, etc.).

Note 5: The initial appointment date starts from the date of listing.

Note 6: Supervisor Zhen-Shun He resigned on 25 February 2019 and the number of shares and ratios currently held are not applicable.

Note 7: The shareholding percentage at the time of election was calculated based on the total issued shares in the amount of 60,552,631.

Note 8: The current shareholding percentage is calculated based on the total shares issued in the amount of 60,535,631.

Note 9: Supervisor Meng-Zong He was newly appointed on 14 June 2019, and the shareholding ratio of the shares held at the time of election was calculated based on the total number of shares issued at 60,535,631.

Director and supervisor information (2)

Name (Note 1)	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note 2)												Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	Criteria	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	
CHIH-CHENG LIN			✓					✓	✓			✓	✓	✓	✓	NA
ZHEN-SHUN HE (Note 3)			✓	✓	✓			✓	✓	✓	✓	✓		✓	✓	NA
CHONG-GUANG TSAI			✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	NA
FEN-GJI LI			✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	NA
RUIZ-HEN HONG			✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	NA
SHU-CHENG LIAO			✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	NA
HUI-YU HUANG		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	NA
ZHI-SHENG WU			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	NA
MING-LIANG TANG		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
JUN-MING XU	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

BAI-SONG ZHANG			✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	NA
MENG-ZONG HE (Note 4)			✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	NA

Note 1: The number of fields can be adjusted depending on the actual number.

Note 2: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the company or any of its affiliates
2. Not a director or supervisor of the Company's affiliates. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary, who is appointed pursuant to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws.)
3. Not a natural person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of over 1% of the total number of outstanding shares of the Company or ranking in the top 10 in holdings
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the Company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the Company under Paragraphs 1 or 2, Article 27 of the Company Act. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary, who is appointed pursuant to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws.)
6. Not a director, supervisor, or employee of another company whose majority of the director seats or voting shares are controlled by the same person (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary, who is appointed pursuant to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws.)
7. Not a director, supervisor, or employee of another company whose chairman, president or any equivalent post is the same person or a spouse thereof. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary, who is appointed pursuant to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws.)
8. Not a director, supervisor, or employee of a certain company or institution who has financial or business dealings with the Company or who holds 5% or more of the total number of outstanding shares of the Company, (not applicable in cases where such certain company holds more than 20% of the issued shares of the Company and less than 50% and that the person is an independent director of the Company, its parent company, or any subsidiary, who is appointed pursuant to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws.)
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the Company or any affiliate of the Company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or relevant laws or regulations.
10. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company
11. Not been a person of any conditions defined in Article 30 of the Company Act
12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

Note 3: Supervisor Zhen-Shun He resigned on 25 February 2019

Note 4: Supervisor Meng-Zong He was newly appointed on 14 June 2019

3.2.2 Management Team

Title (Note 1)	Nationality / Country of Origin	Name	Sex	Effective Date	Shareholding percentage		Spouse & Minor Shareholding percentage		Shareholding by Nominee Arrangement		Experience/ Education (Note 2)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks (Note 3)
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	Taiwan	CHIH- CHENG LIN	Male	01/01/2014	937,000	1.55%	223,500	0.37%	0	0%	Bachelor of Industrial Engineering, Feng Chia University EMBA of National Chung Hsing University General Manager of Zeng Hsing Industrial Co., Ltd.	Chairman of Zenghsing Machinery & Electronics Co., Ltd. Chairman of Zhangjiagang Zenghsing Trading Co., Ltd. Director of Shinco Worldwide Ltd. (BVI) Director of Zeng Hsing Industrial Co., Ltd. (BVI) Chairman of Zeng Hsing Industrial Co., Ltd. (VN) Chairman of Shinco Technologies Ltd. (VN) Chairman of Mitsumichi Industrial Co. Ltd. Chairman of Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. General Manager of Jetsun Technology Company Limited Director of Jetsun Technology Co., Ltd (Seychelles)	NA	NA	NA	NA

Title (Note 1)	Nationality / Country of Origin	Name	Sex	Effective Date	Shareholding percentage		Spouse & Minor Shareholding percentage		Shareholding by Nominee Arrangement		Experience/ Education (Note 2)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks (Note 3)
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
General manager	Taiwan	MING- YU TSAI	Male	02/17/2017	0	0.00%	0	0.00%	0	0.00%	Bachelor of Industrial Engineering, Feng Chia University Engineer of China Productivity Center	General Manager of Zeng Hsing Industrial Co., Ltd. Director of Zenghsing Machinery & Electronics Co., Ltd. Director of Zhangjiagang Zenghsing Trading Co., Ltd. Director of Shinco Technologies Limited (VN) Director of Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	NA	NA	NA	NA
Strategic Development department Vice-senior general manager	Taiwan	JUN-YI LI	Male	10/01/2017	116,65 7	0.19 %	0	0.00%	0	0.00%	Master of Technology industrial Engineering & Management National Chin-Yi University of Technology Vice- general manager of Zeng Hsing Industrial Co., Ltd. Operations Management department	NA	NA	NA	NA	NA

Title (Note 1)	Nationality / Country of Origin	Name	Sex	Effective Date	Shareholding percentage		Spouse & Minor Shareholding percentage		Shareholding by Nominee Arrangement		Experience/ Education (Note 2)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks (Note 3)
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Human Resources department Vice- general manager	Taiwan	HUI-LING ZHANG	Female	10/01/2014	11,391	0.02%	0	0.00%	0	0.00%	Graduated from Providence University, Department of English Language, Literature and Linguistics. Associate Office of the CEO and Associate of the New Business Development Division of Zeng Hsing Industrial Co., Ltd.	NA	NA	NA	NA	NA
Strategic development Vice- general manager (Non-administrative positions)	Taiwan	JIANG-CHI TSAI	Male	10/01/2014	55,194	0.09%	2,823	0.00%	0	0.00%	Graduated from Taichung Municipal Taichung Industrial High School, Department of Machinery.	Director of Zeng Hsing Industrial Co., Ltd. (VN)	NA	NA	NA	NA
Marketing department Vice- general manager	Taiwan	CHONG-TING TSAI	Male	06/01/2016	983,620	1.63%	581,865	0.96%	0	0.00%	Master of Department of Business Management, California State University, San Bernardino Manager of Marketing Planning Center of Zeng Hsing Industrial Co., Ltd.	Director of Can Xin Investment Co., Ltd.	Director	CHONG - GUANG TSAI	brothers	NA

Title (Note 1)	Nationality / Country of Origin	Name	Sex	Effective Date	Shareholding percentage		Spouse & Minor Shareholding percentage		Shareholding by Nominee Arrangement		Experience/ Education (Note 2)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks (Note 3)
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Financial Information department and Strategic Development department Vice- general manager	Taiwan	JUN- SHEN ZHOU	Male	11/01/2016	28,120	0.05%	0	0.00%	0	0.00%	Graduated from National Chung Hsing University, Department of Accounting	Director of Mitsumichi Industrial Co., Ltd. Supervisor of Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. Director of Tai Tan Technology Co., Ltd.	NA	NA	NA	NA
Strategic Development department Vice-general manager	Taiwan	XIE- ZHENG LIU	Male	09/03/2018	50,000	0.08%	0	0%	0	0.00%	Master of Department of Management, Dominican University of California Vice-general manager of Johnson Health Tech	General manager of Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	NA	NA	NA	NA
R & D Technology department Assistant general manager	Taiwan	WEI- CHENG CHEN	Male	05/01/2016	9,000	0.01%	1,000	0.00%	0	0.00%	Graduated from Hsiuping University of Science and Technology, Department of Chemical Engineering	NA	NA	NA	NA	
Strategic Development department Assistant general manager	Taiwan	QIONG- MEI CHEN	Female	05/01/2016	2,194	0.00%	0	0.00%	0	0.00%	Master of Institute of Human Resource Management, National Sun Yat-sen University	General manager of Shinco Technologies Ltd. (VN)	NA	NA	NA	NA

Title (Note 1)	Nationality / Country of Origin	Name	Sex	Effective Date	Shareholding percentage		Spouse & Minor Shareholding percentage		Shareholding by Nominee Arrangement		Experience/ Education (Note 2)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks (Note 3)
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Quality Assurance Department Assistant general manager	Taiwan	XIAO-HUI XIONG	Male	05/08/2017	18,867	0.03%	0	0.00%	0	0.00%	EMBA of Feng Chia University	NA	NA	NA	NA	NA
Audit department Vice-manager	Taiwan	QI-FENG ZHANG	Male	11/13/2017	0	0.00%	0	0.00%	0	0.00%	Graduated from Ming Chuan University, Department of Finance	NA	NA	NA	NA	NA
Strategic Development department Vice- general manager (Non-administrative positions)	Taiwan	DONG-LIANG LIU	Male	02/18/2019	0	0.00%	0	0.00%	0	0.00%	Master of Department of business, Lughwa University of Science and Technology Chief of Panasonic Corporation	General manager of Zeng Hsing Industrial Co., Ltd. (VN)	NA	NA	NA	NA

Note 1: It shall include the information of the general managers, vice general managers, assistant managers, and heads of all departments and branches; regardless of their title, the information has to be disclosed as

long as their ranking is equivalent to that of a general manager, vice general manager or assistant manager.

Note 2: For the experience relevant to the current position, such as employment at an audit certification accounting firm or an associated enterprise during the said period, the title and responsibilities shall be specified.

Note 3: Where the chairperson of the board of directors and the general manager or person of an equivalent post (the highest level manager) of a company are the same person, spouses, or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness, necessity thereof, and the measures adopted in response thereto (For example, increase the number of independent directors, and there should be more than half of the directors who do not serve as employees or managers, etc.).

Note 4: Strategic Development department Vice- general manager DONG-LIANG LIU was newly appointed on 18 February 2019.

Note 5: Financial Information department Vice- general manager JUN-SHEN ZHOU Vice- general manager of Strategic Development Division, and XIE-ZHENG LIU, the former Vice- general manager of the strategic development, cancelled administrative management.

3.3 Remuneration of Directors, Supervisors, President, and Vice President

3.3.1 Remuneration of Directors

Unit: thousands of dollars; thousand shares

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note 10)		Remunerations Received by Directors Who are Also Employees						Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) (Note 10)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary (Note 11)		
		Base Compensation (A) (Note 2)		Severance Pay (B)		Bonus to Directors (C) (Note 3)		Allowances (D) (Note 4)				Salary, Bonuses, and Allowances (E) (Note 5)		Severance Pay (F)		Profit Sharing- Employee Bonus (G) (Note 6)						
		The company	All companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	The company	Companies in the consolidated financial statements (Note 7)	Cash	Stock	Cash	Stock		The company	Companies in the consolidated financial statements (Note 7)
Independent Director	ZHI-SHENG WU	600	600	0	0	0	0	18	18	0.09%	0.09%	0	0	0	0	0	0	0	0	0.09%	0.09%	NA
Independent Director	MING-LIANG TANG	600	600	0	0	0	0	18	18	0.09%	0.09%	0	0	0	0	0	0	0	0	0.09%	0.09%	NA
Independent Director	JUN-MING XU	600	600	0	0	0	0	18	18	0.09%	0.09%	0	0	0	0	0	0	0	0	0.09%	0.09%	NA
Chairman	CHIH-CHENG LIN	0	0	0	0	1,000	1,000	18	18	0.15%	0.15%	5,291	5,524	0	0	1,064	0	1,064	0	1.09%	1.13%	NA
Director	RUIZ-HEN HONG	0	0	0	0	500	500	18	18	0.08%	0.08%	0	0	0	0	0	0	0	0	0.08%	0.08%	NA
Director	SHU-CHENG LIAO	0	0	0	0	500	500	18	18	0.08%	0.08%	0	0	0	0	0	0	0	0	0.08%	0.08%	NA
Director	FEN-GJI LI	0	0	0	0	500	500	18	18	0.08%	0.08%	0	0	0	0	0	0	0	0	0.08%	0.08%	NA
Director	CHANG-CAN TSAI	0	0	0	0	500	500	18	18	0.08%	0.08%	0	0	0	0	0	0	0	0	0.08%	0.08%	NA

1. Independent directors' remuneration payment policies, systems, standards and structure, and state the relevance to the amount of remuneration according to the responsibilities, risks, time invested, etc.:

Evaluations are made according to the Company's "Directors, Supervisors and Managers' Remuneration Management Measures" and "Directors, Supervisors and Managers' Performance Evaluation Measures", in addition to referring to the Company's overall operating performance, future operating risk of the industry and development trends. The individual performance achievement rate and contribution to the Company's performance are also considered for reasonable compensation. The related performance evaluation and compensation reasonableness are reviewed by the Remuneration Committee and the Board of Directors. The remuneration system is reviewed from time to time depending on the actual operation and relevant laws in order to keep the balance between the Company's sustainable operation and risk control.

2. Apart from the aforementioned disclosure, the remunerations for directors of the Company providing services (such as serving as a consultant that is not an employee) to consolidated subsidiaries: None

Note 1: The names of directors should be listed separately, and the amount of each payment is disclosed in a summary.

Note 2: Refers to remuneration of directors in the most recent year (including directors' salary, duty allowance, severance pay, various bonuses, incentives, etc.)

Note 3: Refers to the amount of director's remuneration distributed by the Board of directors in the most recent year.

Note 4: Refers to director's related expenses from professional practice in the most recent year.

Note 5: Refers to the collection includes salary, a duty allowance, severance pay, various bonuses, transportation allowance, special expenses, various allowances, dormitory, car, etc. for the person that are directors and are employee.

Note 6: Refers to employee compensation for persons who are concurrently directors and employees. The amount of compensation received as resolved by the board of directors in the most recent year should be disclosed. If it is not possible to estimate, the estimated amount of this year will be calculated based on the proportion of the actual distribution amount last year.

Note 7: The total amount of remuneration paid by the company to all directors of the company stated in the consolidated report should be disclosed.

Note 8: The total remuneration the company pays to each director should be disclosed along with the names of the directors in the designated bracket.

Note 9: The total remuneration of each director of the company paid by all companies in the consolidated report should be disclosed and disclose the name of the directors in the designated bracket.

Note 10: Net profit after tax refers to net profit after tax in the most recent parent company only financial statement.

Note 11: a. This column should clearly fill in the amount of remuneration received by the company's directors from a reinvestment business outside the subsidiary or the parent company (if not, please fill in "NA").

b. If a director of a company receives remuneration from an invested entity other than a subsidiary, such remuneration received from the invested entity other than a subsidiary shall be consolidated into column I of the remuneration range table and change the name of the column to "all investment business".

c. Remuneration refers to the remuneration, wage, employee profit sharing, and allowances paid by non-consolidated affiliates to directors who are also their directors, supervisors, or managers.

Note 12: The information in the above table is the remuneration of directors in 2019. The amount of directors' remuneration approved by the board of directors on March 12, 2020 is expected to be distributed in June 2020. The remuneration of employees who served as directors in 2019 is the amount proposed for distribution.

- The remuneration disclosed in this form is different from that required by the Income Tax Act. Therefore, the purpose of this form is for information disclosure and is not intended for taxation purposes.

3.3.2 Remuneration of Supervisors

Title	Name	Remuneration						Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary (Note 9)
		Base Compensation (A) (Note 2)		Bonus to Supervisor (B) (Note 3)		Allowances (D) (Note 4)		Income (%) (Note 8)		
		The company	All companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	
Supervisors	HUI-YU HUANG	0	0	600	600	18	18	0.09%	0.09%	NA
Supervisors	BAI-SONG ZHANG	0	0	500	500	18	18	0.08%	0.08%	NA
Supervisors	MENG-ZONG HE	0	0	500	500	12	12	0.08%	0.08%	NA

Note 1: The names of the supervisors should be listed separately, and the amount of each payment is disclosed in a summary.

Note 2: Refers to remuneration of supervisors in the most recent year (including supervisors' salary, duty allowance, severance pay, various bonuses, incentives, etc.)

Note 3: Refers to the amount of supervisor's remuneration distributed by the board of supervisors in the most recent year.

Note 4: Refers to supervisor's related expenses from professional practice in the most recent year.

Note 5: The total amount of remuneration paid by the company to all supervisors of the company stated in the consolidated report should be disclosed.

Note 6: The total remuneration the company pays to each director should be disclosed along with the names of the directors in the designated bracket.

Note 7: The total remuneration of each supervisor of the company paid by all companies in the consolidated report should be disclosed and disclose the name of the supervisors in the designated bracket.

Note 8: Net profit after tax refers to net profit after tax in the most recent parent company only financial statement.

Note 9: a. This column should clearly fill in the amount of remuneration received by the company's supervisors from a reinvestment business outside the subsidiary or the parent company (if not, please fill in "NA")

b. If a supervisor of a company receives remuneration from an invested entity other than a subsidiary, the supervisor shall transfer the remuneration received from the invested entity other than a subsidiary to column I of the remuneration range table and change the name of the column to "all investment business".

c. Remuneration refers to the remuneration, wage, employee profit sharing, and allowances paid by non-consolidated affiliates to supervisors who are also their directors, supervisors, or managers.

● The remuneration disclosed in this form is different from that required by the Income Tax Act. Therefore, the purpose of this form is for information disclosure and is not intended for taxation purposes.

3.3.3 Remuneration of the Manager and Vice Manager

Title	Name	Salary (A) (Note 2)		Severance Pay (B)		Bonuses and Allowances (C) (Note 3)		Profit Sharing-Employee Bonus (D) (Note 4)				Ratio of total compensation (A+B+C+D) to net income % (Note 8)		Compensation paid to the President and Vice President from an Invested Company Other Than the Company's Subsidiary (Note 9)
		The company	Companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	The company	Companies in the consolidated financial statements (Note 5)	The company		Companies in the consolidated financial statements (Note 5)		The company	Companies in the consolidated financial statements (Note 5)	
								Cash	Stock	Cash	Stock			
Chief executive officer.	CHIH-CHENG LIN													
General manager	MING-YU TSAI													
Vice-General manager	XIE-ZHENG LIU													
Senior Vice-General manager	JUN-YI LI													
Vice-General manager	HUI-LING ZHANG													
Vice-General manager	JIANG-DI TSAI	15,410	16,859	556	556	10,270	11,270	3,855	0	3,855	0	4.45%	4.82%	NA
Vice-General manager	CHONG-TING TSAI													
Vice-General manager	DONG-LIANG LIU													
Vice-General manager	JUN-SHEN ZHOU													

* Regardless of their title, the information has to be disclosed as long as their ranking is equivalent to that of a general manager or vice general manager (e.g. president, chief executive officer, general director, etc.).

Range of Remuneration	Name of Manager and Vice Manager	
	The Company (Note 6)	Companies in the consolidated financial statements (Note 7)
Less than NT\$ 1,000,000	DONG-LIANG LIU	
NT\$1,000,000 ~ NT\$1,999,999		
NT\$2,000,000 ~ NT\$3,499,999	JUN-YI LI, HUI-LING ZHANG, JIANG-DI TSAI, CHONG-TING TSAI, JUN-SHEN ZHOU, XIE-ZHENG LIU	JUN-YI LI, HUI-LING ZHANG, JIANG-DI TSAI, CHONG-TING TSAI, JUN-SHEN ZHOU, DONG-LIANG LIU, XIE-ZHENG LIU
NT\$3,500,000 ~ NT\$4,999,999		
NT\$5,000,000 ~ NT\$9,999,999	CHIH-CHENG LIN, MING-YU TSAI	CHIH-CHENG LIN, MING-YU TSAI
NT\$10,000,000 ~ NT\$14,999,999		
NT\$15,000,000 ~ NT\$29,999,999		
NT\$30,000,000 ~ NT\$49,999,999		
NT\$50,000,000 ~ NT\$99,999,999		
Greater than or equal to NT\$100,000,000		
Total	9	9

Note 1: Names of general managers and vice general managers shall be listed separately, and individual payments made shall be disclosed through a summary. If the director is also a general manager or vice general manager, this table and the above table (1-1 or 1-2-1 and 1-2-2) shall be completed.

Note 2: Salaries, additional pay, and service pay for general managers and vice general managers in the latest year.

Note 3: Various prizes, awards, transportation, special expenditure, various allowances, dormitory, cars, and other actual items provided and other compensations for general managers and vice general managers in the latest year. For housing, automobiles and other transportation tools or expenses that are specific to individuals, the nature and cost of the assets provided, the actual or market-value-based rental, the cost of gasoline and other payments shall be disclosed. If a driver is assigned, please indicate the pay available for the driver but it may not be included in the calculation of remunerations. In addition, salaries recognized in accordance with IFRS 2: stock-based payment transaction, including employee stock option certificates, restricted employee shares, and participation in subscribing shares in cash capital increase, shall also be included as part of the remunerations.

Note 4: Employee remunerations (including stock and cash) distributed to general managers and vice general managers as approved by the Board of Directors in the latest

year. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculate proportionally. In addition, the attached Table 1-3 shall be completed.

Note 5: The total value of remunerations paid to general managers and vice general managers of the company by all companies in the consolidated report (including the Company) shall be disclosed.

Note 6: For the total value of various remunerations paid to each general manager and vice general manager by the Company, disclose the name of the general manager and the vice general manager in the respective bracket.

Note 7: For the total value of various remunerations paid to each general manager and vice general manager of the Company by all companies (including the Company) in the consolidated report, disclose the name of the general manager and vice general manager in the respective bracket.

Note 8: Net profit after tax refers to net profit after tax in the most recent individual or individual financial report.

Note 9: a. The value of related remunerations claimed by general managers and vice general managers of the Company from reinvested businesses other than subsidiaries shall be specified in this column.

b. In the event that general managers and vice general managers of the company claim related remunerations from reinvested businesses other than subsidiaries, the said remunerations shall be combined in Column E of the remuneration bracket table and the name of the column shall be changed to "all re-invested businesses."

c. Remunerations are the compensation, rewards (including rewards for employees, directors, and supervisors) and operational expenses, among others, claimed by general managers and vice general managers of the company who serve as the director, supervisor, or manager at a reinvested business other than the subsidiary.

Note 10: The amount of the pension field shall refer to the amount set aside in 2019.

* The remunerations disclosed in this table is different from that required by the Income Tax Act. Therefore, the purpose of this table is for information disclosure and is not intended for taxation purposes.

3.3.4 Names of managerial officers who received employees' bonuses in the preceding year and the distribution

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Manager	Chairman and Chief Executive Officer	CHIH-CHENG LIN	0	4,776	4,776	0.71%
	General manager	MING-YU TSAI				
	Senior Vice-General senior manager	JUN-YI LI				
	Vice-General manager	HUI-LING ZHANG				
	Vice-General manager	JIANG-DI TSAI				
	Vice-General manager	CHONG-TING TSAI				
	Vice-General manager	JUN-SHEN ZHOU				
	Vice-General manager	WEN-XIAN XIAO				
	Vice-General manager	ZUN-CHENG YE				
	Vice-General manager	XIE-ZHENG LIU				
	Assistant general manager	SHUN-CHANG LAI				
	Assistant general manager	XIAO-HUI XIONG				
	Assistant general manager	WEI-CHENG CHEN				
	Assistant general manager	QIONG-MEI CHEN				

Note 1: The name and title of the individual shall be disclosed but distribution of profits may be disclosed through a summary.

Note 2: Employee remunerations (including stock and cash) distributed to managers resolved by the Board of Directors in recent years. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculate proportionally. After-tax net earnings shall refer to the amount in the most recent year. When the International Financial Reporting Standards are adopted, after-tax net earnings are those indicated in the entity or individual financial report from the most recent year.

Note 3: Pursuant to Tai-Cai-Zheng-San-Zi No. 0920001301 Letter dated March 27, 2003, managers shall refer to the following positions:

- (1) General Managers and people of equivalent ranking
- (2) Vice general managers and people of equivalent ranking
- (3) Assistant managers and people of equivalent ranking
- (4) Head of Department of Finance
- (5) Head of Accounting Department
- (6) Other people handling corporate affairs and signature rights

Note 4: If directors, general managers, and vice general managers receive employee remunerations (including stock and cash), this table needs to be completed in addition to Exhibit 1-2.

Note 5: The table above indicates 2019 employee compensation, which is expected to be paid in August 2020. The amounts are the numbers potentially may be distributed this year referencing the actual amount distributed last year.

3.3.5 Compare respectively the ratio of the total amount of the remuneration paid to directors, general manager and vice general managers etc. of the Company and all companies covered in the consolidated financial statements in the past two years to after tax net income shown through the individual or respective financial statements along with explanations of the policies, standards and composition for remuneration payment, procedures to fix remunerations and the interrelationship between the business performance and future risks

The procedures to determine the Company's Director and Supervisors remuneration are based on the Company's "Directors, Supervisors and General Managers Remuneration Management Guidelines" and "Directors, Supervisors and General Managers Performance Evaluation Guidelines". In addition to considering the Company's overall operating performance, the risk of the industry's future operation and the growth trend, the Company also takes into account each employee's performance achievement rate and their contribution to the Company's performance in order to offer them appropriate compensations. The related performance evaluation and the reasonableness of remuneration have both been approved by the Remuneration Committee and the Board of Directors. The Company also adjusts the remuneration system as needed based on the actual operational status and relevant regulations in order to achieve a balance between the Company's sustainable operation and risk management. The 2019 Director and Supervisor remuneration has been approved by the Board of Directors on 12 March 2020 and is expected to be announced in the shareholders' meeting to be held on 12 June 2020.

The employee compensation will be distributed in stock or cash and shall be approved by more than half of the directors that accounted for 2/3 of the directors who attend the board meeting and report the matter in the shareholders' meeting. The intended recipients of the aforementioned employee compensation shall include employees of related companies who meet certain requirements. The director and supervisors remuneration amounted to NTD 4,600 thousand and NTD 4,700 thousand in 2019 and 2018, respectively, which accounted for 0.82% and 0.67% of the distributed earnings in 2019 and 2018, respectively. Furthermore, they accounted for 0.53% and 0.38% of the pretax profit (net of accrued employee compensation and director and supervisor remuneration), respectively.

The allocation of director and supervisor remuneration and employee compensation are determined according to Article 35 of the Company's Article of Incorporation. If the Company has a profitable fiscal year, it shall set aside 2% to 6% as employee compensation and a percentage no more than 4% as director and supervisor remuneration. However, if the Company has accumulated loss from previous years, it shall first reserve the earnings to cover the losses.

The compensation of general manager and vice presidents includes salary, bonus, employee compensation, employee stock warrants, etc. The compensation is decided based on their corresponding post, responsibilities, operational performance and also considers the compensation offered to the same position in other businesses of the same industry. The amount of compensation paid to general manager and vice presidents by the Company and all companies in the consolidated financial statements in 2019 and 2018 accounted for 4.45%, 4.82%, 3.43% and 3.46% of net Income, respectively. All these ratios are considered reasonable.

3.4 Implementation of Corporate Governance

3.4.1. Board of Directors

The 17th Board of Directors met 6 (A) times in 2019. Attendance of directors and supervisors in the meetings is as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B / A 】	Remarks
Chairman	CHIH-CHENG LIN	6	0	100%	13 June 2018 re-elected (Elected the chairman on 13 June 2018)
Director	RUIZ-HEN HONG	6	0	100%	13 June 2018 re-elected
Director	SHU-CHENG LIAO	6	0	100%	13 June 2018 re-elected
Director	CHONG-GUANG TSAI	6	0	100%	13 June 2018 re-elected
Director	FEN-GJI LI	6	0	100%	13 June 2018 re-elected
Independent director	ZHI-SHENG WU	6	0	100%	13 June 2018 re-elected
Independent director	MING-LIANG TANG	6	0	100%	13 June 2018 re-elected
Independent director	JUN-MING XU	6	0	100%	13 June 2018 re-elected
Supervisor	ZHEN-SHUN HE	0	0	0%	13 June 2018 re-elected (25 February 2019 resign)
Supervisor	BAI-SONG ZHANG	6	0	100%	13 June 2018 re-elected
Supervisor	HUI-YU HUANG	6	0	100%	13 June 2018 re-elected
Supervisor	MENG-TSUNG HE	4	0	100%	14 June 2019 re-elected

Other items required to be stated:

- Where any of the following circumstances occurs with respect to the operation of the Board of Directors, meeting dates, sessions, contents of resolutions, opinions of all independent directors, and actions taken by the Company in response to opinions of independent directors shall be noted: None
 - Items referred to in Article 14-3 of the Securities and Exchange Act.
 - Except for the matters mentioned in the preceding paragraph, matters resolved by the Board of Directors, to which an independent director has a dissenting or qualified opinion that is on record or stated in a written statement.
- For any recusal of Directors due to conflict of interests in certain proposals, name of the Director, contents of resolutions, reasons for the recusal and participation in the voting shall be noted:
 - On 2 May 2019, the Board of Directors lifted the restrictions on non-competition of the Company's director: CHUNG-KUANG TSAI, and requested the shareholders to lift the restrictions of non-competition under Article 209 of the Company Act on the Company's directors, CHUNG-KUANG TSAI. CHUNG-KUANG TSAI recused himself due to conflict of interest. The case was approved by all the directors present without objection.
 - The Board of Directors held on 24 December 2019 proposed to the Company's Remuneration Committee to consider the 2019 annual bonus. As CHIH-CHENG LIN, the chairman, MING-YU TSAI, the general manager, and CHUN-SHEN CHOU, the vice president, recused themselves for conflict of interest, JUN-MING XU, the independent director acted as chair for the case. Upon inquiry from the acting chairman, all directors present at the meeting approved without objection.
- The listed company shall disclose the evaluation period and period, scope, manner and content of the evaluation of the Board's self (or peer) assessment, etc. and fill in Schedule II (2) the board of directors to assess the implementation

of the situation

Assessment cycle (Note 1)	Assessment time (Note 2)	Assessment scope (Note 3)	Assessment (Note 4)	Assessment content (Note 5)
Executed once a year	Assess the performance of the Board of Directors from 1 January 2019 to 31 December 2019.	<ol style="list-style-type: none"> 1. Performance evaluation of the Board of Directors 2. The performance evaluation of individual members of the board 	<ol style="list-style-type: none"> 1. Performance evaluation of the Board of Directors 2. the performance evaluation of individual members of the board 	<ol style="list-style-type: none"> 1. comply with the relevant laws and regulations: <ol style="list-style-type: none"> (1) Compliance with the law with respect to matters required to be brought to the Board of Directors for discussion (2) Whether a board meeting is held quarterly (3) Compliance with the conflict of interest recusal for directors (4) Meeting the number of training hours required for directors (5) Board meeting attendance rate (6) Shareholders' meeting attendance rate 2. Participation in company operation <ol style="list-style-type: none"> (1) Review the company's accounting system, financial status and financial report, audit report and follow-up (2) Evaluate the independence and suitability of certified accountants (3) Assess and monitor various existing or potential risks of the company (4) Communication and interaction with company management

Note 1: The implementation cycle of the Board evaluations, e.g. once a year.

Note 2: The period covered by the Board evaluation, e.g. to evaluate the performance of the Board from 1 January 2019 to 31 December 2019.

Note 3: The scope of the evaluation includes performance evaluations of the Board of Directors, individual board members and functional committees.

Note 4: The manner in which the assessment is conducted includes internal self-assessment of the Board of Directors, self-assessment of board members, peer evaluation, assessment by external experts, professional institutions appointed, or other appropriate manner for performance evaluation.

Note 5: The assessment content includes at least the following items according to the assessment scope:

(1) Performance evaluation of the board of directors: including at least the degree of participation in the Company's operations, the quality of the board's decision-making, the composition and structure of the Board of Directors, the selection and continuous training of directors, internal control, etc.

(2) Performance evaluation of individual directors: including at least the company's objectives and tasks, directors' recognition of responsibilities, participation in the company's operations, internal relationship management and communication, professional and continuous training of directors, internal control, etc.

(3) Performance evaluation of functional committees: the degree of participation in the company's operations, the responsibility recognition of the functional committees, the quality of the functional committee's decision-making, the composition of the functional committee and the selection of members, internal control, etc.

4. The objectives of enhancing the function of the Board of Directors for the year and the most recent year (such as the establishment of an audit committee, the promotion of information transparency, etc.) and the implementation assessment:

(1) Enhancing the functions

The current directors of the Company were elected on 13 June 2018. Among them, the independent directors were selected through the nomination system of candidates. None of the directors of the Company have a kinship relationship within the scope of spouse or second parent. On 12 March 2020, the Company adopted a resolution of the Board of Directors to revise the board meeting rules in accordance with the "Measures for the Board of Directors of the Public Offering Company". Subsequent operations of the Board of Directors shall be governed by the "Code of Procedures for Board Meetings". In addition, the Company approved to include the purchase of directors and supervisors' liability insurance in the Company's Articles of Incorporation on 13 June 2007 through the resolution of the shareholders' general meeting and enroll the directors and supervisors in liability insurance every year from 1 February 2010, the latest policy renewal was on 1 February 2020. In addition, during the tenure of the board members of the Company, they regularly participate in the training courses related to the topics of corporate governance organized by the institutions designated by the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies".

The Company set forth the responsibilities of independent directors. The 17th Board of Directors (term: from 13 June 2018 to 12 June 2021) is served by Mr. ZHI-SHENG WU, Mr. MING-LIANG TANG and Mr. JUN-MING XU. The attendance was good, and with their professional knowledge, professional skills in accounting and financial analysis they provided the board with good recommendations on the related proposals on internal control system implementation, business and finance in the board meeting.

(2) Promoting information transparency

The Company and the Board of Directors approved that the financial statements of the Company and its subsidiaries are audited by Ernst & Young, and all the information required by the law is disclosed and completed correctly in time. On 13 March 2009, the Board of Directors approved the "Internal Material Information Processing Procedures" and on 5 November 2015, the Board approved to update the "Internal Material Information Processing and Prevention of Insider Trading Operation Procedures" and appoint a dedicated staff to be responsible for the collection and disclosure of Company information, establish a spokesperson and deputy spokesperson system to ensure that all major information can be disclosed in a timely and appropriate manner. The website set up by the Company can be linked to MOPS (Market Observation Post System, TWSE) for shareholders and interested parties to access the related business and financial information of the Company.

(3) The independent director's opinion on the matters decided by the board meeting and the Company's follow-up treatment:

Board of Directors	Items of proposal and follow up	§14-3, Securities and Exchange Act	Opinions or objections raised by Independent directors
17th term, 6th meeting on 21 March 2019	1. Approved the Company's 2018 financial statements and consolidated financial statements	V	
	2. Approved to issue the Company's "Internal Control Statement"	V	
	3. Approved the Company's Remuneration of the new deputy general manager DONG-LIANG LIU		
	4. Approved the Company's regular independence assessment of the certified accountant.		
	5. Passed the proposal to convene the 2019 regular shareholders' meeting of the Company		
	6. Approved the related matters concerning the shareholders' right of proposal in the 2019 regular shareholders' meeting of the Company.		

	7. Approved the Company's 2018 director, supervisor and employee compensation distribution proposal.	V	
	8. Approved the Company's 2018 earnings distribution proposal		
	9. Approved the election of directors and supervisors of the Company.		
	10. Approved matters related to the nomination of supervisor candidates at the Company's 2019 general shareholders meeting.		
	11. Approved the contract renewal between the Company and Mega Bank.		
	12. Approved the proposal for the Company to lift restrictions on non-competition for director: CHUNG-KUANG TSAI.	V	
	13. Approved the Company's "Standard Operating Procedures for Handling Directors' Requirements"		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: Except for Item 8 which was proposed by director CHUNG-KUANG TSAI to distribute shareholders' cash dividend and was changed from \$10.5 to \$11 per share, all other proposals were approved by all the present directors		
17th term, 7th Meeting on 2 May 2019	1. Approved to review the motion of shareholder's right to a motion at the 2019 General Meeting of Shareholders of the Company.		
	2. The Company has accepted the nomination review of supervisor candidates.	V	
	3. Approved the revision of the Company's "Operating Procedures Governing Loaning of Funds and Making of Endorsements / Guarantees".	V	
	4. Approved the Company's proposal to lift restrictions on non-competition for director CHUNG-KUANG TSAI.	V	
	5. Approval for liquidation of SHINCO WORLDWIDE LIMITED, an overseas subsidiary of the company which was 100% reinvested.		
	6. Approved the contract renewal between the Company and E.SUN Commercial Bank.		
	7. Approved the contract renewal between the Company and Bank of Taiwan		
	8. Approved the contract renewal between the Company and Ta Ching Bills Corporation.		
	9. Approved the contract renewal between the Company and CTBC Bank.		
	10. Approved the Company's proposed endorsement guarantee for the reinvestment business.	V	
	11. Approved the Company's proposal to add 2019 shareholders' meeting.		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		
	17th term, 8th Meeting on 14 June 2019	1. Approved the Company's 2018 earnings distribution proposal.	
2. Approved the revision of the Company's "Financial Statement Preparation Process Management Rules".			
3. Approved the Company's 2019 business plan and budget preparation amendments.			

	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		
17th term, 9th Meeting on 8 August 2019	1. Approved the contract renewal between the Company and CHB.		
	2. Approved the Company's "Code of Integrity Management".		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		
17th term, 10th Meeting on 7 November 2019	1. The Company intends to apply for a short-term credit line from Citi (Taiwan) Commercial Bank (hereinafter referred to as Citibank) and a foreign exchange and derivatives financial commodity transaction credit line.		
	2. Approved the contract renewal between the Company and Taipei Fubon Bank.		
	3. Approved the credit agreement between the Company and MEGA BILLS FINANCE CO., LTD.		
	4. Approved the Company's proposal to provide an endorsement guarantee for the reinvestment company to apply for short-term credit line to Citibank (as defined in the guarantee).		
	5. Approved the Company's proposal to provide endorsement guarantee for the reinvestment business.	V	
	6. Approved the Company's plan to endorse the reinvestment business	V	
	7. Approved the Company's discussion on the 2020 financing facility upper limit from financial institutions.		
	8. Approved the Company's proposal of the 2020 balance ceiling regarding purchase or disposal of derivatives commodity.		
	9. Approved the Company's proposal to determine the upper limit of derivative commodity that reinvestment business purchases or disposes of in 2020.		
	10. Approved the term of office of the general manager of the Company.		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		
17th term, 11th Meeting 24 December 2019	1. Approved the Company's 2020 annual business plan and budget preparation.		
	2. Approved the Company's 2020 annual internal audit plan.		
	3. Approved the Company's 2019 financial report on the estimation of employee compensation and the compensation ratio of directors and supervisors.	V	
	4. Approved the proposal for the year-end bonus of 2019 by the Company's Remuneration Committee		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		
17th term, 12th	1. Approved the Company's 2019 financial statements and consolidated financial statements	V	

Meeting on 12 March 2020	2. Approved to issue the Company's "Internal Control Statement"	V	
	3. Approved the Company's regular independence assessment of the certified accountant.		
	4. Passed the proposal to convene the 2020 regular shareholders' meeting of the Company		
	5. Approved the related matters concerning the shareholders' right of proposal in the 2020 regular shareholders' meeting of the Company		
	6. Approved the Company's 2019 director, supervisor and employee compensation distribution proposal.	V	
	7. Approved the Company's 2019 earnings distribution proposal		
	8. Approved the contract renewal between the Company and Mega Bank.		
	9. Approved the amendments to the Company's "Code of Procedures for Board Meetings".		
	10. Approved the amendment to the Company's "Code of Procedures for Shareholders' Meetings".		
	11. Approved the amendment to the Company's "Directors, Supervisors and Managers' Salary Management Measures"		
	12. Approved the compensation adjustment for independent directors of the Company.		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		
17th term, 13th Meeting on 26 March 2020	1. Approved the Company's amendments to "Rules Governing Repurchase Share Transfer to Employees" .		
	2. Approved the proposal to buy back the Company's shares and transfer them to employees.		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		
17th term, 14th Meeting on 30 April 2020	1. Approved the Company's proposal to add 2020 shareholders' meeting.		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		
17th term, 15th Meeting on 6 May 2020	1. Approved to review the motion of shareholder's right to a motion at the 2020 General Meeting of Shareholders of the Company.		
	2. Approved the contract renewal between the Company and E.SUN Commercial Bank.		
	3. Approved the contract renewal between the Company and Bank of Taiwan		
	4. Approved the contract renewal between the Company and Ta Ching Bills Corporation.		
	5. Approved the contract renewal between the Company and CTBC Bank.		
	6. Approved the Company's proposed endorsement guarantee for the reinvestment business.	V	
	7. Approved the Company's amendments to the "Financial Statement Preparation Process Management Measures".		
	8. Approved the Company's amendments to the		

	"Board Performance Evaluation Measures".		
	9. Approved the Company's amendment to the "Code of Integrity Management".		
	10. Approved the Company's investment plan.		
	Opinion of independent directors: None The Company's treatment of independent directors' opinions: None Resolution result: all directors present agreed		

Note 1: If any director and supervisor is institutional director and supervisor, the name of the shareholders and the representative of the institutions shall be disclosed.

Note 2: (1) In the event that directors or supervisors resign before serving a full year, the resignation date should be indicated in the remarks column. The actual attendance (presence) rate (%), shall be calculated by the number of board meetings held during such director's (supervisor's) term and the actual number of attendance (being present) in the meetings.

(2) Before a service year is ended, upon any re-election of the directors or supervisors, names of the said directors/supervisors, both incumbents and newly-elected, shall be stated and it shall be specified in the remarks column that a specific director or supervisor is outgoing, elected, or re-elected and the date of re-election. The actual attendance (presence) rate (%), is to be calculated by the number of board meetings held during such director's (supervisor's) service and the number of actual attendance (being present) in the meetings.

3.4.2 Audit Committee (or Attendance of Supervisors at Board Meetings)

The 17th term of Board Meeting met 6(A) times in 2019. Attendance of directors and supervisors in the meetings is as follows:

Title	Name	Attendance in Person (B)	Attendance Rate (%) 【B/A】	Remarks
Supervisor	ZHEN-SHUN HE	0	0.00%	13 June 2018 re-elected (25 February 2019 resign)
Supervisor	BAI-SONG ZHANG	6	100.00%	13 June 2018 re-elected
Supervisor	HUI-YU HUANG	6	100.00%	13 June 2018 re-elected
Supervisor	MENG-ZONG HE	4	100.00%	14 June 2019 newly-elected

Other items required to be stated:

1. Composition and Responsibilities of Supervisors:

(1) Communication between Supervisors and Company employees and shareholders (e.g. communication channel and method)

The Company set up a supervisor email account to provide employees and shareholders a chance to communicate with the supervisor. The supervisor also visits the Company from time to time and make inquires by phone about the Company's operation. If necessary, the supervisor can communicate directly with employees and shareholders.

(2) Communication between supervisors and the internal audit supervisor and the certified accountant (e.g. on the financial and business status of the Company, the methods, and the results).

1. The audit supervisor submitted an audit report to the supervisor the month after the audit was completed, and the supervisor did not have any objection.

2. The audit supervisor attended the Company's regular board meeting and made an audit business report. The supervisor had no objection.

3. The supervisor communicates with the accountant on the financial situation in writing, conference call and meetings depending on actual situation.

4. Highlights of the communication meeting between supervisor and accountant on 21 March 2019:

a. Communication matters with corporate governance units and management, EY perspective-data analysis, offshore holding companies - the impact of the economic substance disclosure law, the update of the relevant securities and exchange laws, the introduction of the sixth corporate governance evaluation system amendment

b. Other matters that should be communicated with the governance unit: None

2. If supervisors present in the board meeting state opinions, the date of the board meeting, session number, contents of the proposal, and decision made by the board, and how the opinions of the supervisors are handled by the company shall be described: 17th term, 11th Meeting 24 December 2019; the company's internal audit plan for 2018; the results of the board resolution: Resolution result: all directors present agreed; the Company's handling of the supervisor's statement: According to the supervisor HUI-YU HUANG's proposal, the high-risk items will be added to the routine inspection items and listed as routine notification items.

Note:

* In the event that directors or supervisors resign before serving a full year, the resignation date should be indicated in the remarks column. The actual attendance (presence) rate (%), shall be calculated by the number of board meetings held during such director's (supervisor's) term and the actual number of attendance (being present) in the meetings.

* Before a service year is ended, upon any re-election of the directors or supervisors, names of the said directors/supervisors, both incumbents and newly-elected, shall be stated and it shall be specified in the remarks column that a director or supervisor is outgoing, elected, or re-elected and the date of re-election. The actual attendance (presence) rate (%), is to be calculated by the number of board meetings held during such director's (supervisor's) service and the number of actual attendance (being present) in the meeting.

3.4.3 Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles”

Evaluation Item	Implementation Status (Note 1)			Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Summary	
I. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	V		The Company formulated a formal code of practice for corporate governance according to the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies and disclosed on TWSE and the Company’s website in accordance with regulations.	No Discrepancy.
II. Shareholding structure & shareholders’ rights (I) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?	V	V	(I) The Company set up a spokesperson and a deputy spokesperson to deal with proposals or disputes from shareholders.	The Company set up a spokesperson and a deputy spokesperson as a conduit for communication between the Company and stakeholders.
(II) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		(II) The Company keeps track of any changes to the list of the major shareholders and the ultimate owners of those shares through reporting.	No Discrepancy.
(III) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	V		(III) The Company set forth “Subsidiary Supervision and Management Practices” and “Relationship and Group Enterprise Transactions Procedures” to regulate related matters accordingly, and the subsidiaries implement the relevant internal control measures. The Company conducts regular and ad-hoc audits by the Audit Department, the Financial Department or the accountant. The Company’s the Strategic Development Department and the Financial	No Discrepancy.

Evaluation Item	Implementation Status (Note 1)		Summary	Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
(IV) Does the company establish internal rules against insiders trading with undisclosed information?	V		<p>Department keep track of any regulation updates and control system from time to time.</p> <p>(IV) The Company has enacted and complied with “Procedures for Handling Material Insider Information and the Prevention of Insider Trading” and “Code of Ethical Conduct” to regulate the Company’s stakeholders.</p>	No Discrepancy.
<p>III. Composition and Responsibilities of the Board of Directors</p> <p>(I) Does the Board develop and implement a diversified policy for the composition of its members?</p>	V		<p>(I) a. The members of the Board are diversified, please refer to Note 3.</p> <p>b. The Board enacted a policy on diversity based on the composition of the members. The related information is disclosed on the Company’s website and TWSE.</p> <p>c. The Company adopted the "Corporate Governance Principles" at the board meeting of 30 October 2014, and amended the regulations that develop a diversified policy in Chapter 3, "Strengthening Board Functions" on 30 April 2015 and 9 November 2016.</p> <p>The nomination and selection of members of the Company's board of directors are in accordance with the company's articles of association. In order to ensure the diversity and independence of directors, the nomination will evaluate the qualifications of each candidate's academic experience, refer to the opinions of stakeholders, and abide by the "Director and Supervisor Election Measures" and " Corporate Governance Principles".</p> <p>d. Evaluate the 17th term of eight director members, CHIH-CHENG LIN, RUIZ-HEN HONG, SHU-CHENG LIAO, CHONG-GUANG TSAI, FEN-GJI LI are good at operation judgment, operation management and have industry knowledge and leadership and decision-making ability. ZHI-SHENG WU, who is an independent director, are good at</p>	No Discrepancy.

Evaluation Item	Implementation Status (Note 1)		Summary	Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
(II) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	V		<p>administration and financial affairs. MING-LIANG TANG, who is an independent director, are good at accounting affairs management. JUN-MING XU, who is an independent director, are good at finance and corporate management.</p> <p>e. The proportion of independent directors of the Company is 38%. Three independent directors have a tenure of more than 4 years, one director is over 70 years old, one is between 60 and 69 years old, and six are under 60 years old. The Company emphasizes the gender equality of the board of directors. The target of female director ratio is more than 12%. It is expected to add a female director to the 18th board of directors to achieve the target.</p> <p>(II) The Company has set up the Remuneration Committee. Other functional committees shall be established whenever deemed necessary.</p>	The Company will invite supervisors to attend the board meeting, and the auditor function is currently replaced by the supervisor.
(III) Does the company establish a standard to measure the performance of the Board, implement it annually, report the results of the performance evaluation to the board of directors, and applies it to individual directors' remuneration and nomination renewal?	V		<p>(III) The Company has enacted the “Procedures for Evaluating the Board of Directors’ Performance” to establish evaluation approaches and evaluates the performance every year on 10 August 2016. It is expected that the revision of the performance evaluation of the external board of directors will be carried out at least once every three years on 6 May 2020. In 2020, the Company will appoint external experts and institutions that have no business relationship with the Company to perform board effectiveness evaluations. The 2019 performance evaluation report was submitted to the board of directors on 12 March 2020.</p>	No Discrepancy.
(IV) Does the company regularly evaluate the	V		<p>(IV) The Company evaluates the independence of the Company’s CPAs once a year. The independence report was submitted to the board meeting on 12 March 2020. The following items were reviewed to evaluate the independence of the CPA: the CPA does</p>	

Evaluation Item	Implementation Status (Note 1)			Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Summary	
independence of CPAs?			not act as the Company’s director, supervisor, manager, or any position with significant influence; is not an interested party and has no direct or indirect conflict of interests; has not been the Company’s CPA for over seven years consecutively. The Company has obtained the “Certified Public Accountant Independent Declaration”. The results were submitted to the Audit Committee and the Board of Directors after evaluating and confirming the CPA’s independence.	No Discrepancy.
IV. Does the company deploys qualified and appropriate number of corporate governance personnel and appoint personnel responsible for corporate governance matters (including but not limit to providing information for directors to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, assisting directors and supervisors to follow laws, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders’ meetings)?		V	<p>The Company sets up the Investor Relations Division as a corporate governance secondary unit. On 8 November 2018, the board of directors of the Company resolved to appoint Deputy General Manager JUN-SHEN ZHOU, who has management experience in financial and stock affairs in public offering companies more than three years, as the dedicated officer (supervisor) in corporate governance.</p> <p>The main duties of corporate governance officers and units are to provide information for directors to perform their functions, help directors and supervisors comply with laws and regulations, handling work related to board meetings and the shareholders' meetings.</p> <p>The tasks undertaken in 2019 are as follows:</p> <ol style="list-style-type: none"> 1. Assisting independent directors and general directors in performing their duties, providing required information and arranging training for directors. <ol style="list-style-type: none"> a. Providing board members with the latest laws and regulations regarding the Company's business areas and corporate governance-related amendments, and updating them regularly. b. Assisting the independent directors and general directors to formulate annual refresher plans and arrange courses according to the Company's industrial characteristics and directors' academic and experience background. 2. Assisting with the legal procedures and compliance of the board meetings and shareholders' meetings. 3. Maintaining the relationship with investors. 4. Formulating the agenda of the board meeting and notifying the directors 7 days prior to the meeting date. Convening a meeting and providing documents. Reminding meeting members of potential conflict of interest issues in advance if they have to recuse 	No Discrepancy.

Evaluation Item	Implementation Status (Note 1)		Summary	Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons																												
	Yes	No																														
			<p>themselves from the meeting. The board meeting minutes should be completed within 20 days after the meeting.</p> <p>5. Registering in advance the date of the shareholders' meeting as required by relevant law. Producing meeting notice, manual and minutes within the statutory period. Registering for amendments to the Articles of Incorporation or results of the election of directors.</p> <p>6. The situation of the Company corporate governance executive training in 2019 are as follows:</p> <table border="1"> <thead> <tr> <th>Unit</th> <th>Date</th> <th>Name</th> <th>Hours</th> </tr> </thead> <tbody> <tr> <td>Taiwan Corporate Governance Association</td> <td>2019.05.02</td> <td>See through the key messages hidden in financial statements</td> <td>3</td> </tr> <tr> <td>Securities Futures Institute</td> <td>2019.08.16</td> <td>Briefing session on the legal compliance of listed companies and unlisted (over-the-counter) public offering companies</td> <td>3</td> </tr> <tr> <td>Accounting Research and Development Foundation</td> <td>2019.08.28</td> <td>"New Corporate Governance Blueprint (2018 ~ 2020)" Related Regulations and Practical Analysis (Taichung)</td> <td>3</td> </tr> <tr> <td>Accounting Research and Development Foundation</td> <td>2019.08.28</td> <td>Corporate Governance Practices: Analysis of Trends and Case Study of "Comprehensive Enterprise Value Management" (Taichung)</td> <td>3</td> </tr> <tr> <td>Taiwan Corporate Governance Association</td> <td>2019.11.07</td> <td>Responsibilities and obligations of directors and supervisors of corporate governance</td> <td>3</td> </tr> <tr> <td>Securities Futures Institute</td> <td>2019.11.08</td> <td>2019 Annual Conference on</td> <td>3</td> </tr> </tbody> </table>	Unit	Date	Name	Hours	Taiwan Corporate Governance Association	2019.05.02	See through the key messages hidden in financial statements	3	Securities Futures Institute	2019.08.16	Briefing session on the legal compliance of listed companies and unlisted (over-the-counter) public offering companies	3	Accounting Research and Development Foundation	2019.08.28	"New Corporate Governance Blueprint (2018 ~ 2020)" Related Regulations and Practical Analysis (Taichung)	3	Accounting Research and Development Foundation	2019.08.28	Corporate Governance Practices: Analysis of Trends and Case Study of "Comprehensive Enterprise Value Management" (Taichung)	3	Taiwan Corporate Governance Association	2019.11.07	Responsibilities and obligations of directors and supervisors of corporate governance	3	Securities Futures Institute	2019.11.08	2019 Annual Conference on	3	
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Evaluation Item	Implementation Status (Note 1)				Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Summary		
				Prevention of Insider Trading	
			Total (hours)		18
V. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		The Company has established a communication channel with stakeholders and set up a stakeholder zone on the Company's website to respond appropriately to important CSR issues that stakeholders concern about.		No Discrepancy.
VI. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company appointed the Stock Agent Department of SinoPac Securities Co., Ltd. as the Company's stock agency to handle the related matters of the shareholders' meeting.		No Discrepancy.
VII. Information Disclosure (I) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	V		(I) The Company has disclosed related financial business and corporate governance information on TWSE and the Company's website.		No Discrepancy.
(II) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information	V		(II) The Company assigns a dedicated employee to be responsible for the collection and disclosure of company information and designates someone who has a full understanding of the Company's finances, business or can coordinate the departments to provide related information as the company spokesperson and deputy spokesperson that speak on behalf of the Company to ensure the information that may affect the decisions of shareholders and stakeholders is disclosed appropriately and timely. In the future, if an investor		No Discrepancy.

Evaluation Item	Implementation Status (Note 1)		Summary	Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
<p>collection and disclosure, creating a spokesman system, webcasting investor conferences)?</p> <p>(III) Does the company publish and report its annual financial report within two months after the end of a fiscal year, and publish and report its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline?</p>	V		<p>conference is held, the related information will also be uploaded to TWSE and the Company's website for investors' reference.</p> <p>(III) The Company's 2019 annual financial report was published on March 24, 2020. It did not publish and report the annual financial report within two months after the end of the fiscal year. The financial reports for the first, second, and third quarters have been published and reported its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline.</p>	No Discrepancy.
<p>VIII. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the</p>	V		<p>(I) Employee rights and employee wellness</p> <p>The Company employs employees without gender or racial discrimination. The Company considers whether the person has the professional knowledge and skills required and provides fair opportunities for applicants. In order to provide employees with a comfortable and safe working environment, the Company attaches importance to pre-employment training for employees, including workplace safety courses. In addition, the Company arranges a health check for all employees every year to fully understand the health of employees and reduce occupational injuries.</p> <p>The Company implements employee welfare measures in accordance with the Labor Standards Act and relevant regulations. It also sets up an employee welfare committee, which provides subsidies for employees' weddings, funerals, illnesses and births, and holds various outings and community activities regularly to promote employees' physical and mental health and enhance the bonding among employees. The</p>	No Discrepancy.

Evaluation Item	Implementation Status (Note 1)		Summary	Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
implementation of customer relations policies, and purchasing insurance for directors)?			<p>committee also implements employees' annual surplus earnings distribution and festival bonuses, which fully reflect the management philosophy of "striving for wellbeing".</p> <p>In order to secure employees' life after retirement, the Company has an employee retirement policy. The policy provides that 6% of the total salary paid must be appropriated to a pension reserves fund and deposited in the dedicated account of the Supervisory Committee of Workers' Retirement Preparation Fund. After Labor Pension Act became effective on 1 July 2005, the Company appropriates 6% of employee salary to the labor pension reserve fund each month and deposits the fund into individual labor pension accounts for employees covered by the Act. The purpose is to provide employees maximum security for retirement.</p> <p>Labor Standards Act is applicable to the Company, and all operations must comply with the act. In order to promote labor-management cooperation and improve work efficiency, the Company regularly convenes labor-management meetings in accordance with Regulations for Implementing Labor-Management Meeting to communicate and cooperate with employees. In addition, the Company emphasizes talent training and encourages employees to participate in various internal and external training courses. The internal training courses aim at the internal professional technology exchange to improve employee productivity; the external training courses provide professional training opportunities for employees, and employees are appointed to participate in these courses when needed.</p> <p>(II) Investor relations</p> <p>The Company treats all shareholders with fairness and openness. The shareholders' meeting is held every year and a notice to convene a shareholders' meeting is given to each shareholder in accordance with the Company Act and relevant laws and regulations. The Company submits reports to the shareholders' meeting when making major financial and business decisions, such as acquiring or transferring assets and endorsement or guarantees.</p> <p>The Company not only gives shareholders the opportunity to ask questions or propose for discussion at shareholders' meetings but</p>	

Evaluation Item	Implementation Status (Note 1)		Summary	Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>also sets up the regulation of shareholders' meeting proceedings in accordance with the law, which provides that the Company has to properly keep the meetings minutes and fully disclose related information on TWSE. In addition, the Company sends meeting notices and annual reports to shareholders before the annual shareholders' meeting, as well as setting up a spokesperson and deputy spokesperson as a channel for the Company to communicate with shareholders, investors and stakeholders, in order to ensure the right of shareholders to be fully aware of the major issues of the Company.</p> <p>Based on the principle of information disclosure, the Company establishes online reporting system of public information, appointed financial department personnel to be responsible for the collection and disclosure of company information, and handle related information announcement reporting matters in accordance with the principle of information disclosure, “List concerning what information public companies should announce to the public or report to the FSC” and “Taiwan Stock Exchange Corporation Rules Governing Information Filing by Companies with TWSE Listed Securities and Offshore Fund Institutions with TWSE Listed Offshore Exchange-Traded Funds”. After being reviewed and confirmed by the competent authority and responsible officer, the Company will proceed with related information announcements and declarations and provide timely information that may affect investors' decision-making. In addition, the Company sets up a company website to introduce the products and the scope of business for the public to understand the Company.</p> <p>(III) Supplier relations</p> <p>The Company has been deeply engaged in the field of sewing machine products for decades. Due to the long-term relationship with upstream key component suppliers, the Company has formed a stable and close production and marketing partnership with upstream key raw material suppliers. The Company also sends staff to help suppliers to improve their product quality and upgrade technology. In recent years, the supplier association has been held annually to strengthen interaction with third parties and enhance cooperation.</p>	

Evaluation Item	Implementation Status (Note 1)		Summary	Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>(IV) Rights of stakeholders</p> <p>While pursuing company growth, the Company also considers stakeholders’ opinions and suggestions. In order to achieve effective communication with stakeholders, the Company adopts different communication methods.</p> <p>Within the organization, the Company announces employee-related pay and benefits, environmental safety and health, and company policies through various office meetings or factory weekly meetings. So employees will understand their rights and interests. In addition, the Company also has an employee welfare committee to improve benefits for employees.</p> <p>Outside the organization, upstream suppliers can learn about relevant laws and regulations of products through supplier assembly; downstream customers often learn about the status of the Company and products through customer service mailbox/telephone/dealer conference; other stakeholders such as investors/banks/government agencies, etc. can check the latest information through the official website of the Company, television interviews, and magazine reports, etc.</p> <p>(V) Directors’ training records in 2019</p> <p>Please refer to page 45 to 46 of this annual report for a description of the training of directors, supervisors and managers, and corporate governance executive.</p> <p>(VI) The implementation of risk management policies and risk evaluation measures</p> <p>In order to strengthen corporate governance and establish sound risk management operations, the Company analyzes and responds to high-probability and high-impact risk events related to operating objectives, correctness of financial reporting and fraud prevention in operations, and records, keeps tracks of and systematically manages by the Company’s risk management system.</p> <p>(VII) The implementation of customer relations policies</p> <p>The Company maintains a stable and good relationship with customers, adheres to the policy of "customer satisfaction, quality first, continuous improvement, and sustainable operation", and provides high-quality products for customer to create company profits.</p>	

Evaluation Item	Implementation Status (Note 1)		Summary	Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>(VIII) Purchasing insurance for directors The Company has passed the resolution of the regular shareholders’ meeting on 13 June 2007 to include the purchase of directors’ and supervisors’ liability insurance into the Company’s Articles of Incorporation and began covering the directors and supervisors’ liability insurance from 1 February 2010. On 1 February 2020, the director and supervisor liability insurance were renewed.</p> <p>(IX) Professional qualification of personnel related to financial information transparency Licenses of the Certified Internal Auditor: 1 person Certificate of professional competence of stocks personnel: 3 people</p>	

IX. Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures.

Number		Improvements and measures
2.13	Does the company's Compensation Committee be convened at least twice a year and the members of the committee attend twice at least?	It was disclosed in the annual report of 2019.
2.2	Does the company enact a policy on diversity based on the composition of the members and the related information be disclosed on the Company’s website and TWSE?	It has been disclosed in the Company's website and annual report of 2019.
2.23	Does the company formulate “Procedures for Evaluating the Board of Directors’ Performance” through the board of directors, carry out the external evaluation at least once every three years, perform the evaluation within the period, and disclose the results on the company's website or annual report?	<p>1. According to Article 3 of the company's board performance evaluation method: the board performance evaluation is carried out every three years. It will be revised to "explicitly execute the external evaluation at least every three years" in 2020.</p> <p>2. 2020 is the third year and it will be evaluated by an external professional independent institution or a team of external experts and scholars in the second half of the year.</p>
3.12	Does the company disclose specific and clear dividend policies in the annual report?	The Company has revised the specific dividend policy in the Company’s Articles of Incorporation on 14 June 2019, and disclosed it in the 2019 annual report.
3.14	Does the company disclose the relationship with the directors' performance evaluation and salary compensation in the annual report?	It has been disclosed in the Company's website and annual report of 2019.

Evaluation Item	Implementation Status (Note 1)			Deviations from “the Corporate Governance Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Summary	
3.15	Does the company voluntarily disclose the amount and nature of non-audit public fees for CPAs and their affiliated accounting firms?		The Company has disclosed the amount and nature of non-audit public fees of CPAs in the 2018 annual report. However, the non-audit public fee was 1/4 of the audit public fee, which is mandatory disclosure and does not meet the score standard.	

Note 1: Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.

Note 2: A self-evaluation report is defined as the company assessing its corporate governance evaluation items with appropriate explanations on current corporate operations and implementation.

Note 3: The diversity of the members of the Board:

Title	Name	gender	Operational judgment	Financial and economic law	Management administration	Crisis management	Knowledge of the industry	International market perspective	Leading and decision-making skills
Chairman	CHIH-CHENG LIN	male	•		•	•	•	•	•
Director	SHU-CHENG LIAO	male	•		•		•		•
Director	RUIZHEN HONG	male	•		•		•		•
Director	CHONG-GUANG TSAI	male	•		•		•		•
Director	FEN-GJILI	male	•		•	•	•		•
Independent Director	ZHI-SHENG WU	male	•	•	•	•	•	•	•
Independent Director	MING-LIANG TANG	male	•	•			•		•
Independent Director	JUN-MING XU	male	•	•			•	•	•
Supervisor	MENG-ZONG HE	male	•		•		•		•
Supervisor	BO-SONG ZHANG	male	•		•		•		•
Supervisor	HUI-YU HUANG	female	•	•			•		•

3.4.4 Composition, Responsibilities and Operations of the Remuneration Committee

A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title (Note 1)	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note 2)										Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks	
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10			
Name																	
Independent Director	MING-LIANG TANG		√	√	√	√	√	√	√	√	√	√	√	√	√	2	
Independent Director	JUN-MING XU	√			√	√	√	√	√	√	√	√	√	√	√	2	
Other	MING-CHONG ZHAO	√			√	√	√	√	√	√	√	√	√	√	√	2	

Note 1: Director; Independent Director or others.

Note 2: If any of the Compensation Committee members, during the two years before being elected or during the term of office, meets any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the company or any of its affiliates
2. Not a director or supervisor of the company's affiliates. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary, who is appointed pursuant to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws.)
3. Not a natural person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of over 1% of the total number of outstanding shares of the company or ranking in the top 10 in holdings
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a director or supervisor of the company under Article 27, paragraph 1 or 2 of the Company Act. (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary, who is appointed pursuant to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws.)
6. Not a majority of the company's director seats or voting shares and those of any other company are controlled by the same person: a director, supervisor, or employee of that other company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX." (Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary, who is appointed pursuant to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws.)
8. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the company or who holds shares ranking in the top five holdings
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
10. Not been a person of any conditions defined in Article 30 of the Company Act.

B. Attendance of Members at Remuneration Committee Meetings

1. The Remuneration Committee of the Company is comprised of three members.
2. Committee members' tenure of the fourth term: From 21 June 2018 to 12 June 2021, and the Remuneration Committee held 2 meetings (A) in 2019, and members' qualifications and their attendance are listed below.

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance rate (%) B/A	Remarks
Independent Director (Convener)	JUN-MING XU	2	0	100%	Newly-elected, Date: 21 June 2018
Other	MING-CHONG ZHAO	1	1	50%	Newly-elected Date: 21 June 2018
Independent Director	MING-LIANG TANG	2	0	100%	Newly-elected, Date: 21 June 2018

Notes regarding the Salary and Remuneration Committee:

- If the Board of Directors does not agree with the recommendations of the Salary and Remuneration Committee, it should state the date of the board meeting, content of discussions and what the final resolution was.
- Should there be objections regarding the decisions made by the Salary and remuneration committee, there should be a record or written statement of the event and there should be a record of the date, content of motion and all opinions of the members.

Note:

- (1) In the event any member of the committee resigns before serving a full year, the resignation date should be indicated in the remarks column. The actual attendance rate (%) is calculated based on the actual number of meetings held by the committee and the actual number of attendances by such member.
- (2) If there is a re-election of the members before the end of the year, the outgoing and elected members should be added to the list and indicating whether a member is incumbent, newly-elected or reelected and the reelection date. Their attendance rate (%) should be based on the actual number of meetings held by the committee and the actual number of attendances by such member.
- (3) Terms of Remuneration Committee:
 - The committee members shall exercise caution as a good manager and perform duties faithfully and submit recommendations to the Board of Directors.
 - Regularly review the Company's directors, supervisors and managers. Review

their annual and long-term performance in order to find suitable remuneration.

- Regularly evaluate the Company's directors, supervisors and managers performance targets.

C. Major Resolutions of Remuneration Committee Meetings

Remuneration Committee	Motion and follow-up	Major resolutions	The Company's handling of the Remuneration Committee members' opinion
1st of 4th term 2019.03.21	<p>1. The 2018 director and supervisor remuneration and employee remuneration distribution</p> <p>2. The company's new vice general manager Dong-Liang Liu</p>	<p>Resolution: After consultation with the Chairman, all the members present agreed to pass the case. After the case was passed according to law, the case was submitted to the board of directors for approval and reported at the shareholders' meeting.</p> <p>Resolution: After consultation with the Chairman, all the members present agreed to pass the case. After the case was passed according to law, the case was submitted to the board of directors for approval and report at the shareholders' meeting.</p>	<p>All the attending directors unanimously consented to passing the case.</p> <p>All the attending directors unanimously consented to passing the case.</p>
2nd of 4th term 2019.12.24	<p>1. The proposed budget allocation for the year-end bonus in 2019 is NT\$67 million.</p>	<p>Resolution: After consultation with the chairman, all the members present agreed to pass the case. After the case was passed according to law, the case was submitted to the board of directors for approval and report at the shareholders' meeting.</p>	<p>All the attending directors unanimously consented to passing the case.</p>

<p>3rd of 4th term 2020.03.12</p>	<p>1.The 2019 director and supervisor remuneration and employee remuneration distribution</p> <p>2. The Company's "Directors, Supervisors, and Managers' Salary Management Measures" amendments.</p> <p>3.Salary Adjustments for Company Independent Director</p>	<p>Resolution: After consultation with the chairman, all the members present agreed to pass the case. After the case was passed according to law, the case was submitted to the board of directors for approval and report at the shareholders' meeting.</p> <p>Resolution: Independent directors JUN-MING XU and MING-LIANG TANG were excused from the meeting temporarily for conflict of interest. After being approved by the attending committee member Professor MING-CHONG ZHAO, the case was approved. The case was approved according to law and submitted to the board for approval.</p> <p>Resolution: The matters under discussion involved individual independent directors, and individual considerations were conducted to avoid conflict of interests. The remuneration of the three independent directors was approved by all members present then submitted to the board of directors for approval.</p>	<p>All the attending directors unanimously consented to passing the case.</p> <p>All the attending directors unanimously consented to passing the case.</p> <p>All the attending directors unanimously consented to passing the case.</p>
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3.4.5 Social Responsibility Implementation Status as Required by the Taiwan Financial Supervisory Commission

Assessment Item	Implementation Status (Note1)			Non-implementation and Its Reason(s)
	Yes	No	Summary (Note2)	
1. Does the company conduct risk assessments on environmental, social and corporate governance issues related to the company's operations in accordance with the principle of materiality, and formulate relevant risk management policies or strategies? (Note 3)	V		In 2018, Zeng Hsing introduced a materiality analysis in the preparation of the corporate sustainability report, hoping to identify the sustainable issues of interest / interests of stakeholders through a systematic analysis model, as a reference basis for the disclosure of information in the report, to Facilitate effective communication with different stakeholders. The major analysis model of Zeng Hsing is divided into five major steps: 1. Identify stakeholders, 2. Collect issues of concern (give questionnaires to stakeholders to investigate the degree of attention to ESG and impact on the organization), and the major considerations are significant Sexual analysis and sequencing, determining the boundaries of major consideration issues, decision and implementation response mechanisms	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC Companies
2. Does the company set up a full-time (part-time) unit that promotes corporate social responsibility, and the board of directors authorizes the senior management to handle it, and reports the handling situation to the board of directors?	V		The company formally established a CSR office on April 1, 2018 to take charge of CSR-related tasks. Every year, it will study and analyze international sustainable development trends and face climate change, which may cause operational shocks, adjust and mitigate, and gain a deep understanding of stakeholders. Needs to propose the company 's risks and opportunities on related issues, and plan and apply strategies and implementation plans with the CSR	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC

Assessment Item	Implementation Status (Note1)			Non-implementation and Its Reason(s)
	Yes	No	Summary (Note2)	
3. Environmental issues			committee; prepare a corporate social responsibility report every year and submit it to the corporate social responsibility committee, but the committee does not need to report to the board of directors. In planning.	
(1) Does the company establish an appropriate environmental management system according to its industrial characteristics?	V		(1) The company's Taiwan headquarters has obtained the ISO 14001: 2015 environmental management system certificate.	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC
(2) Is the company committed to improving the utilization efficiency of various resources and using recycled materials with low impact on environmental load?	V		(2) The company complies with the requirements of EU environmental protection regulations, actively promotes the comprehensive control of the use of hazardous substances, ensures that the raw materials provided by the suppliers can meet the relevant regulations, and implements the product greening design to provide consumers with safe products and avoid causing environmental damage.	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC
(3) Does the company assess the potential risks and opportunities of climate change to the company now and in the future, and take measures to		V	(3) The company is currently not assessing the current and future potential risks and opportunities of the company against climate change, and adopting measures to deal with climate-related issues. In the future, the impact	Relevant regulations are gradually implemented

Assessment Item	Implementation Status (Note1)			Non-implementation and Its Reason(s)
	Yes	No	Summary (Note2)	
<p>deal with climate-related issues?</p> <p>(4) Does the company count greenhouse gas emissions, water consumption, and total weight of waste in the past two years, and formulate policies for energy conservation and carbon reduction, greenhouse gas reduction, water use reduction, or other waste management?</p>	V		<p>of climate change on the sewing industry will be evaluated.</p> <p>(4) Greenhouse gas: Since 2016, the company has introduced the greenhouse gas inventory system ISO 14064-1, and established the organization-level greenhouse gas emission and removal quantification and reporting guidelines. Conduct annual greenhouse gas inventory and internal verification operations, and disclose the emissions in the CSR report;</p> <p>Water resources: The total amount of water used and related management policies are disclosed in the report every year.</p> <p>Waste: The total amount of waste, resource recovery rate and related management policies are disclosed every year.</p>	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC
<p>4. Social issues</p> <p>(1) Has the company formulated relevant management policies and procedures in accordance with relevant regulations and international human rights conventions?</p> <p>(2) Does the company formulate and implement reasonable employee welfare measures</p>	V		<p>(1) The Company respects employees' diversity, and recruits' employees based on the principle of equal work pay for equal work without regard to their gender, age, or religion. The Company commits to creating a harmonious and supportive environment in accordance with Labor Standards Act, Act of Gender Equality in Employment, and People with Disabilities Rights Protection Acts.</p> <p>(2) The company has formulated reasonable salary and compensation policies and combined employee performance evaluation</p>	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC

Assessment Item	Implementation Status (Note1)			Non-implementation and Its Reason(s)
	Yes	No	Summary (Note2)	
(including compensation, vacations and other benefits), and appropriately reflect operating performance or results in employee compensation?			systems. In addition, it has formulated relevant rewards and disciplinary systems such as working rules for employees, proposal implementation and reward methods, and exemplary employee selection methods. Check related methods in the internal system.	the Code of Practice for Corporate Social Responsibility of Listed OTC
(3) Does the company provide employees with a safe and healthy working environment, with regular safety and health training?	V		(3) The Company has established interdepartmental communication mechanism, including regular managerial meetings which convey major information and decisions to all employees. Each department sets up its goal based on corporate's overall objective. In accordance with Performance Appraisal Regulations, each department head evaluates employee's contribution through interviews twice a year. New staff has to participate in training courses which promote the corporate's objective and expected performance.	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC
(4) Has the company established effective career development training plans?	V		(4) The headquarters establishes Training Management Regulations according to the quality manual and proposes the following year's training plans at the end of year to be reviewed by the training team. To cultivate competitiveness among employees, the Company designs internal training courses and collaborates with external training centers according to the training plan. To improve personnel's language ability, online English courses were purchased in 2016,	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC

Assessment Item	Implementation Status (Note1)			Non-implementation and Its Reason(s)
	Yes	No	Summary (Note2)	
(5) With regard to customer health and safety, customer privacy, marketing and labeling of products and services, has the company followed relevant regulations and international standards, and formulated relevant consumer protection policies and appeal procedures?	V		<p>and the unit's English proficiency standards were set according to job categories. Colleagues gradually improved their English proficiency through this course, and the number of passers in 2019 increased by 9 compared with 2018. In 2019, we will purchase online Vietnamese training courses and open physical Vietnamese courses. We will learn about the local customs and customs of Vietnam through learning, and activate the rotation of talents between Taiwan headquarters and BU companies.</p> <p>(5) The company complies with the requirements of international regulations, standards and environmental protection standards, and its products comply with relevant regulations such as RoHS and CE. It is also certified by EMC, GS, UL and other products. In addition, the legal requirements of customers in different countries are different. Therefore, according to the needs of customers, Zeng Hsing provides the highest degree of cooperation and exposes relevant service information and labels in products / user manuals / outside boxes. In order to assist domestic and foreign agents to have a full understanding and application of the company's product functions, and then to troubleshoot and improve maintenance technology, irregularly provide technical service training and product training courses to domestic and foreign customers, and</p>	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC

Assessment Item	Implementation Status (Note1)			Non-implementation and Its Reason(s)
	Yes	No	Summary (Note2)	
(6) Does the company formulate supplier management policies that require suppliers to follow relevant regulations on environmental protection, occupational safety and health or labor human rights, and their implementation?	V		<p>according to actual needs in the domestic , Hold product briefings and technical seminars outside. For consumer complaints, the company's quality system management section will handle related customer complaint cases according to customer complaints.</p> <p>(6) According to the procurement and supplier management measures, the supplier assessment mechanism includes environmental protection, labor practices and human rights assessment items, with a score of 10% of the total score. Investigation items such as restricted substance management and control, labor practice + human rights + environmental protection compliance, etc. The supplier needs to attach relevant supporting documents or check the actual records before scoring.</p>	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC
5. Does the company refer to the internationally-prepared reporting standards or guidelines for preparing corporate social responsibility reports and other reports that disclose the company's non-financial information? Did the pre-report report obtain the confidence or assurance opinion of the third-party verification unit?	V		<p>The company's CSR report is selected with reference to the contents of the Global Reporting Initiative (GRI) Standards, and the sustainability themes, related strategies, goals and measures to be disclosed in this report are analyzed and listed according to Guidelines and framework writing. The content of the report is prepared based on the GRI Standards Core Option (Core), and TUV</p>	Comply with the requirements of the Code of Practice for Corporate Social Responsibility of Listed OTC
6. If the company has established its corporate social responsibility code of practice according to “Listed Companies Corporate Social Responsibility Code of Practice,” please describe the operational status and differences: Although the Company has not set up Corporate Social Responsibility Best Practice Principles, the Company				

Assessment Item	Implementation Status (Note1)			Non-implementation and Its Reason(s)
	Yes	No	Summary (Note2)	
implements CSR step by step taking into consideration its current status and regulations. The Company will enhance its CSR operation through amending relevant articles, strengthening and promoting corporate ethics- related training.				
<p>7. Other important information to facilitate better understanding of the company's implementation of corporate social responsibility:</p> <p>Zeng Hsing CSR policy:</p> <p>Promote a circular economy, continue to save energy and reduce carbon, and develop a sustainable environment.</p> <p>Care for employees' well-being, work safety and health, and maintain growth momentum.</p> <p>Implement corporate governance, strengthen information disclosure, and ensure sustainable operation.</p> <p>Maintain superior quality, provide reliable products, and improve customer satisfaction.</p> <p>Strengthen the supply system, maintain partnerships, and create mutual prosperity through coexistence.</p> <p>Promote sewing culture, maintaining public interest, and give back to local community.</p> <p>Zeng Hsing formally established the "CSR Office" (CSRO) in April 2018 and simultaneously formulated the CSR policy, and set up the CSR Committee (CSR Committee) in order to continue to strengthen the CSR policy .</p> <p>The steering committee of the CSR committee is the chairman and the chairman is the general manager. Each functional organization appoints department heads to serve as members and is responsible for the promotion of the relevant CSR policies of the unit. It also appoints a director-general and a secretary who are responsible for compiling and providing relevant information of the unit and completing the CSR goals according to the action plan.</p> <p>CSRO collects and analyzes international sustainable development trends and global risk issues every year. For example, the top 5 global risk reports for the first time in 2020 are all related to environmental issues. Energy conservation and carbon reduction issues will continue to be one of the CSR strengthening policies. In addition, after investigating the needs of stakeholders each year, CSRO will propose the company's risks and opportunities on related issues, and plan the corresponding strategies and implementation plans with the committee to avoid related operational shocks; related goals and performance are all in corporate social responsibility every year Full disclosure in the report. At the end of each year, CSRO holds an annual CSR target consensus meeting to discuss the latest progress and future direction of CSR-related businesses, and conduct cross-departmental communication and coordination and resource integration on the type and nature of issues to supervise project implementation progress and promote performance.</p> <p>In the second quarter of each year, a goal review meeting is held, and all committee members participate in the review of the status of the CSR goals of each unit and publish it to the whole factory in the company's internal CSR area. In August 2019, CSRO took the six major aspects of CSR policy as the main development axis, and confirmed</p>				

Assessment Item	Implementation Status (Note1)			Non-implementation and Its Reason(s)
	Yes	No	Summary (Note2)	

the future direction of CSR development with the highest committee and the steering committee. The followers conducted group discussions with the top executives, director generals, and secretaries of 11 functional units, and spent a total of 10 hours discussing the CSR goals of each unit. In October, all members of the CSR Committee were convened to conduct a 2-hour annual CSR consensus meeting to set the 2020 CSR target. In 2020, 11 units have set a total of 50 CSR-related goals, of which the environmental and employee aspects are the main driving directions.

In addition, in the social feedback part, Zeng Hsing feels that the resources of the township are relatively scarce. Therefore, in the area of public welfare activities, the vulnerable groups in the township are the main targets of care, such as after-school tutoring and nutritious lunches for children, and support for local long-term photo centers. To improve their quality of life and get better care.

2019 Donation: Cash、Sewing machines and Used equipment

Item	Organization	Amount (Unit: ten thousand dollars)
Cash	Taiping Community Development Association, Chung Yie Elementary School, Maria Teresia Social Welfare Foundation Kuang Fu Elementary School, Yung Chen Community Development Association, Da Chen Senior High School	85
Sewing machines (89 units)	Step 30 International Ministries, Dajia Women's Welfare Service Center, Xiaoming Foundation, Taichung Datun New Immigration Center, The Garden of Hope Foundation, Taichung City Autism Education Association, Ciguang Foundation, Zhenlan Children's Home, Hsiang Shang Social Welfare Foundation, Quilt Festival – Taiwan, Taichung Gsewing Machine Guild	15
Donated used equipment	Stella Matutina Girls' High School, Stella Matutina Social Welfare Foundation, Holy Love Villa, Association of Corporate Social Welfare Services Co-creation	The total residual value of equipment is 70
Total		170

3.4.6 Ethical Corporate Management

Evaluation Item	Implementation Status ¹		Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
I. Establishment of ethical corporate management policies and programs			
(I) Does the company formulate the integrity management policy approved by the board of directors, and state in the regulations and external documents the policies and practices of integrity management, and the board and management's commitment to actively implement the operation policy?	V		(I) Integrity has been the Company's business philosophy and essential core functions for all employees. The Company has formulated “Code of Ethics”, “Code of Integrity Management”, “Procedures and Conduct Guidelines for Integrity Management” and “Employee Handbook”, which specifically regulates behavior indicators that should be paid attention to by directors, supervisors, managers, and employees of the Company and group companies and organizations when they are performing their businesses. Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.
(II) Does the company has established an assessment mechanism for the risk of dishonesty, regularly analyzes and evaluates business activities with a high risk of dishonesty in the business scope, and accordingly formulates a plan to prevent dishonesty, and at least covers the	V		(II) The Company has formulated the “Procedures and Conduct Guidelines of Integrity Management” for business activities or other business areas that have high risk for unethical conducts in Paragraph 2, Article 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, to take individual precautionary measures for individual operations. Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.

Evaluation Item	Implementation Status ¹		Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
<p>"Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" Article 7, paragraph 2 of the prevention measures?</p> <p>(III) Does the company specify the operating procedures, behavior guidelines, disciplinary penalties and grievance system in the plan to prevent dishonesty, and implement it, and regularly review and revise the pre-disclosure plan?</p>	V		<p>(III) The Company’s “Procedures and Conduct Guidelines for Integrity Management” clearly sets out plans to prevent unethical conduct, including identification standards and procedures, and handling of violations of the “Code of Integrity Management”. Integrity management sets clear and effective reward and punishment and the appeal system is incorporated into employee performance reviews and human resources policies.</p> <p>Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.</p>
<p>II. Fulfill operations integrity policy</p> <p>(I) Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?</p>	V		<p>(I) Before establishing a business relationship with others, the Company should first evaluate the legality of agents, suppliers, customers or other business associates, the integrity of their business policies, and whether they have records of dishonesty to ensure that their business practices are fair, transparent and will not ask for or accepting bribes. When signing a contract with others, the Company should fully understand the integrity of the other party and include compliance with business integrity in</p> <p>Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.</p>

Evaluation Item	Implementation Status ¹		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
(II) Does the company set up a special unit under the board of directors to promote the integrity management of the enterprise, and regularly (at least once a year) report to the board of directors on its integrity management policies and plans to prevent dishonest behaviors and supervision and implementation?	V		<p>the contract. It should be clearly stated in the contract that if any party engages in unethical conduct in the course of business operation, the other party may terminate or cancel the contract at any time without any condition.</p> <p>(II) The Company's audit office irregularly checks and evaluates whether the preventive measures established by the implementation of integrity management are operating effectively, and evaluates and complies with relevant business processes, prepares reports, and reports to the board of directors. It is also expected that in 109, the Strategic Development Division will serve as a part-time unit to promote integrity management.</p>	Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.
(III) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		(III) The Company has a "Code of Ethics" in place, setting forth the conflict prevention policy and reporting channels.	Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.
(IV) Has the company established an effective	V		(IV) The Company shall establish an effective accounting system and internal control system	Comply with the Ethical Corporate

Evaluation Item	Implementation Status ¹		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
<p>accounting system and internal control system for the implementation of integrity management, and the internal audit unit has formulated relevant audit plans based on the results of the assessment of the risk of dishonesty, and checked the compliance with the plan to prevent dishonesty, or entrust CPAs to perform the audit?</p>			<p>for business activities with a higher risk of unethical conduct and review it at any time to ensure that the design and implementation of the system are continuously effective. The Internal Audit Office regularly checks the compliance with the system and prepares an audit report to be submitted to the board of directors. The Internal Audit Office can also appoint a CPA accountant or professional to provide assistance if necessary.</p>	<p>Management Best-Practice Principles for TWSE/TPEX Listed Companies.</p>
<p>(V) Does the company regularly hold internal and external educational trainings on operational integrity?</p>	V		<p>(V) In addition to the members of the Board to participate in external business integrity related training, the Company also regularly advocates integrity and pragmatic business philosophy to all employees. New staff must also accept the " Code of Employees" training regarding integrity during orientation training. "Integrity" is a primary factor in assessment for the annual performance evaluation.</p>	<p>Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.</p>
<p>III. Operation of the integrity channel</p> <p>(I) Does the company establish both a reward/punishment system and an integrity</p>	V		<p>(I) In addition to encourage internal and external personnel to report unethical conduct in the "Code of Ethical Conduct" and " Procedures</p>	<p>Comply with the Ethical Corporate Management Best-</p>

Evaluation Item	Implementation Status ¹		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
hotline? Can the accused be reached by an appropriate person for follow up?			and Conduct Guidelines of Integrity Management", the Company will give rewards according to the severity of the incident reported. All personnel can file the report through the supervisor’s email (supervisor huang @ zenghsing.com.tw), the telephone hotline (04-2212-2267 * 589), the dedicated e-mail (csr@zenghsing.com.tw) and a physical mail box at the Company's security guards’ room. Every case is differentiated by its severity levels and will be handled by human resources, department managers, and labor management teams.	Practice Principles for TWSE/TPEX Listed Companies.
(II) Does the company set the standard operating procedures for the investigation of the complaint, the follow-up measures to be taken after the investigation is completed, and the relevant confidentiality mechanism?	V		(II) The “Administrative Measures on Employee Opinion Appeals” classifies the reported incidents into three levels according to the severity of the case and formulates standard specifications based on the principles of handling, responsible personnel and timeliness of treatment. The reporter and the relevant personnel shall not disclose the contents of the case to the public and shall keep the incident absolutely confidential.	Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.
(III) Does the company provide proper whistleblower protection?	V		(III) The “Administrative Measures for Employee Opinion Appeals” stipulates that when handling, investigating and reporting cases, the Company and the investigating officers shall be fair and just. The investigator may	Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed

Evaluation Item	Implementation Status ¹		Abstract Illustration	Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			face punishment if they take unfavorable actions such as dismissal, demotion, or salary reduction against the reporter of the incident.	Companies.
IV. Strengthening information disclosure (I) Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?	V		(I) The Company’s “Code of Integrity Management”, “Procedures and Conduct Guidelines of Integrity Management” and “Code of Ethics” are disclosed on the MOPS. The CSR section, corporate governance and the implementation of integrity management are disclosed on the Company’s website.	Comply with the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies.
V. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation: The Company has formulated “Code of Ethics”, “Code of Integrity Management”, “Procedures and Conduct Guidelines for Integrity Management”, “Employee Handbook” and “Administrative Measures on Employee Opinion Appeals” based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies. Every director, supervisor and employee shall follow the rules and the operating conditions are in compliance.				
VI. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies).: Please refer to the Company’s website (http://www.zenghsing.com.tw/csr/?lang=zh-hant) of CSR category and “ZHENG HSING Corporate Social Responsibility Report” for reviewing the results of ethical corporate management policy implementation.				

Note 1: Implementation Status should be stated whether the condition is “Yes” or “No”.

3.4.7 Corporate Governance Guidelines and Regulations

Please refer to the Company website. (www.zenghsing.com.tw)

3.4.8 Other Important Information Regarding Corporate Governance

1. Director and Supervisor Training in 2019:

Title	Name	Course Name	Hours of the curriculum	Date of continuing education
Independent Director	ZHI-SHENG WU	See through the key messages hidden in financial statements	3	2 May 2019
Independent Director	CHUN-MING HSU			
Director	SHU-CHENG LIAO			
Director	CHUNG-KUANG TSAI			
Independent Director	MING-LIANG TANG			
Supervisor	BAI-SONG ZHANG			
Supervisor	HUI-YU HUANG			
Director	FEN-GJI LI			
Director	RUIZ-HEN HONG			
Chairman	CHIH-CHENG LIN			
Independent Director	CHUN-MING HSU	Directors and supervisors, accounting supervisors' equity transfer and tax planning practices	3	20 June 2019
Supervisor	MENG-ZONG HE	The new version of "Corporate Governance Blueprint (2018-2020)" Audit Management Practice Analysis	6	30 July 2019
Supervisor	MENG-ZONG HE	Briefing session on the legal compliance of listed companies and unlisted (counter) public offering companies	3	16 August 2019
Independent Director	CHUN-MING HSU	Money Laundering Prevention Law and Case Introduction	3	11 September 2019
Independent Director	ZHI-SHENG WU	Responsibilities and obligations of directors and supervisors of corporate governance	3	7 November 2019
Supervisor	MENG-ZONG HE			
Director	SHU-CHENG LIAO			
Director	CHUNG-KUANG TSAI			
Independent Director	MING-LIANG TANG			
Supervisor	BAI-SONG ZHANG			
Supervisor	HUI-YU HUANG			

Director	FEN-GJI LI		
Director	RUIZ-HEN HONG		
Chairman	CHIH-CHENG LIN		

2. Manager training in 2019:

Title	Name	Course Name	Length of the curriculum	Period
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	Discussion on Application of "Business Judgment Rule" and Legal Responsibility in Economic Crime (Taichung Class)	3	27 August 2019
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	IFRS16 "Leasing" Frequently Asked Questions and Practice Analysis (Taichung Class)	3	27 August 2019
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	The new version of "Corporate Governance Blueprint (2018-2020)" related specifications and corresponding practice analysis (Taichung Class)	3	28 August 2019
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	Corporate Governance Practices: Analysis of Trends and Practice Cases of "Comprehensive Enterprise Value Management"	3	28 August 2019
Manager of Financial Accounting	CHIA-JUNG LIN	Issuer Securities Firm Stock Exchange Accounting Supervisor Continuous Training Course	12	19-20 December 2019
Assistant Manager of Internal Audit	QI-FENG ZHANG	Practice and management of fraud risk audit	6	17 June 2019
		How the audit supervisor assists the board of directors and its advisory services	6	29 November 2019

3. Corporate governance executive training in 2019:

Title	Name	Course Name	Length of the curriculum	Period
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	See through the key messages hidden in financial statements	3	2 May 2019

Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	Briefing session on the legal compliance of listed companies and unlisted (counter) public offering companies	3	16 August 2019
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	The new version of "Corporate Governance Blueprint (2018-2020)" related specifications and corresponding practice analysis (Taichung Class)	3	28 August 2019
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	Corporate Governance Practices: Analysis of Trends and Practice Cases of "Comprehensive Enterprise Value Management" (Taichung Class)	3	28 August 2019
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	Responsibilities and obligations of directors and supervisors of corporate governance	3	7 November 2019
Vice President of Financial Accounting & Information	JUN-SHEN ZHOU	Conference on Prevention of Insider Trading in 2019	3	8 November 2019

3.4.9 Internal Control System

1. Statement of Internal Control System

ZENG HSING INDUSTRIAL CO., LTD.

Statement of Internal Control System

Based on the findings of a self-assessment, Zeng Hsing Industrial Co., Ltd. states the following with regard to its internal control system during the year 2019:

1. Zeng Hsing Board of Directors and management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency of our reporting, and compliance with applicable rulings, laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and Zeng Hsing takes immediate remedial actions in response to any identified deficiencies.
3. Zeng Hsing evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities.
4. Zeng Hsing has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations
5. Based on the findings of such evaluation, Zeng Hsing believes that, on 31 December 2019, it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws and regulations.
6. This Statement is an integral part of Zeng Hsing annual report and prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement was passed by the Board of Directors in their meeting held on 20 March 2020, with none of the eight attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

ZENG HSING INDUSTRIAL CO., LTD.

Chairman: CHIH-CHENG LIN

General manager: MING-YU TSAI

2. Companies which CPAs professionally review the internal control system shall disclose the review report provided by the accountants: None.

3.4.10 If there has been any legal penalty against the company or its internal personnel, or any disciplinary penalty by the company against its internal personnel for violation of the internal control system, during 2019 or during the current fiscal year up to the publication date of the annual report, where the result of such penalty could have a material effect on shareholder equity or securities prices, the annual report shall disclose the penalty, the main shortcomings, and condition of improvement: None

3.4.11 Material resolutions of a shareholders meeting or a board of directors meeting during 2019 or during the current fiscal year up to the date of publication of the annual report:

1. Material resolutions from the 2019 Shareholders' Meeting and Implementation Status

Date	Category	Material Resolutions						
14 June 2019	Shareholders' Meeting	1. The 2018 Business Report and Financial Statements. Implementation result: Approved.						
		2. The 2018 surplus distribution. Implementation result: The distribution of a NT\$11 cash dividend per common share.						
		3. Resolved to release the Director of the Company from non-competition restrictions.						
		<table border="1"> <thead> <tr> <th>Title</th> <th>Name</th> <th>Hold other company positions</th> </tr> </thead> <tbody> <tr> <td>Director</td> <td>CHONG-GUANG TSAI</td> <td>Director of Chan yao Chairman of Yirujie Investment Co., Ltd.</td> </tr> </tbody> </table>	Title	Name	Hold other company positions	Director	CHONG-GUANG TSAI	Director of Chan yao Chairman of Yirujie Investment Co., Ltd.
		Title	Name	Hold other company positions				
		Director	CHONG-GUANG TSAI	Director of Chan yao Chairman of Yirujie Investment Co., Ltd.				
		4. Approved the company's "Articles of Association" amendment. Implementation result: On 17 July 2019, it was approved by the Ministry of Economic Affairs and registered on the company's website.						
		5. Approved the amendment of the company's "Procedure for Obtaining or Disposing of Assets". Implementation result: It was announced on 14 June 2019 on the company's website and handled in accordance with the revised procedures.						
		6. Approved the revision of the company's "Procedures for Fund Loan and Others and Endorsement Guarantee" Implementation result: It was announced on 14 June 2019 on the company's website and handled in accordance with the revised procedures.						
		7. The company by-election supervisor.						
Election results:								
<table border="1"> <thead> <tr> <th>Supervisor elected list</th> <th>Number of votes</th> </tr> </thead> <tbody> <tr> <td>MENG-ZONG HE</td> <td>31,926,698</td> </tr> </tbody> </table>	Supervisor elected list	Number of votes	MENG-ZONG HE	31,926,698				
Supervisor elected list	Number of votes							
MENG-ZONG HE	31,926,698							

2. Material Resolutions from the Board of Directors:

Date	Category	Material Resolutions
21 March 2019	Board of Directors	<ol style="list-style-type: none"> 1. Approved the 2018 financial statements and consolidated financial statements. 2. Approved the announcement of Statement of Internal Control System. 3. Approved the compensation of the new vice president: TUNG-LIANG LIU. 4. Approved the routine assessment result of CPA's professional independence. 5. Approved the convocation of 2019 shareholders' meeting. 6. Approved the shareholders' proposals of 2019 shareholders' meeting. 7. Approved the 2018 employees' and directors' remuneration. 8. Approved the distribution of 2018 earnings. 9. Approved the re-election of a supervisor. 10. Approved the 2019 nomination of shareholders' meeting for the election of supervisors. 11. Approved the renewal of contract with Mega International Commercial Bank Co., Ltd. 12. Approved to lift non-competition restrictions on the director, Mr. CHUNG-KUANG TSAI. 13. Approved the SOP for processing directors' requests
2 May 2019	Board of Directors	<ol style="list-style-type: none"> 1. Examined shareholders' proposals for 2019 shareholders' meeting. 2. Examined the nomination list of supervisor candidates. 3. Approved the newly-added agenda of 2019 shareholders' meeting. 4. Approved the "Operating Procedures of Financing Others and Providing Endorsement and Guarantee". 5. Approved to lift non-competition restrictions on the director, Mr. CHUNG-KUANG TSAI. 6. Approved the liquidation of 100% reinvestment: SHINCO WORLDWIDE LIMITED. 7. Approved the renewal of contract with E. Sun Commercial Bank. 8. Approved the renewal of contract with Bank of Taiwan. 9. Approved the renewal of contract with Ta Ching Bills Finance Corporation. 10. Approved the renewal of contract with China Trust Commercial Bank. 11. Approved the endorsement and guarantees for reinvestments.
14 June 2019	Board of Directors	<ol style="list-style-type: none"> 1. Approved the related to distribution of 2018 earnings. 2. Approved the company's "Financial Statement Preparation Process Management Measures" amendment. 3. Approved the company's 2019 operating plan and budget preparation amendments.
8 August 2109	Board of Directors	<ol style="list-style-type: none"> 1. Approved the renewal of contract with Chang Hwa Commercial Bank, Ltd. 2. Approved the amendment of the Company's "Integrity Management Code".
7 November 2019	Board of Directors	<ol style="list-style-type: none"> 1. Approved the company's application to Citibank (Taiwan) Commercial Bank (hereinafter referred to as Citibank) for the short-term credit line and foreign exchange and derivative financial commodity transaction line. 2. Approved the renewal of contract with Fubon bank. 3. Approved the company's credit agreement with Mega Bank. 4. Through our company, we provide an endorsement guarantee for the reinvestment company to apply to Citibank (as defined in the guarantee) for short-term credit line. 5. Approved the endorsement and guarantees for reinvestments. 6. Approved the endorsement and guarantees for reinvestments.

Date	Category	Material Resolutions
		<ol style="list-style-type: none"> 7. Approved the company's 2020 financial asset balance discussion with financial institutions. 8. Approved the company's 2020 acquisition or disposal of derivative commodity balance ceiling. 9. Approved the case of obtaining or disposing of the upper limit of the balance of derivative commodities in the company's reinvestment business in 2020. 10. Approved the term of office of the general manager of the company.
24 December 2019	Board of Directors	<ol style="list-style-type: none"> 1. Approved the company's 2020 operating plan and budget preparation amendments. 2. Approved the company's 2020 internal audit plan. 3. Approved the company's 2019 financial report on the assessment of employee compensation and directors and supervisors compensation ratio. 4. Approved the 2019 award after the company's remuneration committee reviewed and approved the 2019 award.
12 March 2020	Board of Directors	<ol style="list-style-type: none"> 1. Approved the company's 2019 financial statements and consolidated financial statements. 2. Approved the case of "Internal Control Statement" issued by our company. 3. Approved the company's regular assessment of the independence of CPAs. 4. Approved the company's 2020 shareholders' general meeting. 5. Approved the 2020 shareholders' general meeting of the company to accept matters related to shareholders' proposal rights. 6. Approved the 2019 employees' and directors' remuneration. 7. Approved the distribution of 2019 earnings. 8. Approved the renewal of contract with Mega bank. 9. Approved the amendments to the Company's "Code of Procedures for Board Meetings". 10. Approved the amendment to the Company's "Rules of Procedure for Shareholders' Meetings". 11. Approved the company's "Directors, Supervisors and Managers' Salary Management Measures" amendment. 12. Approved the compensation adjustment for independent directors of the company.
26 March 2020	Board of Directors	<ol style="list-style-type: none"> 1. Approved the amendment of the Company's "Repurchase of Share Transfer Employees". 2. Approved the case of the company buying back shares and transferring it to employees.
30 April 2020	Board of Directors	<ol style="list-style-type: none"> 1. Approved the company's new 2020 regular shareholders meeting.
6 May 2020	Board of Directors	<ol style="list-style-type: none"> 1. Approved the 2020 shareholders' general meeting of the Company to accept shareholders' rights to review proposals. 2. Approved the renewal of contract with E.SUN bank. 3. Approved the renewal of contract with Bank of Taiwan. 4. Approved the renewal of contract with Ta Ching Bills Finance Corporation. 5. Approved the renewal of contract with CTBC Bank Co., Ltd.. 6. Approved the endorsement and guarantees for reinvestments. 7. Approved the company's "Financial Statement Preparation Process Management Measures" amendment. 8. Approved the company's "Board Performance Evaluation Measures" amendment. 9. Approved the amendment of the Company's "Integrity Management Code".

Date	Category	Material Resolutions
		10. Approved the company's investment plan.

3.4.12 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None.

3.4.13 Resignation or Dismissal of the Company's Key Individuals, including the Chairman, General manager, and Heads of Accounting, Finance, Internal Audit, Head of Corporate Governance and R&D: None.

3.5 Information Regarding the Company's Audit Fee and Independence

CPA Professional Fee Range

Accounting Firm	Name of CPA		Audit Period	Remark
Ernst & Young	CHING-YUAN TU	MING-HUNG CHEN	2019.01.01~2019.12.31	

Note: Audit period and reasons for replacement should be stated in the table separately if the Company replaced the accounting firm or certified accountant.

Currency: NT\$ thousand

Range		Item	Audit Fee	Non-Audit Fee	Total
1	Under 2,000				
2	2,000~4,000				
3	4,000~6,000				
4	6,000~8,000				
5	8,000~10,000		4,795	3,921	8,716
6	Over 10,000				

3.5.1 Non-audit fee paid to auditors, the audit firm and its affiliates accounted for more than 25% of total audit fees should disclose the audit fee and non-audit fee amounts and non-audit service content:

Currency: NT\$ thousand

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					Period Covered by CPA's Audit	Remark
			System Design	Company Registration	Human Resource	Others	Subtotal		
Ernst & Young	CHING-YUAN TU	4,795	0	0	0	3,921	3,921	2019	Transfer Pricing \$1,325
	MING-HUNG CHEN								Business group tax calculation and filing \$1,146
									Customs operations \$1,450

Note 1: Audit period and reasons for replacement should be stated in the table separately if the Company replaced the accounting firm or the certified account with the disclosure of audit fee and non-audit fee.

Note 2: For non-audit fees, please state the detail based on the items of services. In case of "others" in non-audit fees which account for 25% or more of the aggregate total, the Company should state the contents of services in the remarks

3.5.2 Replacing the audit firm and the audit fee paid to the new audit firm was less than the amount paid in the previous year: None.

3.5.3 Audit fee reduced for more than 10% year over year, the reduced amount, proportion, and reason should be disclosed: None.

3.6 Replacement of CPA:

3.6.1 Predecessor Auditor

Date of Replacement	The Board of Directors agreed on 21 June 2018 the replacement starting from 2018Q2.		
Replacement Reasons and Explanations	Due to the internal adjustment from the accounting firm to enhance professional independence, WEN-BI YAN and CHING-YUAN TU, who were previously responsible for the Company's financial statement assurance services, will be changed to CHING-YUAN TU and MING-HUNG CHEN from the second quarter of 2018.		
State whether the Engagement is Terminated or Rejected by the Consignor or CPAs	Condition	Party	Consignor
	Engagement terminated automatically		Not Applicable
	Engagement discontinued		
The Opinions other than Unmodified Opinion Issued within the last 2 years and the reason for the Said Opinion	None		
Any disagreement in Opinion with the Issuer	Yes		Accounting principles or practices
			Disclosure of financial report
			Scope or procedure of auditing
			Others
	No		✓
	Explanation		
Supplementary Disclosure (Specific Disclosures mentioned in Article 10-6-1-4 ~ 7 of the Regulation)	None		

3.6.2 Successor Auditor

Audit Firm	Ernst & Young
Name of CPA	MING-HUNG CHEN
Date of Appointment	The Board of Directors agreed on 21 June 2018 the replacement starting from 2018Q2.
Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report	Not Applicable
Written Opinions from the Successor CPA that are Different from the Former CPA Opinions	Not Applicable

3.6.3 The Reply of Former CPAs pursuant to Article 10-6-1 and Article 10-6-2-3 of the Regulations Governing Information to be Published in Annual Reports of Public Companies: Not applicable.

3.7 The Company's Chairman, President, and managers in charge of its finance or accounting operations held positions in the Company's independent auditing firm or its affiliates in the most recent year: None.

3.8 Changes in Shareholding Percentage of Directors, Managers and Major Shareholders

3.8.1 Changes in Shareholding Percentages by Directors, Supervisors, Management and Shareholders with 10% Ownership or More

Unit: shares

Title	Name	2019		As of 30 April 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	CHIH-CHENG LIN	0	0	0	0

Title	Name	2019		As of 30 April 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Director	SHU- CHENG LIAO	0	0	0	0
Director	FEN-GJI LI	0	0	(85,000)	0
Director	CHONG- GUANG TSAI	0	0	0	0
Director	RUIZ-HEN HONG	0	0	0	0
Independent Director	ZHI-SHENG WU	0	0	0	0
Independent Director	MING- LIANG TANG	0	0	0	0
Independent Director	JUN-MING XU	0	0	0	0
Supervisor	ZHEN-SHUN HE	0	0	-	-
Supervisor	BAI-SONG ZHANG	0	0	0	0
Supervisor	HUI-YU HUANG	0	0	0	0
Supervisor	MENG- ZONG HE	0	0	0	0
General manager	MING-YU TSAI	0	0	0	0
Strategic Development department Vice-senior general manage	JUN-YI LI	0	0	0	0
Human Resources department Vice- general	HUI-LING CHANG	0	0	0	0

Title	Name	2019		As of 30 April 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Strategic development Vice- general manager	JIANG-CHI TSAI	(9,000)	0	0	0
Marketing department Vice- general manager	CHONG- TING TSAI	0	0	5,000	0
Financial Information department Vice- general manager	JUN-SHEN ZHOU	0	0	0	0
R & D Technology department Assistant general manager	WEI-CHENG CHEN	0	0	0	0
Strategic Development department Assistant general manager	QIONG-MEI CHEN	2,000	0	0	0
Quality Assurance Department Assistant general manager	XIAO-HUI XIONG	0	0	0	0
Strategic Development department Vice-general manager	XIE-ZHENG LIU	0	0	0	0

Title	Name	2019		As of 30 April 2020	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Strategic Development department Vice- general manager	DONG- LIANG LIU	0	0	0	0

Note 1 : Shareholders who hold more than 10% of the Company 's shares should be noted as major shareholders and listed separately.

Note 2 : If the counterparty of a share transfer or share pledge is a related party, further disclose the counterparty's share transfer, share pledge information.

Note 3 : Director CHONG-GUANG TSAI pledged 500,000 shares before taking office.

Note 4 : Supervisor ZHEN-SHUN HE resigned at 25 February 2019, so the number of shares held and pledged shares increased or decreased to 25 February 2019.

Note 5 : Supervisor MENG-ZONG HE took office at 14 June 2019, so from 24 June 2019 onwards, the number of shares held and pledged shares increased or decreased.

Note 6 : Vice President DONG-LIANG LIU took office at 18 February 2019, so from 18 February 2019 onwards, the number of shares held and pledged shares increased or decreased.

3.8.2 Shares Trading with Related Parties: None.

3.8.3 Stock Rights Pledging with Related Parties: None.

3.9 The Information show Name and Relationship between the Companies Top Ten Shareholders, or Spouses or Relatives within Two Degrees

Unite: shares

Name (Note 1)	Current Shareholding		Spouse's/ Children's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees (Note 3)		Remark
	Shares	%	Shares	%	Shares	%	Name	Relationship	
RUIZ-HEN HONG	1,945,760	3.21%	10,000	0.02%	0	0%	CHING- WEN HONG	Brother	
CHING-WEN HONG	1,400,720	2.31%	94,000	0.16%	0	0%	RUIZ-HEN HONG	Brother	
Canxin Investment Co., Ltd.	1,259,818	2.08%	NA	NA	0	0%	YI-CHING TSAI	Chairman of Canxin Investment Co., Ltd.	
Canxin Investment Co., Ltd.. YI-CHING TSAI	613,352	1.01%	0	0.00%	0	0%	1.CHUNG- TING TSAI 2. Canxin Investment Co., Ltd.	1. Sister 2. Chairman of Canxin Investment Co., Ltd.	
Fubon Life Insurance Co., Ltd.	1,200,000	1.98%	NA	NA	0	0%	MING- HSING TSAI	Chairman of Fubon Life Insurance Co., Ltd.	
Fubon Life Insurance Co., Ltd. MING-HSING TSAI	0	0.00%	-	-	-	-	Fubon Life Insurance Co., Ltd.	Chairman of Fubon Life Insurance Co., Ltd.	
MENG-ZONG HE	1,065,673	1.76%	0	0.00%	0	0%	NA	NA	
CHONG-TING TSAI	988,620	1.63%	581,865	0.96%	0	0%	Yi-Ching Tsai	Sister	
FEN-GJI LI	980,628	1.62%	856	0.00%	0	0%	NA	NA	
CHIH-CHENG LIN	937,000	1.55%	223,500	0.37%	0	0%	NA	NA	
SHU-CHENG LIAO	876,610	1.45%	134,919	0.22%	300,000	0.50%	SHEN- LING LIAO	Brother	

Universal Microelectronics CO., LTD.	793,035	1.31%	NA	NA	0	0%	SHEN-LING LIAO	Chairman of Universal Microelectronic Co., Ltd. SHEN-LING LIAO
Universal Microelectronics CO., LTD. SHEN-LING LIAO	398,937	0.66%	0	0.00%	0	0%	1. SHI-CHENG LIAO 2. Universal Microelectronic Co., Ltd.	1. Sister 2. Chairman of Universal Microelectronic Co., Ltd. SHEN-LING LIAO

Note 1: All the top 10 shareholders shall be listed. The names of corporate shareholders and the name of their representatives shall be listed separately.

Note 2: The shareholding percentage is calculated separately based on the number of shares held in the name of the person, his/her spouse and minors, and through nominee arrangements.

Note 3: Relationships between the aforementioned shareholders, including corporate shareholders and natural person shareholders, shall be disclosed pursuant to the Regulations Governing the Preparation of Financial Reports by Securities issuers.

3.10 Ownership of Shares in Affiliated Enterprises

As of 31 December 2019 Unite: Shares

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors or Managers		Total Ownership	
	Share	Percentage	Share	Percentage	Share	Percentage
Zeng Hsing Industrial Co., Ltd. (BVI)	17,873	100.00%	-	-	17,873	100.00%
Jetsun Technology Co., Ltd. (Seychelles)	1,200,000	100.00%	-	-	1,200,000	100.00%
Arcoris Pte. Ltd.	4,030,000	100.00%	-	-	4,030,000	100.00%
Taiwan Carbon Technology Co., Ltd.	2,500,000	19.53%	-	-	2,500,000	19.53%
Mitsumichi Industrial Co., Ltd	1,378,000	53.00%	-	-	1,378,000	53.00%
Zeng Hsing Industrial Co., Ltd.	-	100.00%	-	-	-	100.00%
Shinco Technology Co., Ltd.	-	100.00%	-	-	-	100.00%
Jetsun Technology Company Limited	-	100.00%	-	-	-	100.00%

Zhangjiagang Zeng Hsing Machinery & Electronics Co., Ltd.	-	100.00%	-	-	-	100.00%
Zhangjiagang Zeng Hsing Trading Co., Ltd.	-	100.00%	-	-	-	100.00%
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	-	100.00%	-	-	-	100.00%
Shanghai Debra Trading Company Limited	-	100.00%	-	-	-	100.00%

Note: The long-term investment of the Company.

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

A. Issued Shares

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Sources of Capital (NT\$ thousand)	Capital Increased by Assets Other than Cash	Other
December 2008	10	55,000,000	550,000,000	43,464,809	434,648,090	Employee exercise the stock options in the amount of \$7,893	NA	Note 1.
June 2009	10	55,000,000	550,000,000	43,478,809	434,788,090	Employee exercise the stock options in the amount of \$140	NA	Note 1.
November 2009	10	55,000,000	550,000,000	46,978,809	469,788,090	Cash capital increase \$35,000	NA	Note 2.
August 2010	10	55,000,000	550,000,000	48,388,173	483,881,730	Capital increase by retained earnings in the amount of \$14,094	NA	Note 3.
December 2010	10	55,000,000	550,000,000	47,169,173	471,691,730	Treasury stock retired \$12,190	NA	Note 4.
April 2012	10	65,000,000	650,000,000	51,669,173	516,691,730	Cash capital increase in the amount of \$45,000	NA	Note 5.
July 2013	10	65,000,000	650,000,000	54,252,631	542,526,310	Capital increase by retained earnings \$25,835	NA	Note 6.
December 2013	10	65,000,000	650,000,000	60,552,631	605,526,310	Cash capital increase in the amount of \$63,000	NA	Note 7.
November 2018	10	85,000,000	850,000,000	60,535,631	605,356,310	Treasury stock retired \$170	NA	Note 8.

Note 1: Jin-Guan-Cheng-Yi-Zi No. 0930152723 on 23 November 2004.

Note 2: Jin-Guan-Cheng-Fa-Zi No. 0980052873 on 16 October 2009.

Note 3: Jin-Guan-Cheng-Fa-Zi No. 1000031461 on 7 July 2011.

Note 4: Jin-Guan-Cheng-Jiao-Zi No. 1000053979 on 4 November 2011.

Note 5: Jin-Guan-Cheng-Fa-Zi No. 1010008472 on 21 March 2012.

Note 6: Jin-Guan-Cheng-Fa-Zi No. 1020024504 on 25 June 2013.

Note 7: Jin-Guan-Cheng-Fa-Zi No. 1020046047 on 22 November 2013.

Note 8: Jin-Guan-Cheng-Fa-Zi No. 1040044669 on 9 November 2015(Because it is not transferred to the employee within 3 years from the date of purchase, it is cancelled.)

B. Type of Stock

Share Type	Authorized Capital			Remarks
	Issued Shares	Unissued Shares	Total Shares	
Registered common shares	60,535,631	24,464,369	85,000,000	Listed shares, 5,000,000 shares of which are reserved for share subscription warrants, preferred shares with warrants, or warrant bonds.

C. Information relating to shelf registration system: None

4.1.2 Shareholding structures

As of 14 April 2020

Unit: shares

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	4	80	12,786	98	12,968
Shareholding (shares)	0	1,643,000	4,689,647	47,663,281	6,539,703	60,535,631
Percentage	0%	2.71%	7.75%	78.74%	10.80%	100.00%

Note: Companies listed on the TWSE (TPEX) and emerging stock market for the first time should disclose the proportion of funds from Mainland China in the shareholding percentage: Funds from Mainland China refer to companies invested in by the people, institutions, organizations, other institutions from Mainland China, or their investment in a third region as stated in Article 3 of the Measures Governing Investment Permit to the People of the Mainland Area.

4.1.3 Shareholding Distribution Status

A. Common Shares

As of 14 April 2020

Class of Shareholding (Unit: Shares)	Number of Shareholders	Shareholding (Shares)	Percentage
1~999	6,299	282,224	0.47%

Class of Shareholding (Unit: Shares)	Number of Shareholders	Shareholding (Shares)	Percentage
1,000~5,000	5,503	10,184,117	16.82%
5,001~10,000	588	4,456,966	7.36%
10,001~15,000	198	2,519,527	4.16%
15,001~20,000	91	1,643,261	2.71%
20,001~30,000	88	2,219,288	3.67%
30,001~50,000	61	2,387,871	3.94%
50,001~100,000	56	3,932,121	6.50%
100,001~200,000	29	3,969,811	6.56%
200,001~400,000	32	9,679,265	15.99%
400,001~600,000	5	2,584,646	4.27%
600,001~800,000	9	6,021,705	9.95%
800,001~1,000,000	4	3,782,858	6.25%
1,000,001	5	6,871,971	11.35%
Total	12,968	60,535,631	100.00%

4.1.4 List of Major Shareholders

As of 14 April 2020 Unite: Shares

Shareholder's Name	Shareholding Shares	Percentage
RUIZ-HEN HONG	1,945,760	3.21
CHING-WEN HONG	1,400,720	2.31
Canxin Investment Co., Ltd.	1,259,818	2.08
Fubon Life Insurance Co., Ltd.	1,200,000	1.98
MENG-ZONG HE	1,065,673	1.76
CHONG-TING TSAI	988,620	1.63
FEN-GJI LI	980,628	1.62
CHIH-CHENG LIN	937,000	1.55
SHU-CHENG LIAO	876,610	1.45
Universal Microelectronics CO., LTD.	793,035	1.31
Total	11,447,864	18.90

4.1.5 Market Price, Net Worth, Earnings, and Others Information

Unite: dollar, thousand shares

Items	2018	2019	As of 31March 2020 (Note 8)
Market Price per Share (Note 1)			
Highest Market Price	149.50	153	134
Lowest Market Price	123	130	107
Average Market Price	133.16	139.58	124.16
Net Worth per Share (Note 2)			
Before Distribution	79.33	78.66	80.08
After Distribution	68.33	-	-
Earnings per Share (Note 3)			
Weighted Average Shares (thousand shares)	60,536	60,536	60,536
Diluted Earnings Per Share	15.26	11.16	1.95
Adjusted Diluted Earnings Per Share	-	-	-
Dividends per Share			
Cash Dividends	11	8.8	-
Stock Dividends			
• Dividends from Retained Earnings	NA	NA	-
• Dividends from Capital Surplus	NA	NA	-
Accumulated Undistributed Dividends (Note 4)	NA	NA	-
Return on Investment			
Price / Earnings Ratio (Note 5)	8.73	12.51	-
Price / Dividend Ratio (Note 6)	12.11	15.86	-
Cash Dividend Yield Rate (Note 7)	8.26	6.30	-

Note1: Stating the highest and lowest market price of the common stock in each year and calculate the average market Price per year according to the annual trading value and volume.

Note 2: Please fill in information based on the number of shares issued at the end of the year, and according to the following year's shareholders' meeting resolution regarding distribution.

Note 3: Earnings per share before and after adjustments if made retroactively due to distribution of bonus shares shall be stated.

Note 4: The accumulated dividend undistributed as of the current year shall be disclosed if the issuance terms of the equity securities provide that the undistributed dividend of the year may be accumulated and distributed in a year that is profitable.

Note 5: Price / Earnings Ratio = Annual Average Market Price / Earnings per Share

Note 6: Price / Dividend Ratio = Annual Average Market Price / Cash Dividend per Share

Note 7: Cash Dividend Yield = Cash Dividend per Share / Average Market Price

Note 8: The data is duly audited (reviewed) by the certified public accountant in the first quarter of 2018, except market price per share

Note 9: The 2019 dividend per share has not yet been decided by the shareholders' general meeting.

4.1.6 Dividend Policy and Implementation Status

1. Dividend Policy:

The Company operates in the traditional industry. It's life cycle is at maturity stage with stable profit and sound financial structure. In addition to be complaint with the Company Act and the Company's Articles of Incorporation, the Company determines its dividend distribution according to the capital planning and operation performance. The principle is to maintain a stable and balanced dividend policy. The Board of Directors will propose the earnings distribution (cash dividend or stock dividend) method and amount according to the operating performance, financial status and capital planning before the shareholders' meeting, but at least 50% dividends are paid out to shareholders, and the cash dividend ratio is not less than 30% of the total dividend. However, when the Company has no surplus, no dividend will be distributed.

2. Proposed dividend distribution at the shareholders' meeting:

2019 earning distribution was approved by the board of directors on 12 March 2020. The proposed distribution approved at the board meeting is as follows: Cash dividend in the amount of \$532,714, at \$8.8 per share. The proposal is pending approval at the 2020 shareholders' meeting.

3. The Company did not expect any major changes to the dividend policy.

4.1.7 Effect of stock grants planned at current shareholders' meeting on business performance and EPS: None.

4.1.8 The compensation of employee, directors and supervisor:

1. The Articles of Incorporation sets forth the ratio of and qualifications to receive compensation of employee, directors and supervisor:

If the Company is profitable, it will set aside 2% to 6% as employee bonus, and no more than 4% as remuneration to directors and supervisors.

However, if the company suffers loss, it will make up for the loss first.

Employees' compensation may be distributed through shares of the Company or cash. The resolution shall be agreed by the majority of directors present at the board meeting with more than 2/3 of board members attending the meeting and report the resolution shall be report to the shareholders' meeting.

Employees who may receive share or cash dividend include those who are employees of affiliated companies meeting certain requirements.

2. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: None.
3. The company's 2019 surplus distribution plan was approved by the board of directors on March 12, 2020. The board of directors approved the proposed distribution as follows:
 - (1) Employee profit and remunerations for directors and supervisors the distribution of employee profit and remunerations for directors and supervisors were passed by the board on 12 March 2020. According to the Company's Articles of Incorporation, NT\$23,000 thousand will be distributed as employee compensation, and NT\$4,600 thousand as director and supervisor compensation.
 - (2) Employee remunerations distributed in stock and their ratio in the after-tax income indicated in the entity financial statement of the current term and their ratio in the overall remunerations assigned to employees: None.
 - (3) Imputed EPS after proposal to distribute compensation and remuneration. In 2019, the imputed earning per share remained the same as NT\$11.16 since employee's compensation of NT\$23,000 and remuneration paid to directors and supervisors of NT\$4,600 have been expensed and excluded from net profit after tax in the amount of NT\$675,801.
4. The actual distribution of employee, director, and supervisor compensation for the previous fiscal year (including the number of shares distributed, monetary amounts and stock price), and, if there is any discrepancy between the actual distribution and the compensation recognized, the difference, reason and the treatment:
 - (1) The Company distributes compensation to: employees at NT\$32,000 thousand, director and supervisor at NT\$4,700 thousand.
 - (2) The actual compensation distributed, and the amount proposed by the board of directors: No discrepancy

4.1.9 Buyback of Common Stock:

30 April 2020

Times of buyback	the fourth
Purpose of buyback	Transfer of shares to employees
Types of shares buyback	Common stock
Maximum amount of shares repurchased	3,671,542,595
During the scheduled buyback period	2020/03/27~2020/05/26
Quantity to buy back	1,200,000 Shares
Buyback price range	90~110 (Continue to buy back below the lower limit)
Type and quantity of shares repurchased	0 Share
Amount of shares bought back	0 dollar
The ratio of the quantity bought back to the quantity bought back (%)	0%

4.2 Bonds: None.

4.3 Preferred Shares: None.

4.4 Global Depository Receipts: None.

4.5 Employee Stock Options:

1. The employee stock options the Company issued and were valid have all been exercised.
2. As of the printing date of the annual report, names of managers who attain employee stock options, and employees who attain the top ten numbers of stock option in the amount of over NT\$3 million and the acquisition: None.

The new restricted employee shares:

1. The Company did not issue new restricted employee shares.
2. As of the printing date of the annual report, names of managers who attain

restricted employee shares, and employees who attain the top ten numbers of restricted shares: None.

4.6 Status of New Share Issuance in Connection with Mergers and Acquisitions: None.

4.7 Financing Plans and Implementation: None.

V. Operational Highlights

5.1 Business content

5.1.1 Business Scope

1. The main content of the company's business

- (1) The Company manufactures household sewing machines, sewing machine related parts, aluminum alloy die-castings, vacuum cleaner, and vacuum cleaner related parts and sales in the domestic market and foreign market.
- (2) The Company handles general export trade and import trade and agency for the quotation and bidding business of products of domestic and foreign manufacturers that related to the preceding item. (Except those that are subject to special approval.)

2. Company's Current Major Products

Major Products	2018		2019	
	Amount	%	Amount	%
Sewing Machines	6,119,759	91.75	5,410,070	91.14
Vacuum Cleaners	131,599	1.97	139,766	2.35
Other	418,606	6.28	386,112	6.51
Total	6,669,964	100.00	5,935,948	100.00

3. What Zeng Hsing offers

The Company has provided troubleshooting and technical training to its domestic and foreign agents. This is to allow Zeng Hsing's domestic and foreign agents to understand the full functionality and uses of their products. Also, tutorials for its customers help them understand how the product can be used most effectively in their own home.

4. The Company's Current Products and Upcoming Products

(1) Current Product

The Company currently manufactures sewing machines, household vacuums, and related parts. Other than the domestic demand, the majority of the demand for products is overseas. To enhance the Company's competitiveness, Zeng Hsing attends many exhibitions worldwide. For example the International Hardware Fair Cologne, Dubai Exhibition, El Salvador International Business exhibition, China International Sewing Machinery & Accessories Show 2021, and other international exhibitions.

(2) Plans for Future Products

The Company aims to integrate microcomputer and electromechanical technology to improve product quality and functionality. The Company aims to research and develop more portable products and professional sewing machines.

5.1.2 Industry Overview

1. Current situation and development of industry

Sewing machines are a form of garment machinery. The machines are intensively used in the manufacturing process of cutting and sewing. It's used mostly to manufacture clothes, shoes, hats, handbags, etc. There are two types of sewing machines: domestic or industrial, depending on the requirements of the user. Industrial sewing machines require higher speed, high precision, reliability, durability, and unitary, etc. For home models, the emphasis is put on multifunctionality, portability, usability, standard appearance, and price. The focus of the development of household sewing machines is to simplify the mechanics and increase multifunctionality and automation. There is also a greater focus on integrating sewing machines with microprocessors to allow broader use for the machines. About the sales regions, the manufacturing plants for the sewing machines are located, nearby customers. This means that customers' proximity to the manufacturer allows for better post-sale maintenance and service.

In terms of product purpose, industrial sewing machines are single model machines. They are manufactured to meet the special requirement, fast, low noise, high precision, durable, and stable. The basic models are flat sewing machines and overlock sewing machines. While the household sewing machines are multifunctional, portable, and easy to use, suitable for everyday household tailoring.

Household sewing machines are technology and labor-intensive industry. Taiwan after years of hard work has reached a considerable scale. Aside from a few Japanese factories: Janome, Brother, Elite, and Happy who have their own brands, most Taiwanese manufacturers operate under the ODM model. Most Japanese brands manufacture sewing machines that are outsourced by their parent companies. The outsourced products accounted for most of the domestic market. The manufacturers that are mainly owned by Taiwanese operators, for example, Zeng Hsing, SUNBEEN, SEWMASTER, MERRYLOCK, and MITSUMICHI, have concentrated sales, which is due to competition between brands. Some of their ODM manufacturers may be the same but do not account for a large portion, or the ODM models are different.

Taiwanese sewing machines have always been mainly exported. The United States has steadily been the number one export destination. In 2019, the US accounted for 24.45% of all exported sewing machines followed by Japan,

Germany, the UK, and the Netherland. This indicates that the Company's sewing machines possessed high quality and value to receive recognition and affirmation from overseas sales.

Overall, the sewing machines are heading towards the middle price spectrum. From 2017 to 2019, the top 5 export destinations accounted for 63.23%, 62.63%, and 62.82% of all exports in their respective years. We can monitor whether we can keep up with the American, Japanese, and European market demands as shown below:

Table of top 5 Countries for Taiwan Household Sewing Machine Exports from 2017 to 2019

Currency: NT\$ thousands

Rank	2017			2018			2019		
	Country	Amount	%	Country	Amount	%	Country	Amount	%
1	Japan	688,093	19.66%	U.S.A.	868,874	24.53%	U.S.A.	831,100	24.45%
2	U.S.A.	651,067	18.60%	Japan	619,385	17.49%	Japan	631,561	18.58%
3	Germany	465,250	13.29%	Germany	406,928	11.49%	Germany	376,988	11.09%
4	Poland	226,380	6.47%	Australia	173,633	4.90%	UK	158,169	4.65%
5	UK	182,330	5.21%	UK	149,402	4.22%	Netherland	137,102	4.03%
	Total	2,213,120	63.23%	Total	2,218,222	62.63%	Total	2,134,920	62.82%

Information Resource: Customs Administration, Ministry of Finance

Note: The statistical information includes export and re-export.

Since 1980, the government heavily promoted the information electronics and precision machinery industries to improve the industry structure and to replace the more labor-intensive industries, such as textiles, garments, and shoemaking. As the manufacturing environments changed, it was unsuitable for labor-intensive businesses to develop in Taiwan. The domestic textile industry shrunk, and production moved mainly to Vietnam. Therefore, the domestic demand for industrial and household use sewing machines started to show a downward trend.

Europe and the United States are the world's largest consumer markets for household sewing machines. However, the uncertainties still lie with the economic development of the EU, such as Brexit and the US-China trade war, which adversely affected the household sewing machine industry. The decrease in the terminal consumer demand in Europe and America will affect the brand franchiser's willingness to purchase.

The Chinese economy is also influenced by the China trade war. The trade war slowed down China's economic growth and affected consumers'

willingness to consume. Under the external risks, the household sewing machine industry was not optimistic in 2019, which in turn affected the New Southbound countries and China's production of sewing machines declined. In 2019, the overall sales of the sewing machine manufacturing industry fell compared with 2018.

Taiwan's sewing machine industry mainly produces household sewing machines, and only a few companies are engaged in the industrial sewing machines.

The export amount of Taiwan sewing machines Comparison table of 2018 and 2019

HS Description		AMOUNT(NT\$ thousands)		
		2018	2019	Different Perent(%)
845210	Household Sewing Machine	3,542,005	3,398,611	-4.05%

Information Resource: Customs Administration, Ministry of Finance

Note: The statistical information included export and re-export.

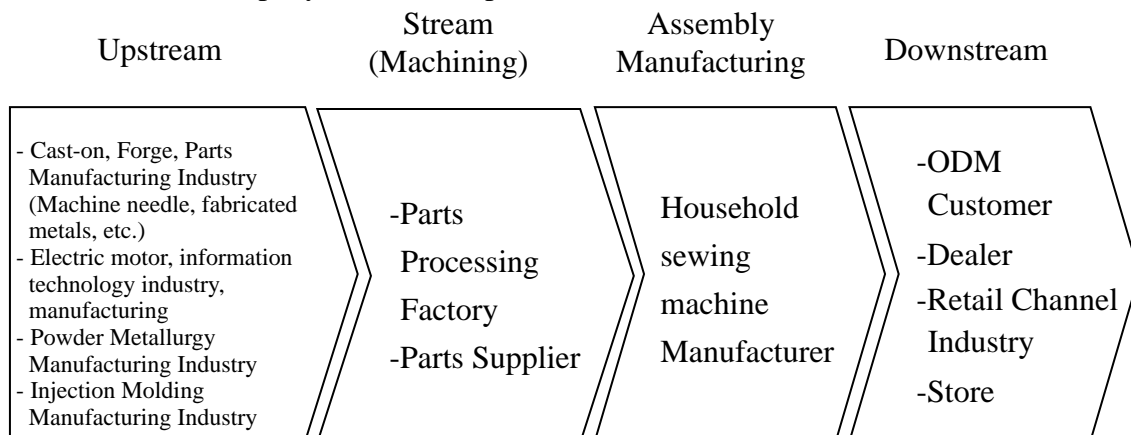
2. Association of upstream, mid-stream, and downstream industries

We offer a variety of sewing machines and though the basic operating principle is not very different, the machines are composed of hundreds of parts and the mechanisms are just as complicated.

Mechanical sewing machines use CAM to produce a variety of patterns but the number of patterns that can be produced is limited. These machines and mechanisms require a high level of precision and complexity.

Computer-based machines use stepping motor to drive and generate patterns. This type of machine is easy to make. The number of patterns available relies on the memory space in the machine. In theory, if there is enough memory, the number of patterns is unlimited.

The Company's relationship with the chain is shown below:



3. Development trend of products and market competition

Since the sewing machine was invented, the structure of the machines has not changed much. In recent years, the sewing patterns has become more intricate and diversified along with the development of technology. In household use, the popularity of fast fashion requires continuous change in design and thus computerized models are in increasing demand. In the future, the sewing patterns are expected to be more intricate taking advantage of the internet and computer technology. The use of the machine will be a step closer to a 'printing sewing machine'.

Household-use machine development aims to achieve automation, simplify the mechanical structure, increase multi-functionality and in particular, develop components with computer parts such as microprocessors and feed monitors, which is full of potential for development. Tradition machines are limited to 30 patters, whereas with computerized models, the options are limitless. Since the use of technology can improve functionality so well, household models are able to reach similar capabilities to that of industrial models. Automated machines offer a large number of functions and as a result can produce higher value in the market.

Currently the domestic market has higher demand for household-use machines. Apart from Zeng Hsing, there are other manufacturers, such as Janome, Aisan, Xin Fu, Duan Lang, Shan Ping, Zhi Guan, Xun Jia, Chang Yu and San Dao Deng. In the international market, the major companies are SVP Group, Janome, Brother, Bernina, Juki, Jaguary and Fei Yue, Heng Qiang and Wan Wei. SVP, Janome, Brother, Bernina, Juki and Jaguar are better-known manufacturers who have their own brands and marketing channels. They are still engaged in higher-margin models. Janome, Taidi, Huiguo, Fingfu, Ruilang were reinvested by and established by Japanese companies in Taiwan. In addition to manufacturing products outsourced by the parent company, they also manufacture products for other globally-renowned companies.

The product development trend in the industry is as follows:

- Automatic thread sewing and automatic thread replacement
- Feeding mechanism that can reduce the problems of poor cloth feeding and sewing failure
- Machines that can be more widely used for various materials
- High-quality embroidery systems with input functions such as photos or paint.
- Provide multiple forms of user services
- Improve human-machine interface functions, such as dialog capabilities

with high-function display

- Strengthen mechanical and technological integration technology and development combining computer network or memory card.

In terms of competitiveness in the sewing machine industry among various countries, Japanese manufacturers have a higher market share due to their complete product lines and stable quality. The machines manufactured in China have a lower quality, sales price and profit. As a result, quality is a big part of the price of the product. Based on the current condition of the Taiwanese manufacturers, they need to take advantage of the pricing competitiveness, enhance their technology level and completeness of the product lines if it hopes to exceed Japanese standards.

5.1.3 Technology and R&D Overview

1. Research and development expenses for the most recent year and as of the printing date the end of the annual report:

Currency: NT\$ thousands

Year	2019	As of 30 April 2020
Price of R&D	105,013	33,987

2. Successful Developments

Year	Result of Research	
2018	LB42B	Mechanical hacker-2&3&4 line
	Q60JST	High-speed mechanical horizontal full-rotation sewing machine
	K60Q	Mechanical vertical semi-rotary sewing machine
	K60T	Mechanical vertical semi-rotary sewing machine
	CH03AX	WIFI low-end embroidery sewing combo machine
	K45R	Mechanical vertical semi-rotary sewing machine
	H10P	Computer type horizontal full rotation sewing machine
2019	CJ01BX	High-speed computer type sewing embroidery combo machine
	K75U	Mechanical vertical semi-rotary sewing machine
	Q75H	Mechanical vertical semi-rotary sewing machine
	H7XD	Computer type horizontal full rotation sewing machine
	M10C	Mechanical vertical semi-rotary sewing machine
	MA10E	Mechanical vertical semi-rotary sewing machine
	K76V	Mechanical vertical semi-rotary sewing machine
	82N0	Mechanical vertical semi-rotary sewing machine

5.1.4 Long-term and Short-term Business Development

To respond to the future industrial development and the overall economic environment trends, the Company formulates long-term and short-term plans to guide the future direction of the Company's operations and thus enhance competitiveness. The following is a brief description of our short- and long-term plan.

1. Short-Term Business Development Plans

(1) Marketing Strategy

Strengthen existing product lines, cooperate with new product promotions and image building and continue to use the original channels to achieve synergy, develop new marketing channels to expand niche markets and overall market share.

(2) Production and Operation Strategy

A. Production Strategy: In response to the business environment, effectively utilize the production base in Taiwan, China and Vietnam, and as a result increase product quality management.

B. Purchasing Strategy: Gauge shifts in the business climate and market demand and adjust inventory according to the market. Avoid having to risk price fluctuation for slow moving inventory.

(3) R&D Strategy

Expand the size of the organization in order to accelerate the development of new products, Develop R&D staff to enhance talent pool.

(4) Operation Management and Financial Planning

The Company introduced the ERP information system for more efficient and accurate collection of information. Other goals include strengthening after-sales service to maintain long-term business relationships with customers, ensuring that the Company maintains stable profits, a healthy financial accounting management system to manage the Company's funding planning , and provide comprehensive information for departments of the Company to improve their performance.

2. Long-Term Business Development Plans

(1) Marketing Strategy

- Improve product image and value
- Introduce various new products to appeal to customers
- Plan more diversified marketing channels to launch products
- Strengthen technical support for customers

- Establish a long-term sales network to generate synergy from different products
- (2) Production and procurement Strategy**
- Establish a flexible production process to regulate production capacity and shorten production cycles.
 - Respond quickly to the market as changes in demand can increase risk of stockpiling, therefore creating slow moving inventory.
 - Maintain a good long-term relationship with upstream entities to obtain a stable source of supply and bargaining space for procurement, thus allowing for a competitive advantage in procurement costs.
- (3) R&D Strategy**
- Integrate industry, government and academia to develop key component
 - Plan core products based on product development trends
 - Establish the Company's own key technology and patents
 - Continue to invest in the R&D of next generation products in order to pursue technological advantages
 - Establish modular and standardized development techniques in order to reduce development and research time, reduce cost and increase number of new products.
- (4) Operation Management and Financial Planning**
- To meet the needs of operational growth, expand into new overseas marketing channels and build a global marketing network
 - Create a sound management system
 - Implement an operating philosophy within the company
 - Create an outstanding work culture
 - Strive for the vision of a sustainable development
 - Strengthen the financial structure through diverse financing channels in the capital market to bring about growth across the Company
 - Improve the Company's financial team and overall brand.
- (5) Human Resources**
- Recruit and train senior management and technical staff at all levels to meet the long term domestic and foreign demand
 - Enhance the training for employees' diversified skills
 - Use human resources effectively
 - Improve the overall industry competitiveness

5.2 Market and Sales Overview

5.2.1 Market Analysis

1. Analyze the sales (provided) regions of the company's main products (services)

The Company is mainly export-oriented, and the net sales in 2018 and 2019 were NT\$ 6,669,964 thousand and NT\$5,935,948 thousand, respectively.

Countries	2018	2019
U.S.A.	1,364,205	1,094,318
Germany	1,228,502	926,510
Switzerland	396,723	315,192
Italy	236,314	258,102
Brazil	121,763	248,672
Others	3,322,457	3,093,154
Total	6,669,964	5,935,948

2. Market Share

At present, the household sewing machine market is mainly in higher-earning regions such as Western Europe, North America, Japan, and Australia, etc. In terms of export, the USA has been the number one destination for Zeng Hsing Group, followed by Germany, Switzerland, and Italy. Overall, Taiwan exported the sewing machines are heading towards in the middle of the price range spectrum. From 2017 to 2019, the top 5 export destinations accounted for 63.23%, 62.63%, and 62.82% of all exports in their respective years. In addition to the lower product prices than the major Japanese manufacturers, the high quality and outstanding after-sales service allowed Taiwan's household sewing machine industry to occupy a certain position in the global market.

Domestically, the Company is the largest household sewing manufacturer and supplier. Other manufacturers include JanomeChe Lemei, Taidi, and, Huiguo. The Company's product mainly is a household type sewing machine and the competitive advantage is the Company's understanding of customer demand, the ability to control related-technology, and good command of the organization. The development of household computer sewing machines has established basic software electronic control

capabilities, which will be actively integrated to develop high value-added products.

3. Future Supply and Demand Conditions and Growth of the Market

The main uses of sewing machines are sewing household clothes, tablecloths, tapestry and home accessories. As national income increases, home decorations receive more attention in households. Sewing machines are continuously upgraded to be more multi-functional and convenient and the use is no longer limited to sewing and repairing garments. They can be used to make handbags, table mats, table towels, bed sheets and curtains. The demand for these products also continues to grow, which is favorable for the overall market growth in the future. Moreover, as a result of the economic growth in China, Indonesia and the third-world countries, which are also densely populated regions, the residents in these nations are looking to improve their quality of life therefore low-price range products are growing popular. In Europe and the US where there are aging population and focus on improving quality of life through leisure activities, the demand for sewing machines is increasing too.

In recent years, the emerging markets such as China, Russia, Eastern Europe, the Middle East, India and South America, have increasing demand for low-price range products as a result of the rapid economic development, higher national income and dense population. In markets like these, there is great potential. Computerized sewing machines can use microprocessors and software to improve the functionality.

4. Niches in competition

(1) Forward looking business philosophy

The Company adheres to upholds “Honesty, innovation, teamwork and community:.” and instructs employees to be realistic while maintaining enthusiastic at e Company holds the philosophy of searching for the truth, Ask the employee to have enthusiasm for work to which can help gain trust from the customers and coworkers partners. The employees will utilize their professionalism and continue to integrate the resources provided and strive for innovation. On one hand, the Company is to cultivates talents and on the other hand, it is to innovate innovation helps and to establish a stable operation.

(2) Professional ODM Factory, Product Line Completeness

Zeng Hsing has more than 50 years of valuable experience in the production and sales of household sewing machines. The production lines are flexible allowing for adaptation to the market when needed. The Company successfully changed from OEM to ODM format, and the customization capability was strong and thus was well-recognized in the industry globally.

(3) Established a complete supply chain, effectively control raw materials or cost and ensure supply stability

The Company's management team has deeply cultivated the production of household sewing machines. As a result, the Company has accumulated a complete set of upstream key components from reliable suppliers. The Company aims to keep healthy relationships with suppliers to form a stable and close relationship between the best production and sales partners, which overall will help control costs and ensure supply stability.

(4) Manufacturing Capability of China, Taiwan & Vietnam

Household sewing machines are a labor-intensive industry, and as a result of the rising domestic labor price, the Company invested in China and Vietnam in 1987 and 1994 respectively. The move aimed at achieving cost-effectiveness and division of labor and thus increasing production capacity and greatly enhancing the economy of scale and efficiency. In 1996, the Company invested in Vietnam to set up a die-casting factory to produce aluminum alloy metal parts to gain more competitive advantage.

(5) Improving R&D Innovation and Technology Application

The Company is focused on research and development and continuously invests in product development and quality improvement every year. The R&D teams conduct development and work using 3D design, modular design and a collaborative design platform. Hence, the Company introduced a PLM system as a product life cycle management system. In 2007 and 2009, the Company successfully applied for subsidies under the "Leading New Product Development Coaching Program" and "Leading New Product Development Coaching Program: Computer Sewing Machine" from the Ministry of Economic Affairs. The Company plans to utilize its collaboration with the industry, government and academia to develop new technology. These technologies include technological

capabilities and components design to improve the technology level to produce advanced computer based sewing machines, providing high priced and high value products.

(6) Product quality ensures customer satisfaction and therefore having long-term clients

The Company keeps track of developments of the industry through its strong manufacturing experience and operation capability. We aim to introduce new products to the market, meet consumer needs in real time and work closely with customers in order to understand customer needs, special specifications and production quality. Currently, the brand is leading in the industry in terms of number of customers globally and therefore we can create long-term partnerships with our customers. The Company has been working with US customers for more than 10 years and Japanese, North American and Swiss customers for more than 30 years. We are confident we can keep constant growth of the Company.

(7) Sound Management Standard

In order to maintain effective operation of various business activities, a sound internal control system is implemented. In 1993, the Company received the ISO9002 quality certification, becoming Taiwan's first company to be certified. In 2002, the Company received ISO9001:2000 quality management certification. With the continuous growth of the organization, the Company utilizes its internal resources available to strengthen corporate structure and works towards a complete resource management structure, aiming to significantly improve the Company's operating structure. In 2007, the Company completed the ISO14001 environmental management certification. This means that the Company complies with EU environmental management. In 2011, the Company received TOSHMS&OHSAS18011, an occupational health and safety certification. In 2016, the main office in Taiwan received certification of renewed versions of ISO 9001 quality systems and ISO 14001 (2015 version) environmental management system.

5. Pros and cons to development and responsive measures

(1) Pros

- Improvement of national income and quality of life

With the high level of national income, home decorations will receive more attention in households. The functions of sewing machines are continuously developing to become more diversified and user friendly. The use of sewing machines is no longer limited to making items of clothing or for professional use. Non-professionals can make their own handbags, tablecloths, bedsheets, curtains and whatever else they require.

- Low price strategy can stimulate market demand and economic growth in emerging regions

The domestic sewing machine market is mostly concentrated in Europe, the US and Japan. Domestic sewing machine retailers struggled when faced with customers who experienced economic depression, salary cuts and layoffs. For budget-conscious consumers, many vendors have adopted low prices to meet market demand. Demand for low- and mid-priced models has increased. In recent years, China, India and the third world countries have seen economic development and as a result they look to improve their livelihoods. Thanks to the economic development, the demand of low to medium priced sewing machines has also grown. The Company has comprehensive production lines and produces low to mid-priced models for both functionality and quality, which greatly meet consumer needs. The Company also uses a triangular marketing plan. The low to mid- priced models are manufactured in China to effectively reduce the costs which makes these models very competitive, favorable for the Company's future development.

- Raw Material Supplier Network

The Company's management team has been involved in the industry of sewing machine products for decades. It was over a long period of time that the key suppliers were connected to form a sincere and close partnership with these suppliers. The Company's raw materials suppliers are vital as when there are changes in the economic environment of the industry, it is down to these partnerships that the Company is able to control cost and guarantee stock for the customers.

- Overseas Factories and Global Division of Labor

Due to a lack in labor force in Taiwan, and Taiwan's higher salary requirements than other countries, the Company's research and development remained in Taiwan while the manufacturing sites are

mainly located overseas. The Company has factories in China and Vietnam as division in labor is most effective. Currently, the manufacturing, outgoing shipments and human resources in overseas sites are operating on the right track, which boosted the Company's overall competitiveness against other companies.

(2) Cons

- Difficulty in creating a self-owned brand and marketing this brand.
As household sewing machines market channels are controlled by the larger brands, new products are hard to establish as customers are more accepting of brands they are familiar with. Japanese manufacturers in recent years have had good brand marketing, however most of their sales are within Japan. These brands struggled in the European and American sewing machine markets due to high cost of branding and establishing marketing channels. As a result, the Company currently operates the international manufacturer ODM model. The Company has entered the mainland China market to understand the markets access points while also actively training sales staff. Additionally, The Company will continue to increase the size of the R&D team and develop new product features to quickly respond to consumer needs and trends.

- Competitors price
Household sewing machines have already matured as a product and the market competition is saturated. When faced with customers with bargaining power and pricing pressure from competitors, the industry has now entered a micro-profit age. Apart from providing the customer with high quality and competitively priced products, manufacturers have to put themselves in customers' shoes to understand the needs of the customer, develop products that are suitable for the market, assist branded customers in acquiring orders from channel distributors, create customer value and provide a variety of customer service. Similarly,, the Company needs to enhance its competitive in quality through increasing variety of product lines.

5.2.2 The products application and production process

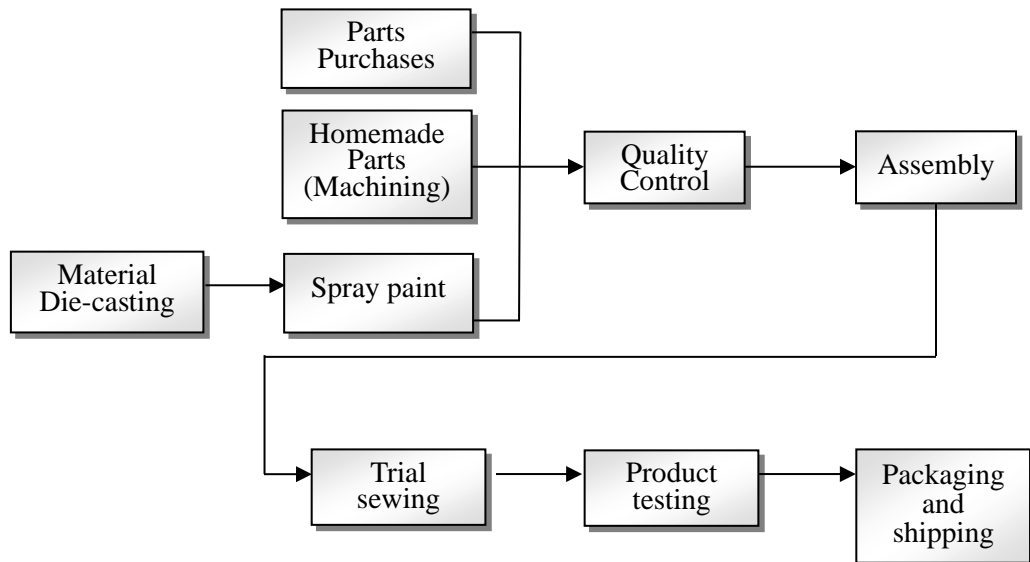
1. The products application

Household Sewing machine: Sew clothing, tablecloths, tapestries, and

other home accessories.

Household vacuum cleaner: Clean carpets and floors.

2. Production process



5.2.3 Supply status of main raw materials

The Company has a complete satellite factory system, and most of the raw material suppliers are concentrated near the production factory and have good cooperative relations, so the supply of main raw materials is stable.

Main Raw Materials	Main Suppliers	Situation
Presser Foot	Yu Hsing	Good
Placode	Zheng Tong	Good
Motor	Fang Zheng / Jin Yuan Ji Dian	Good
Punch	Yuan Fong / Cyuan Sheng	Good
Aluminium Ingot	Xin Guang / Jin Shan Fong	Good
ABS Plastic	Tai Long / Hui Ye	Good

5.2.4 Suppliers/customers who accounted for 10% or more of total purchase (sales) in one of the last two fiscal years and analysis of changes

1. Major Suppliers in the Last Two Calendar Years

Currency: NT\$ thousands

Item	2018				2019				2020 (As of March 31) Note 2			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percentage	Relation with Issuer	Company Name	Amount	Percentage	Relation with Issuer
1	A company	416,397	10.22%	NA	A company	378,930	11.31%	NA	A company	75,354	10.59%	NA
	Others	3,656,436	89.78%	-	Others	2,970,405	88.69%	-	Others	636,210	89.41%	-
	Net Purchase	4,072,833	100%		Net Purchase	3,349,335	100%		Net Purchase	711,564	100%	

Note 1: The name of the supplier with more than 10% of the total purchase amount in the last two years and the amount and proportion of the purchase are listed, however the names are coded because the contract provides that the supplier's identity shall not be revealed and the same shall apply if the transaction counterparty is an individual and a non-related party.

Note 2: As of the printing date of the report, listed companies or companies whose stocks have been traded in the securities dealers shall disclose the financial data of the most recently reviewed period if they have been audited or reviewed by a certified accountant .

Description: The amount of group purchases decreased in 2019 compared with 2018, resulting in an decrease of Group revenue in 2019.

2. Major Clients in the Last Two Calendar Years

Currency: NT\$ thousands

Item	2018				2019				2020 (As of March 31) Note 2			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percentage	Relation with Issuer	Company Name	Amount	Percentage	Relation with Issuer
1	Company A	4,431,740	66.44%	NA	Company A	3,920,800	66.05%	NA	Company A	767,983	65.69%	NA
	Others	2,238,224	33.56%	-	Others	2,015,148	33.95%	-	Others	401,207	34.31%	-
	Net Sales	6,669,964	100.00%		Net Sales	5,935,948	100.00%		Net Sales	1,169,190	100.00%	

Note 1: The name of the customer and the amount and proportion of the total sales in the last two years are listed, however the names are coded because the contract provides that the customer's identity shall not be revealed and the same shall apply if the transaction counterparty is an individual and a non-related party.

Note 2: As of the printing date of the report, listed companies or companies whose stocks have been traded in the securities dealers shall disclose the financial data of the most recently reviewed period if they have been audited or reviewed by a certified accountant.

Description: The net sales decreased in 2019 from 2018, as of the economic environment influence.

5.2.5 Production in the Last Two Years

Output Unit: thousands. Currency Unit: NT\$ thousands

Output Major Products	Year	2018			2019		
		Capacity	Quantity	Amount	Capacity	Quantity	Amount
Sewing machine		3,520	3,513	5,058,864	3,520	2,991	4,353,790

5.2.6 Sales volume in the Last Two Years

Sales Unit: thousands. Currency Unit: NT\$ thousands

Sales Major Products	Year	2018				2019			
		Domestic sales		International sales		Domestic sales		International sales	
		volume	Amount	volume	Amount	volume	Amount	volume	Amount
Sewing machine		4	11,965	3,405	6,107,794	3	10,865	3,000	5,390,670
vacuum cleaner		0	186	59	131,413	0	41	67	139,725
Other businesses		-	10,134	-	408,472	-	10,752	-	383,895
Total			22,285		6,647,679		21,658		5,914,290

5.3 Human Resources

Year		2018	2019	As of 30 April 2020
Number of Employees	Direct employee	1,908	1,853	1,941
	Indirect	705	665	669
	Management	358	394	379
	Total	2,971	2,912	2,989
Average Age		31.37	31.47	31.39
Average Years of Service		6.77	7.30	7.40
Education (%)	Ph.D.	0.07	0.03	0.03
	Masters	2.59	2.34	2.28
	Bachelor's	10.03	9.38	9.00
	Senior High	58.23	56.52	48.65
	Below Senior	29.08	31.73	40.04
	Total	100.00	100.00	100.00

5.4 Environmental Protection Expenditure

1. Any losses suffered by the company in the last two years and up to the annual report publication date due to environmental pollution incidents (including any compensation paid and any violations of environmental protection laws or regulations found in the environmental inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, and the content of the dispositions), and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: None.
2. In response to the EU restricted substances regulations related information: the Company's products to the European Union have been in line with the European Union restricted substances regulations related norms.

5.5 Labor Relations

5.5.1 Employees' working environment and personal safety

The Company has set up safety and health committees, meets regularly to review, and implements employees' health checks, relevant educational and training courses and continuous improvements in the working environment and safety measures to create a quality workplace. In addition, the Company obtained the environmental management system (ISO14001) certification, and the implementation of TOSHMS / OHSAS 18001 "Taiwan Occupational Safety and Health Management System", 1 was certified and registered by the Ministry of Economy Standards Inspection Bureau on 25 October 2011. The Company upholds the spirit of continuous improvement, and actively proposes and implements feasible improvement programs regarding noise and pollution prevention, safety and health management and fire drills..

5.5.2 Employees' behavior or code of ethics

The Company has set up "Employee Work Rules" with respect to employee behavior, prepared manuals and "Annual Performance Appraisal Measures" for employees to follow, so that employees clearly know the code of conduct. The Company also set forth regulations governing model staff selection to encourage outstanding employees.

In order to provide guidance for directors, supervisors and managers of the Company to acknowledge the ethical standards, we have established the "Code of Conduct" according to individual situations and needs. The main points are as follows:

1. To prevent conflicts of interest: Prevent conflicts of interest when personal interests are involved or may be involved in the overall interests of the Company.
2. To avoiding making self-interest: avoid using company property, information or

- taking advantage of a job position for personal gain or making personal gain while competing with the Company.
3. Confidentiality: should be liable for maintaining confidential the Company's related non-disclosed information.
 4. Fair trade: No information learned on the basis of his or her position may be manipulated, concealed, or misused to gain undue benefits by making false statements or other unfair transactions with respect to material matters.
 5. To protect and to use company assets appropriately: It is such person's responsibility to protect the Company's assets and ensure that they are used effectively and legally for official business.
 6. Compliance with laws and regulations: The Company management shall strengthen compliance with securities trading laws and other laws and regulations.
 7. To encourage reporting any illegal or unethical transactions in violation of the trading laws and other laws and regulations: In order to encourage employees to report violations, the Company, in accordance with the relevant processes or mechanisms, inform employees that the Company will do its utmost to protect the reporter from retaliation.

The abovementioned regulations can be accessed through the company's website or internal network.

5.5.3 Employee benefits measures and their implementation

The Company has set up the Employee Welfare Committee and implemented various welfare measures in accordance with the Labor Standards Act and the relevant laws and regulations. The Company's main measures are as follows:

- (1) Employee group insurance
- (2) Employee bonuses
- (3) Festival allowance
- (4) Subsidies for benefits such as weddings and funerals
- (5) Scholarships for employees and their children
- (6) Group tours and travel subsidy, festivals activities and gifts
- (7) Employee meal allowance
- (8) Employee health check
- (9) Club activities
- (10) Holding family day
- (11) Employee share ownership trust

5.5.4 Further education and training and their implementation

The Company has put in place employee training regulations. the Human Resources Department will arrange orientation for new employees so they understand the Company's business philosophy, organizational bylaws, work environment and individual rights and obligations. The full time staff will receive education and training by departments according

to job needs. Through on-the-job training, internal and external training projects and book studies, etc., employees' quality of work and capability are enhanced. In 2019, 22,122 employees received training, and the total cost of training reached NT\$1,856 thousand.

In order to encourage employees to pursue further education while on the job, employees may pursue further education in accordance with the Company policy, and when a degree is earned, the Company will award a fixed amount of bonus as encouragement.

5.5.5 The retirement system and its implementation

To protect employees' retirement, the Company, in accordance with the Labor Standards Act, shall allocate 6% of employee salary as pension reserve and deposit it in the dedicated account with the Labor Retirement Reserve Supervision Committee, and since the promulgation of the Labor Pensions Act on 1 July 2005, the Company shall set aside 6% of employee salary to be deposited in the dedicated pension account each month for employees applicable under the Act so as to provide employees maximum retirement life protection.

5.5.6 The labor-management agreements and employee rights and interests protection measures

The Company is applicable under the Labor Standards Act. All operations shall comply with the Act. The Company regularly holds labor-management meetings pursuant to the Regulations for Implementing Labor-Management Meeting to promote mutual cooperation and improve efficiency, so that the two sides can communicate and cooperate more smoothly.

5.5.7 For the most recent year and as of the date of publication of the annual report, disclose the losses suffered as a result of labor disputes(including any violations of the Labor Standards Act found in labor inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, the substance of the legal violations, and the content of the dispositions) and the estimated amount and response measures that may occur now and, in the future: None.

5.6 Material contracts

Type of contract	Parties	Period	Major contents	Restrictions
Engineering contract	Domestic manufacturers	Completed on or before the 530th calendar day from the day following receiving approval from the competent authority to commence construction	New Construction	NA
Design supervision contract	Domestic manufacturers	Statutory completion period according to the engineering contract	Planning, Design and Engineering Supervision	NA
Real estate contract	Domestic manufacturers	Following the execution date on 23 October 2018 expected to be completed in December 2019 (maybe delated for no more than 120 days)	New Building Construction	NA
Decorations contract	Domestic manufacturers	Following the execution date on 2 January 2019 expected to be completed on 1 November 2019 (maybe delayed as of engineering changes)	Interior Decorations Build Construction Project	NA
Weak electric equipment contract	Domestic manufacturers	Following the execution date on 2 January 2019 expected to be completed on 1 November 2019 (maybe delayed as of engineering changes)	Weak Electric Construction Project	NA
Landscape construction contract	Domestic manufacturers	Following the execution date on 1 April 2019 expected to be completed on 31 December 2019 (maybe delayed as of engineering changes)	Plant Landscape Construction	NA

VI. Financial information

6.1 Five-Year Financial Summary – Based on IFRS-compliant

6.1.1 Condensed Balance Sheet and Income Statement (Consolidated)

Condensed Balance Sheet (Consolidated)

Currency: NT\$ thousands

Year		2015	2016	2017	2018	2019	For the year ended 31 March 2020 (Note 3)
Item							
Current assets		4,157,146	4,427,895	4,981,100	4,874,094	4,211,008	4,026,758
Property, Plant and Equipment (Note 2)		1,420,644	1,381,370	1,280,479	1,431,041	1,696,637	1,765,930
Intangible assets		37,461	40,860	44,560	39,042	38,951	45,025
Other assets (Note 2)		271,921	393,643	433,151	467,442	495,462	471,540
Total assets		5,887,172	6,243,768	6,739,290	6,811,619	6,442,058	6,309,253
Current liabilities	Before distribution	1,287,463	1,448,198	1,969,618	1,572,328	1,295,471	1,088,520
	After distribution	1,862,551	2,023,286	2,484,171	2,238,220	Undistributed	Undistributed
Non-current liabilities		224,528	210,664	344,135	392,198	342,608	329,012
Total liabilities	Before distribution	1,511,991	1,658,862	2,313,753	1,964,526	1,638,079	1,417,532
	After distribution	2,087,079	2,233,950	2,828,306	2,630,418	Undistributed	Undistributed
Capital stock		605,526	605,526	605,526	605,356	605,356	605,356
Capital surplus		1,387,345	1,387,345	1,387,345	1,385,352	1,385,352	1,385,352
Retained earnings	Before distribution	2,332,119	2,607,397	2,573,402	2,974,881	2,982,511	3,100,608
	After distribution	1,757,031	2,032,309	2,058,849	2,308,989	Undistributed	Undistributed
Other equity interest		18,954	(45,286)	(176,886)	(163,100)	(211,385)	(243,770)
Treasury stock		(2,163)	(2,163)	(2,163)	-	-	-
Non-controlling interest		33,400	32,087	38,313	44,604	42,145	44,175
Total equity	Before distribution	4,375,181	4,584,906	4,425,537	4,847,093	4,803,979	4,891,721
	After distribution	3,800,093	4,009,818	3,910,984	4,181,201	Undistributed	Undistributed

Condensed Balance Sheet (Unconsolidated)

Currency: NT\$ thousands

Item \ Year	2015	2016	2017	2018	2019	For the year ended 31 March 2020 (Note 3)	
Current assets	2,775,021	3,223,379	3,908,953	3,274,300	2,761,785	Not applicable	
Property, Plant and Equipment (Note 2)	124,600	129,316	167,190	334,544	622,386		
Intangible assets	35,860	37,551	40,603	32,930	27,624		
Other assets (Note 2)	2,755,387	2,846,869	2,745,011	3,060,467	2,986,471		
Total assets	5,690,868	6,237,115	6,861,757	6,702,241	6,398,266		
Current liabilities	Before distribution	1,124,580	1,473,656	2,130,398	1,510,146		1,297,068
	After distribution	1,699,668	2,048,744	2,644,951	2,176,038		Undistributed
Non-current liabilities	224,507	210,640	344,135	389,606	339,364		
Total liabilities	Before distribution	1,349,087	1,684,296	2,474,533	1,899,752		1,636,432
	After distribution	1,924,175	2,259,384	2,989,086	2,565,644		Undistributed
Capital stock	605,526	605,526	605,526	605,356	605,356		
Capital surplus	1,387,345	1,387,345	1,387,345	1,385,352	1,385,352		
Retained earnings	Before distribution	2,332,119	2,607,397	2,573,402	2,974,881		2,982,511
	After distribution	1,757,031	2,032,309	2,058,849	2,308,989		Undistributed
Other equity interest	18,954	(45,286)	(176,886)	(163,100)	(211,385)		
Treasury stock	(2,163)	(2,163)	(2,163)	-	-		
Total equity	Before distribution	4,341,781	4,552,819	4,387,224	4,802,489		4,761,834
	After distribution	3,766,693	3,977,731	3,872,671	4,136,597		Undistributed

* If the company has prepared an individual financial report, it shall prepare separately individual condensed balance sheet and consolidated income statement for the last five years.

* Those who adopted the financial reporting standards for less than 5 years shall prepare the financial data of adopting ROC financial accounting standards.

Note 1: The year in which the financial report has not been audited by a certified accountant should be noted.

Note 2: Those who have undergone asset revaluation in the current year should include the evaluation date and the value after the reevaluation.

Note 3: As of the printing date of the report, listed companies or companies whose stocks that have been traded in the securities dealers shall disclose the financial data of the most recently reviewed period of examination if they have been audited or reviewed by a certified accountant.

Note 4: The amount after distribution should be filled in according to the resolution of the shareholders' meeting of the following year.

Note 5: For financial data notified by the competent authority to make correction or be restated, such data should be enumerated with corrected or restated numbers, with status and causes indicated.

Condensed Statement of Comprehensive Income (Consolidated)

Currency: NT\$ thousands

Year	2015	2016	2017	2018	2019	As of 31 March 2020(Note2)
Item						
Operating revenue	6,017,442	6,039,336	5,994,144	6,669,964	5,935,948	1,169,190
Gross profit	1,548,666	1,673,305	1,514,515	1,688,206	1,489,275	273,394
Income from operations	937,273	1,058,191	886,335	1,042,163	851,030	106,709
Non-operating income	199,974	49,714	(174,828)	239,637	53,501	53,538
Income before tax	1,137,247	1,107,905	711,507	1,281,800	904,531	160,247
Income from operations of going concerns- after tax	868,605	858,672	538,289	940,861	688,006	120,127
Income or loss from non-going concerns	-	-	-	-	-	-
Net income (Loss)	868,605	858,672	538,289	940,861	688,006	120,127
Other comprehensive income (income after tax)	(12,524)	(65,305)	(115,971)	(4,123)	(43,652)	(27,547)
Total comprehensive income	856,081	793,367	422,318	936,738	644,354	92,580
Net income attributable to shareholders of the parent	858,975	851,431	525,464	923,572	675,801	118,097
Net income attributable to non-controlling interest	9,630	7,241	12,825	17,289	12,205	2,030
Comprehensive income attributable to Shareholders of the parent	846,451	786,126	409,493	919,449	632,149	90,550
Comprehensive income attributable to non-controlling interest	9,630	7,241	12,825	17,289	12,205	2,030
Earnings per share	14.19	14.06	8.68	15.26	11.16	1.95

Condensed Statement of Comprehensive Income (Unconsolidated)

Currency: NT \$thousands

Year						As of 31 March 2020(Note2)
Item	2015	2016	2017	2018	2019	
Operating revenue	5,587,174	5,611,726	5,495,386	6,137,712	5,415,138	Not applicable
Gross profit	1,094,936	1,175,302	1,112,430	1,237,989	1,062,307	
Income from operations	681,785	753,349	646,295	751,237	628,248	
Non-operating income	377,042	286,071	9,838	445,215	209,453	
Income before tax	1,058,827	1,039,420	656,133	1,196,452	837,701	
Income from operations of going concerns- after tax	858,975	851,431	525,464	923,572	675,801	
Income or loss from non-going concerns	-	-	-	-	-	
Net income (Loss)	858,975	851,431	525,464	923,572	675,801	
Other comprehensive income (income after tax)	(12,524)	(65,305)	(115,971)	(4,123)	(43,652)	
Total comprehensive income	846,451	786,126	409,493	919,449	632,149	
Net income attributable to shareholders of the parent	-	-	-	-	-	
Net income attributable to non-controlling interest	-	-	-	-	-	
Comprehensive income attributable to Shareholders of the parent	-	-	-	-	-	
Comprehensive income attributable to non-controlling interest	-	-	-	-	-	
Earnings per share	14.19	14.06	8.68	15.26	11.16	

* If the company has prepared an individual financial report, it shall prepare separately individual condensed balance sheet and consolidated income statement for the last five years.

* Those who adopted the financial reporting standards for less than 5 years shall prepare the financial data of adopting ROC financial accounting standards.

Note 1: The year in which the financial report has not been audited by a certified accountant should be noted.

Note 2: Those who have undergone asset revaluation in the current year should include the evaluation date and the value after the reevaluation.

Note 3: As of the printing date of the report, listed companies or companies whose stocks that have been traded in the securities dealers shall disclose the financial data of the most recently reviewed period of examination if they have been audited or reviewed by a certified accountant.

Note 4: The amount after distribution should be filled in according to the resolution of the shareholders' meeting of the following year.

Note 5: For financial data notified by the competent authority to make correction or be restated, such data should be enumerated with corrected or restated numbers, with status and causes indicated.

6.1.2 Auditors' Opinions from 2014 to 2018

Year	Accounting Firm	CPA	Audit Opinion
2015	Ernst and Young	WEN-BI YAN, CHIN-YUAN TU	Unqualified opinion
2016	Ernst and Young	WEN-BI YAN, CHIN-YUAN TU	Unqualified opinion
2017	Ernst and Young	WEN-BI YAN, CHIN-YUAN TU	Unqualified opinion
2018	Ernst and Young	CHIN-YUAN TU, MING-HUNG CHEN	Unqualified opinion
2019	Ernst and Young	CHIN-YUAN TU, MING-HUNG CHEN	Unqualified opinion

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis

Item (Note 3) \ Year (Note 1)		Financial Analysis for the Last Five Years					As of 31 March 2019 (Note 2)
		2015	2016	2017	2018	2019	
Financial structure (%)	Debt Ratio	25.68	26.57	34.33	28.84	25.43	22.47
	Ratio of long-term capital to property, plant and equipment	323.78	347.16	372.49	366.12	303.34	295.64
Solvency (%)	Current ratio	322.89	305.75	252.90	309.99	325.06	369.93
	Quick ratio	284.52	272.26	231.65	266.26	273.53	312.64
	Interest earned ratio (times)	903.58	241.54	93.16	160.69	215.60	149.24
Operating performance	Accounts receivable turnover (times)	4.46	4.49	4.38	5.63	5.76	4.72
	Average collection period	81.83	81.29	83.33	64.83	63.36	77.33
	Inventory turnover (times)	8.66	9.04	10.18	9.58	7.26	5.94
	Accounts payable turnover (times)	6.26	6.72	5.55	6.03	5.85	1.31
	Average days in sales	42.14	40.37	35.85	38.10	50.27	61.44
	Property, plant and equipment turnover (times)	4.22	4.31	4.50	4.92	3.80	2.70
	Total assets turnover (times)	1.06	1.00	0.92	0.98	0.90	0.73
Profitability	Return on total assets (%)	15.30	14.22	8.39	13.98	10.43	7.59
	Return on stockholders' equity (%)	20.55	19.17	11.95	20.29	14.26	9.91
	Pre-tax income to paid-in capital (%)	187.81	182.97	117.50	211.74	149.42	105.89
	Profit ratio (%)	14.43	14.22	8.98	14.11	11.59	10.27
	Earnings per share (NT\$)	14.19	14.06	8.68	15.26	11.16	1.95
Cash flow	Cash flow ratio (%)	96.38	62.39	48.72	86.37	59.39	12.93
	Cash flow adequacy ratio (%)	111.87	113.58	120.55	127.90	122.31	123.51
	Cash reinvestment ratio (%)	12.85	5.91	6.92	13.73	1.74	2.32
Leverage	Operating leverage	2.11	2.03	2.26	2.16	2.37	3.75
	Financial leverage	1.00	1.00	1.01	1.01	1.00	1.01

1. Interest earned ratio: The ratio increased due to the decreasing 2019 interest expense from 2018.
2. Inventory turnover ratio: The inventory turnover ratio decreased due to the decreasing cost of goods sold in 2019 from 2018.
3. Average days in sales: Because of the decreasing cost of goods sold in 2019 from 2018, the inventory turnover decreased and resulting in the average days in sales in 2019 longer than in 2018.
4. Property, plant and equipment turnover: Because of the completion and acceptance of the new headquarters plant in 2019, the real property asset increased and caused the turnover rate to decrease.
5. Return on total assets: The ratio decreased due to the decreasing 2019 sales from 2018, therefore affected the net income.
6. Return on stockholders' equity: The same as 5.
7. Pre-tax income to paid-in capital: The same as 5.
8. Earnings per share: The same as 5.
9. Cash flow ratio: The ratio decreased due to the decreasing 2019 sales from 2018 and therefore reduced the operating activity inflow.
10. Cash reinvestment ratio: The same as 9.

6.2.2 Financial Analysis (Unconsolidated)

Item (Note 3) \ Year(Note 1)		Financial Analysis for the Last Five Years					As of 31 March 2019 (Note 2)
		2015	2016	2017	2018	2019	
Financial structure (%)	Debt Ratio	23.71	27.00	36.06	28.35	25.58	Not applicable
	Ratio of long-term capital to property, plant and equipment	3484.58	3520.69	2719.79	1471.40	777.95	
Solvency (%)	Current ratio	246.76	218.73	183.48	216.82	212.93	
	Quick ratio	241.76	214.58	180.30	211.94	207.86	
	Interest earned ratio (times)	883.36	254.27	106.15	174.73	285.26	
Operating performance	Accounts receivable turnover (times)	3.96	3.97	3.83	4.88	4.86	
	Average collection period	92.17	92.01	95.31	74.85	75.14	
	Inventory turnover (times)	73.71	73.18	68.21	68.24	59.01	
	Accounts payable turnover (times)	7.27	6.72	4.75	5.51	6.41	
	Average days in sales	4.95	4.99	5.35	5.35	6.19	
	Property, plant and equipment turnover (times)	44.64	44.20	37.07	24.47	11.32	
	Total assets turnover (times)	1.02	0.94	0.84	0.91	0.83	
Profitability	Return on total assets (%)	15.74	14.33	8.10	13.70	10.35	
	Return on stockholders' equity (%)	20.49	19.14	11.76	20.10	14.13	
	Pre-tax income to paid-in capital (%) (Note7)	174.86	171.66	108.36	197.64	138.38	
	Profit ratio (%)	15.37	15.17	9.56	15.05	12.48	
	Earnings per share (NT\$)	14.19	14.06	8.68	15.26	11.16	
Cash flow	Cash flow ratio (%)	73.42	38.37	41.71	46.40	29.28	
	Cash flow adequacy ratio (%)	139.45	128.98	132.21	115.27	95.63	
	Cash reinvestment ratio (%)	6.07	-0.20	6.74	3.62	(5.67)	
Leverage	Operating leverage	1.51	1.51	1.64	1.58	1.61	
	Financial leverage	1.00	1.01	1.01	1.01	1.00	

1. Ratio of long-term capital to property, plant and equipment: Fixed asset increased because of the completion and acceptance of the new headquarters plant in 2019 and caused the ratio to decrease.
2. Interest earned ratio: The ratio increased due to the decreasing 2019 interest expense from 2018.
3. Property, plant and equipment turnover: Because of the completion and acceptance of the new headquarters plant in 2019, real property asset increased and reduced the turnover rate.
4. Return on total assets: The ratio decreased due to the decreasing 2019 sales from 2018, thereby affecting the net income and in turn reduced return on assets.
5. Return on stockholders' equity: The same as 4.
6. Pre-tax income to paid-in capital: The same as 4.
7. Earnings per share: The same as 4.
8. Cash flow ratio: The ratio decreases due to the decreasing 2019 sales from 2018 and reduced the operating activity inflow.
9. Cash reinvestment ratio: The same as 8.

* If the company has prepared an individual financial report, it shall prepare separately individual condensed balance sheet and consolidated income statement for the last five years.

* Those who adopted the financial reporting standards for less than 5 years shall prepare the financial data of adopting ROC financial accounting standards.

Note 1: The year in which the financial report has not been audited by a certified accountant should be noted.

Note 2: Those who have undergone asset revaluation in the current year should include the evaluation date and the value after the reevaluation.

Note 3: At the end of this table in the financial report, the following formula shall be shown:

1. Financial Structure analysis

(1) Debt ratio = Total Liabilities / Total Assets

(2) Long-term funds to property, plant and equipment = (Total equity + Non-current liabilities) / Property, plant and equipment, net

2. Liquidity analysis

(1) Current ratio = Current assets / Current liability

(2) Quick ratio = (Current Assets - Inventories - Prepaid expenses) / Current liability

(3) Times interest earned = Profit before Credit for Income Tax / Current interest expense

3. Operating performance analysis

(1) Average collection turnover (Including Accounts Receivable and Notes Receivable from operation) = Sales / Average trade receivables

(2) Days to collect accounts receivable = 365 / Average collection turnover

(3) Average inventory turnover = Cost of goods sold / Average inventories

(4) Average payment turnover (Including Accounts Payable and Notes Payable from operation) = operating costs / Average trade payables

(5) Average days to sell inventory = 365 / Average inventory turnover

(6) Property, plant and equipment turnover = Sales / Average property, plant and equipment, net

(7) Total assets turnover = Sales / Average total assets

4. Return on investment analysis

(1) Rate of return on assets = [Profit + Interest expense X (1 - Tax rate)] / Average assets

(2) Rate of return on equity = Profit / Average total Equity

(3) Profit to sales = Profit / Sales

(4) Earnings per share = (Equity attributable to owners of parent - Dividend-preferred stock) / Weighted average outstanding shares (Note 4)

5. Cash flow

(1) Cash flow ratio = Net cash provided by operating activities / Current liability

(2) Cash flow adequacy ratio = 5-year net cash provided by operating activities / 5-year (Capital expense + Increase in inventories + Cash dividend)

(3) Cash flow reinvestment ratio = (Net cash provided by operating activities - Cash dividend) - (Property, plant and equipment, net + Long-term investments + Other non-current assets + Operating Capital) (Note 5)

6. Leverage

(1) Operating Leverage= (Net sales – Variable cost) / Operating income (Note 6)

(2) Financial leverage = Operating income / (Operating income – Interest expenses)

Note 4: The following factors are to be included for consideration for the calculation of earnings per share:

1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year-end.
2. For capitalization with cash or treasury stock transaction, the stock circulation must be included for consideration to calculate weighted average stock shares.
3. For capitalization with retained earnings and capital surplus, the earnings per share calculated semi-annually and annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) shall be deducted from net income or added to the net loss. If preferred stock shares are not cumulative, preferred stock dividend shall be deducted from net income if there is any, but it needs not to be added to net loss if there is any.

Note 5: The following factors are to be included for consideration for the analysis of cash flow:

1. Net cash flow from operating activity shall refer to the net cash inflow from operating activity on the Statement of Cash Flow.
2. Capital expenditure shall refer to the cash outflow of annual capital investment.
3. Increase of inventory is factored in only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero.
4. Cash dividend includes the amount for common stock and preferred stock.
5. Gross Property, plant and equipment shall refer to the total property, plant and equipment before deducting the accumulated depreciation.

Note 6: Issuers are to have operating cost and operating expenses classified into the category of fixed and variable. If the classification of operating cost and operating expense involves estimation or discretionary judgment, it must be made reasonably and consistently.

Note 7: If the company's shares are non-denominational or not at NT\$10 per share, and the above calculations of paid-in capital ratio may use the equity attributable to the owner of the parent company stated in the balance sheet.

6.3 Supervisor's Review Report for the Most Recent Year: P.128

6.4 Financial Statements for the most recent year

Please refer to pages 149 - 260.

6.5 A parent company only financial statement for the most recent fiscal year, certified by a CPA.

Please refer to pages 261 - 358.

6.6 If the company or its affiliates experienced financial difficulties in the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, the annual report shall explain how said difficulties will affect the company's financial situation: None.

Zeng Hsing Industrial Co., Ltd.

Supervisor Review Report

The Board of Directors has prepared and submitted to us the Company's 2019 Business Report, proposal for earnings distribution and the financial statements audited by the accountant, who issued an audit report accordingly. Pursuant to Article 219 of the Company Act, we hereby submit this report.

Zeng Hsing Corporation

Supervisor: Bo-Song Zhang

Supervisor: Hui-Yu Huang

Supervisor: Meng-Zong He

12 March 2020

VII. Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

Financial Standing Comparison and Analysis Table

Currency: NT\$ thousands

Item	Year		Difference	
	2019	2018	Amount	%
Current Assets	4,211,008	4,874,094	(663,086)	-13.60%
Fixed Assets	1,696,637	1,431,041	265,596	18.56%
Intangible Assets	38,951	39,042	(91)	-0.23%
Other Assets	495,462	467,442	28,020	5.99%
Total Assets	6,442,058	6,811,619	(369,561)	-5.43%
Current Liabilities	1,295,471	1,572,328	(276,857)	-17.61%
Non-current Liabilities	342,608	392,198	(49,590)	-12.64%
Total Liabilities	1,638,079	1,964,526	(326,447)	-16.62%
Capital stock	605,356	605,356	0	0.00%
Additional paid-in capital	1,385,352	1,385,352	0	0.00%
Retained Earnings	2,982,511	2,974,881	7,630	0.26%
Other components of equity	(211,385)	(163,100)	(48,285)	29.60%
Treasury stock	-	-	-	-
Non-controlling interests	42,145	44,604	(2,459)	-5.51%
Total Stockholders' Equity	4,803,979	4,847,093	(43,114)	-0.89%
Analysis of changes in financial ratios:				
A. Decrease in Other components of equity: The depreciation of USD caused foreign exchange differences arising from the translation of foreign operations.				

7.2 Analysis of Financial Performance

Financial Performance Comparison and Analysis Table

Currency: NT\$ thousands

Item	Year		Difference	
	2019	2018	Amount	%
Net Sales	5,935,948	6,669,964	(734,016)	-11.00%
Gross Profit	1,489,275	1,688,206	(198,931)	-11.78%
Operating Income	851,030	1,042,163	(191,133)	-18.34%
Non-operating Income and Expenses	53,501	239,637	(186,136)	-77.67%
Income from continuing operations before income tax	904,531	1,281,800	(377,269)	-29.43%
Income from continuing operations, net of tax	688,006	940,861	(252,855)	-26.87%
Income (Loss) from Discontinued Operation	-	-	-	-
Net Income	688,006	940,861	(252,855)	-26.87%
Total other comprehensive income, net of tax	(43,652)	(4,123)	(39,529)	958.74%
Total comprehensive income	644,354	936,738	(292,384)	-31.21%
Stockholders of the parent	675,801	923,572	(247,771)	-26.83%
Non-controlling interests	12,205	17,289	(5,084)	-29.41%
Stockholder of the parent	632,149	919,449	(287,300)	-31.25%
Non-controlling interests	12,205	17,289	(5,084)	-29.41%
Earnings per share-basic	11.16	15.26	(4)	-26.87%

7.2.1 Analysis of changes in financial ratios:

- A. Increase in non-operating income and expenses: Mainly because of the devaluation of the USD exchange rate, the foreign exchange gain and gain on the valuation of the financial asset decreased by NTD 180 million from 2018.
- B. Decrease in income from continuing operations before income tax: Because of the 2019 net sales decrease of NTD 730 million and the USD exchange rate devaluation.
- C. Decrease in other comprehensive income, net of tax: The depreciation of USD caused foreign exchange losses arising from the translation of foreign operations.

7.2.2 Sales Volume Forecast and Related Information:

Unit: thousands of sets

Sales by product line	2020
	Sales Volume Forecast
Sewing machine produces	3,050

The expected sales of the Company is based on 2019 sales, while referencing the industrial environment, market demand and considering the current capacity and

customer demand.

7.2.3 The potential future impact upon the company's financial operations as well as responsive measures:

The Company will monitor market trends from time to time, manage the production bases flexibly to adjust inventory to prevent slow-moving inventory and price fluctuation risk in raw materials, as well as keeping track of the economy and market demand to plan new product promotion, so as to expand market share and boost profit.

7.3 Analysis of Cash Flow

7.3.1 Liquidity Analysis of the most recent two years

Item \ Year	2019	2018	Variance (%)
Cash Flow Ratio (%)	59.39	86.37	-31.24
Cash Flow Adequacy Ratio (%)	122.31	127.90	-4.37
Cash Reinvestment Ratio (%)	1.74	13.73	-87.33
Analysis of financial ratio change:			
1. Cash Flow Ratio: Mainly because of the net sales decrease in 2019 so that the operating activities net cash inflow decreases and cause the cash flow ratio to decrease.			
2. Cash Flow Reinvestment Ratio: The same as A.			

7.3.2 Remedy for Liquidity Shortfall: Not applicable.

7.3.3 Cash Flow Analysis for the Coming Year

Currency: NT\$ thousands

Balance of cash at start of term(1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Net Cash Flow from Financing Activities (3)	Cash Surplus (Deficit) (1)+(2)+(3)	Leverage of Cash Surplus (Deficit)	
				Investment Plans	Financing Plans
\$2,427,869	1,154,321	(1,546,737)	2,035,453	-	-
Cash Flow Projection for Next Year:					

1. Operating activities: Steady growth of revenue is expected to continue next year, and the operating turnover days are similar to those of 2019, with net cash inflow expected.
2. Investment activities and financing activities: According to the new policy set out in 2020 to replace old equipment and the factory remodeling plan, considering the investment plan and dividend policy of the coming year, the Company still has sufficient funding. However, if there is a fund shortfall due to the time gap between receiving and making payments, the Company will resort to bank borrowing.

7.4 Major Capital Expenditure Items

The major capital expenditure of the company is the plant construction at the Taiwan headquarters. The sources of funds is equity fund and bank financing.

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

The Company's management make reinvestments based on factors such as the Company's operating needs, cost reductions, market share expansion, or the Company's global layout. An investment evaluation team was established by the Company's management to conduct a comprehensive evaluation of the Company's current conditions, future prospects and global trends, etc., and provide investment proposals for decision-makers.

Due to the higher manufacturing cost in the factories in China, certain products have been moved to the Vietnamese manufacturers. The Chinese factory is dedicated to improving efficiency, cut cost and as a result enhancing profit margins. In order to ensure a stable source of materials and reduce the cost of purchases to increase profits, in the future the Company will continue to improve the rationalization of production processes, increase the rate of manufacturing major parts by the Company itself, reduce costs, and strengthen the management of the supply chain.

The Company's plants in Vietnam have been operating efficiently and generated profit. Moving forward, the Company will strictly control production costs to improve efficiency and profitability.

7.6 Special Disclosure

7.6.1 Risk Assessment

1. Organizational Structure and Policies for Risk Management

Name of Group	Responsibilities
Board of Directors	<ol style="list-style-type: none"> 1. Manage and create appropriate business culture. 2. Supervise the managers to make good use of the Company's resources to perform their duties and achieve their goals. 3. Establish the Company's core values and standards and promote

	<p>efficient internal and external communications.</p> <p>4. Ensure to exercise duties in accordance with laws, articles of association and resolutions of shareholders' meetings.</p>
Compensation Committee	<p>1. Exercise due care of a good manager and perform the duties faithfully. They should forward proposals to the board of directors for discussion.</p> <p>2. Set and review regularly the annual and long-term performance goals, salary and compensation policies, systems, standards and structures of the directors, supervisors and managers of the Company.</p> <p>3. Regularly evaluate how the Company's directors, supervisors and managers have performed in terms of achieving their targets and determine the composition and amounts of their respective salary and remuneration.</p>
Management Committee	<p>1. Within the scope of authorization, develop management policies and determine the relevant operational matters according to the board of directors' instruction</p> <p>2. Review matters related to the organizational reform</p> <p>3. Evaluate and decide new plans</p> <p>4. Review addition, disposal and transfer of important equipment</p> <p>5. Deliberate important proposals made by various departments</p> <p>6. Understand the dynamics of each department, communicate management information and achieve business performance goals</p> <p>7. Review internal audit report</p> <p>8. Coordinate matters among all departments</p>
Internal Control System Self-Inspection Team	<p>1. Internal control related to the effectiveness and efficiency of operations</p> <p>2. Internal control related to the reliability of financial reporting</p> <p>3. Internal control related to the compliance of relevant laws and regulations.</p>
Information Security Committee	<p>1. Review of Information Security Management Policy</p> <p>2. Formulation of Information Security Management Policy</p> <p>3. Coordination of responsibilities for information security matters among all departments</p> <p>4. The risk supervision of information assets</p> <p>5. Coordination and discussion of the information security technology, method, and procedures that should be adopted</p> <p>6. Review and supervision of information security incident.</p> <p>7. Permission and supervision of the corrective and preventive measures.</p>

2. Risk Management Policy

The board of directors develops and reviews the procedures, and the management team forms the management committee to regularly or irregularly review business policies, review organizational systems, evaluate and decide on new plans, and communicate management information, etc., as well as whether there are any abnormal circumstances. All departments will bear responsibilities according to hierarchy and carry out duties diligently. The internal control system self-inspection team will review the internal control systems annually and the internal audit team evaluates the effectiveness of the self-inspection team to minimize the risk of human error.

Over the years of implementation, except for market risks which cannot be controlled in the macroeconomic environment, other risks such as financial risk, liquidity risk, credit risk, legal risk, strategic and operating risk, have all been controlled internally and effectively without faults.

7.6.2 Impact of changes in interest rates, exchange rates, and inflation on the Company's profits and losses and future countermeasures.

To meet the short-term capital requirements, the Company will consider low-cost funding from the money market while also seeking financing from financial institutions. For the medium and long-term development and financial planning, capital market can be leveraged when appropriate.

Interest risk shall refer to the fluctuation of financial instruments' fair value or future cash flow caused by changes in market interest rates. The Company's interest rate risk mainly derives from the floating interest rates loans and fixed interest rate loans.

The Company's interest rate risk analysis mainly aimed at floating rate loans and assumed that the contract is set for one fiscal year. When the market interest rate rises or falls by 10 basis points, the profit or loss of the group would rise or fall by NT\$120,000 and NT\$160,000 in 2018 and 2019.

The Company's products are mainly exported overseas, and the main income is in US Dollars. The foreign currency income covers the foreign currency expenditure required for imports. In addition, financial analysts will constantly be updated on global markets information, be aware of the exchange rate trend and refer to the analysis and suggestions provided by banks. Depending on the actual funding needs and exchange rate changes, foreign exchange deposit positions may be adjusted when appropriate, and when there is greater exchange fluctuation, the Company will execute forward exchange agreement with banks to avoid further losses.

The Company's exchange risk sensitivity analysis is mainly focused on the key

foreign currencies as of the end date of the financial statements and the impact of the relevant foreign currencies' appreciation and depreciation on the Company's profit and loss. The Company's exchange rate risk mainly derives from US dollars, RMB and Vietnamese Dong.

- When the value of NTD appreciated/depreciated by 1% against USD, the gain or loss in 2019 and 2018 will be reduced/increased by NT\$19,127 thousand and NT\$23,807 thousand, while equity will remain unchanged.
- When the value of NTD appreciated/depreciated by 1% against RMB, the gain or loss in 2019 and 2018 will be increased/reduced by NT\$225 thousand and NT\$561 thousand, while equity will remain unchanged.
- When the value of NTD appreciated/depreciated by 1% against Vietnamese Dong, the gain or loss in 2019 and 2018 will be increased/reduced by NT\$1,383 thousand and NT\$2,249 thousand, while equity will remain unchanged.

As the Company operates in an export-oriented industry, exchange rate changes may affect revenue and profits. The Company's hedging measures against exchange rate changes are described below:

- The export quotation considers the fluctuation of currency exchange rates and adjusts sale price timely to reflect cost.
- Establish dedicated foreign currency accounts to reduce the impact of exchange rate fluctuation and determine appropriate timing to settle currency exchange and goods payments.
- The finance department maintains close ties with the foreign exchange departments at banks in order to keep track of the global currency exchange changes and make foreign currency denominated asset /liability hedging assessment from time to time to reduce negative impact from exchange rate changes.
- Stipulated the "Process for obtaining or disposing of assets" in accordance with regulations set forth by the Securities and Futures Bureau, Financial Supervisory Commission to govern the procedures for trading, risk management, supervision and auditing of derivative financial products, and enhance risk control with respect to the Company's use of financial instrument to hedge against exchange rate risk.
- Always keep track of market exchange rate changes and negotiable favorable exchange rates with banks.

There have been no signs of inflation in recent years and the Company mainly exports its products. The factor has limited impact on the Company's operation.

7.6.3 Policies of engaging in high risk and high-leverage investment, fund-lending, endorsement guarantees and derivative commodity transactions; main reasons for profit or loss and future responsive measures:

- The Company is engaged in high-risk and high leverage investments: None.
- The Company lends money to external entities: None.

- The Company's endorsement guarantees for others: According to the 'Operating Procedures Governing Loaning of Funds and Making of Endorsement/guarantee', the Company provides endorsement guarantee to the subsidiary (Zeng Hsing Industrial Co., Ltd. (VN)). The endorsement guarantee items include financing, import tax guarantee, import letter of credit for negotiation, acceptance of bill, and accounts receivables factoring credit line, etc. As the subsidiary was financially healthy with stable operation, the endorsement guarantee never suffered any loss.
- The Company's main purpose in engaging in derivative commodity transactions is to hedge the risk against significant fluctuation in exchange rates, and such transactions are treated in accordance with the 'Procedures for obtaining or disposing of assets.
- Future responsive measures: The Company has not engaged in high-risk, high leverage investment. Lending money to others and the endorsement guarantee will be handles in accordance with the 'Procedures for loaning funds and endorsement guarantee'. In the future, the Company will continue to strictly control derivatives transactions based on the exchange rate risk control principles in order to reduce exchange rate risk and hedge against foreign exchange losses.

7.6.4 Future R&D Plan and Expected Costs

The Company's R&D team is focused on developing its own talents. It focuses on nurturing professionalism and skills, accumulating experience and expertise and initiate cooperation with the industry, government and academia therefore strengthening the technical capabilities and quality of the team. The Company aims to introduce 3D design software, modular design methods, collaborative design, design environment standards, and coordinated engineering. There are a number of advanced design methods such as mold flow analysis, stress analysis and motion analysis to speed up development time and enhance R&D quality so the Company can move towards developing more diversified products.

It is expected in 2020 that R&D manpower will be increased. The estimated budget will be NT\$109,478 thousand.

7.6.5 Impact of foreign and domestic policy changes on the company's financial operations and corresponding measures:

In recent years, the important changes of the domestic and foreign policies and laws have not affected the Company's finances. The Company always monitors the development of domestic and foreign political and economic situations and legal changes. The Company will act in accordance with any relevant policy or legal change and if needed will immediately consult with accountants and lawyers, thus reducing the impact on operations.

7.6.6 The impact of technological changes and industrial changes on the Company's financial operations and corresponding measures:

The Company is committed to the research, development and manufacturing of household sewing machines and has accumulated more than 50 years of rich experience in production, sales and building flexible strategy, which is able to stay with changes in market demand while actively investing in research and development. The OEM model was transformed into the ODM model, with strong customization capabilities and excellent product quality. Product quality has been receiving acknowledgement from the world's top manufacturers. In addition, the Company is developing its front-end process and business development. The Company actively carries out the process of restructuring and cooperation, improving each branch of the company and raising the technology threshold.

Household sewing machines production is a labor-intensive industry, and as a result of the rising domestic labor price, the Company moved its production to China and Vietnam to establish overseas production bases. The move greatly increased the production capacity of sewing machines, and also increased the proportion of household use parts, reduced product costs and therefore faced the risk of risking initial costs.

In addition to possessing the same technical ability as the rest of the industry, the Company has also developed other advanced and unique techniques to manufacture household sewing machines. The most difficult part is the integration of mechanical structure and electrical control. The Company has accumulated many years of research and development experience, obtained a number of sewing machine patents, and is committed to the research and development of new products, from the simplification of mechanical structure and the modularization of the manufacturing process to the integration of computer and mechanical technology. The Company has many years of experience in departmental adjustment and connection. The connection between products is good and there are no major technical skills related risks.

7.6.7 The impact of change in corporate image and crisis management.

The Company has always adhered to the business philosophies of honesty and pragmatism. There has also always been a great focus on risk control. In the most recent year until the printing date of the report, the company image is good and there are no risks involved.

7.6.8 Expected benefits, possible risks and corresponding measure for mergers and acquisitions:

The Company has not engaged in merger and acquisition plans in recent years. The evaluation and implementation of related plans will be managed in accordance with the relevant regulations and laws of the Company.

7.6.9 Expected benefits, possible risks and corresponding measures for expanding the plant

The Company has no plans to expand the plant in the most recent year. The appraisal and implementation of the aforementioned related plans will also be made in accordance with the relevant provisions of the Company and relevant laws and regulations.

7.6.10 The risks and countermeasures faced in the purchase or sales concentration.

The Company's largest sales customer in 2019 was 3,920.8 million, accounting for 66.05% of total sales, a slight decrease compares 66.44% in 2018.

Sales concentration occurred mainly because the customer is a globally celebrated sewing machine brand. The Company's product quality, research ability, available machine model, and production scale are recognized by the customer so that the Company becomes its main ODM outsourcing manufacturer. However the Company is well aware that sales concentration will expose the Company to higher operation risk and will take the following countermeasures:

(1) Maintain good supply relationship

Customer loyalty in the brand is high, therefore, downstream companies continue to order from The Company, every well-known household sewing machine brand needs to have stable product quality and timely delivery supplier, while maintaining a good supply relationship. At the current stage of household sewing machine production, judging by the industry development patterns, the household sewing machine market will be most competitive. Due to the complexity of the machine (requiring roughly 200 or more parts), the product requires precision in assembly and high quality. Various well-known brands are likely to have unstable supply risks if they look for suppliers that run small factories.

(2) Strengthen customer dependency on the Company

The main sales is in the United States. The Company has after-sales services for the models sold in the United States and originally the service was performed in the USA by clients. However, now the Company's subsidiary provided the after sales service. Because customer pays for the maintenance and shipping fees at a rate that is lower than the customer's cost if the service is done in the US. We can provide customer with new models with customized appearances every year, also we set up factories in Vietnam to provide more efficient services to EY customers.

(3) Actively develop high-end computerized sewing machines

At present, the Company's computer-integrated sewing machines are mainly medium and low-end models. But with the Company's continuous dedication, computerized sewing machines have been successfully developed, which are higher-end computerized sewing machines. The Company used mainly offer household-friendly machine. In 2009, the Company's first high-end computerized sewing machine was introduced to the market. As sales were divided among different customers, concentration of customers was reduced.

(4) Customized products required by customers

The Company has strong customization capabilities and has provided many customers with customized products they needed. There is a high degree of dependence from customers on the Company, thereby mitigating the risk of the Company's concentration of certain sales.

(5) Develop new products with customers

In addition to customizing the products required by customers, the Company also develops new products with customers. The products that the Company has developed with customers in the past were all mechanical models. However, during the cooperation process, customers gradually agree with the Company's development of computerized sewing machine technology.

(6) Develop a market for secondary appliances

In order to avoid sales concentration on a single household sewing machine product, the Company proactively developed a second product for the home appliances market. We also increased engineering manpower in line with customers' transition and continue to develop a market for new home appliances.

(7) Extend product line with existing equipment

Due to the gradual increase of production costs in mainland China and

the implementation of the labor contract law, the Company transferred orders that were originally produced in China to a Vietnamese subsidiary. Its product line was extended via aluminum alloy die-casting equipment and processing and plastic injection equipment.

To sum up, the Company always has a large concentration of sales due to the fact that the customer is a leading household sewing machine manufacturer in the world. The Company aims to continually improve the existing customer satisfaction and enhance the competitive advantage and customer maintenance. In addition, we will actively develop new products and develop new capacity to diversify the Company's products.

7.6.11 Directors, supervisors or large shareholders holding more than 10% of shares. Company influence, risk insurance and corresponding measures:

The Company's directors, supervisors or major shareholders holding more than 10% of shares did not make any significant transfer of equity in the most recent year and as of the printing date of the report. The Company's operation was very stable.

7.6.12 Litigation or non-litigious events

- (1) Any conclusive or pending litigious, non-litigious cases or administrative disputes of the Company in the most recent two years and as of the printing date of the report, which may have material impact on the shareholder's rights and interest or securities prices: No
- (2) The situation where the Company's directors, supervisors, general managers, the de facto responsible persons, major shareholders and associates holding more than 10% of shares who are involved in any litigation, non-litigious proceeding, or administrative dispute that was finalized or still pending during the most recent 2 fiscal years or during the current fiscal year up to the printing date of the report, and the result of which could have material impact upon the shareholders' equity or prices for the Company's securities: No.
- (3) The Company's directors, supervisors, general managers or major shareholders holding more than 10% of shares who was involved in matters prescribed by Article 157 of "Regulations Governing the Scope of Material Information and the Means of its Public Disclosure" during the most recent 2 fiscal years or the current fiscal year up to the printing date of the report. The Company's actions:
According to the official letter sent by the Securities and Futures Investors Protection Center on 17 December 2018, the Company's independent director ZHI-SHENG WU's spouse PIN-JHEN LIN engaged

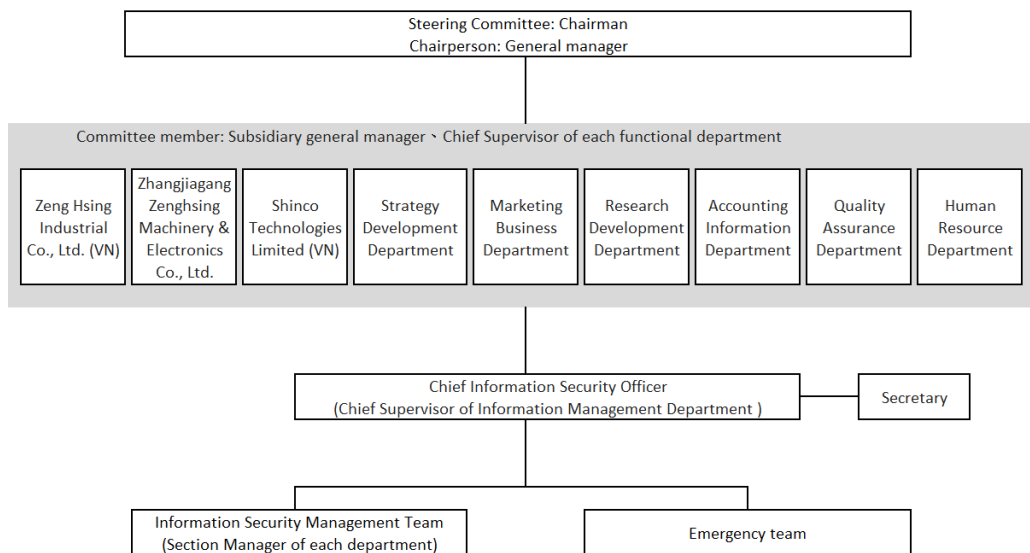
in short-term trading because of negligence which violated Article 157 of the Securities and Exchange Act . The Company claimed disgorgement and the shares were taken back to the Company's account on 19 December 2018.

7.6.13 Other important risks: None.

(1) Information safety risk

The maintenance, confidentiality and correctness of corporate information, if not protected, can cause great loss, so it is crucial for the Company to stipulate information security protocols. The Company hence set forth the Organization Rules of Information Security Committee and Regulations of Computer Information Management.

Information Security Committee Organizational chart



The Information Security Committee shall call an information security meeting every six months or as needed. The meeting shall review the information security management related matters, coordinate resources among all departments, and be responsible for resource coordination related to the execution of information security management policy.

To ensure that the employees have the ability to comply with the prevention and security of information system, follow network transmission information security, and manage crisis-related matters, the Company will conduct a factory-wide training for all employees with respect to information security every year to remind employees of information security risks and related operating procedures. The training

includes promotion of the information security policy, legal requirements, operating procedures, safety responsibility, security precautions or data exchange of every information system, proper storage of confidential or sensitive information, correct use of information equipment and information management system, and training of processing procedures. The Company uses the electronic bulletin board display so employees can access the information from time to time. The Company has established a computer network system security control mechanism and uses anti-virus software internally to scan files daily to detect abnormal files so they can be cleared in real-time, while it is also forbidden to use certain applications.

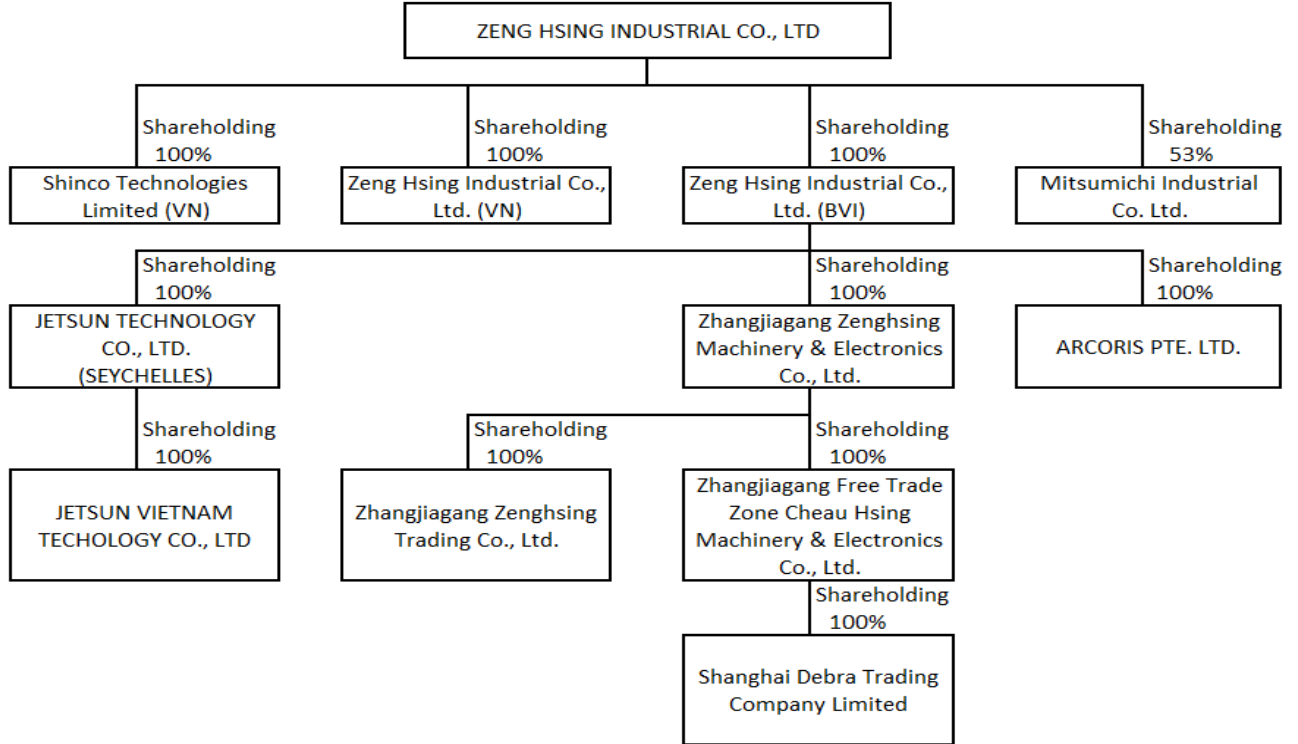
Firewall intrusion prevention detection and anti-virus applications are also performed for protection and to block abnormal applications. The Company also uses a security system and adopt a policy of responsible use to manage specific applications and equipment allowing for real-time monitoring. The Company monitors the network to prevent the leakage of confidential and sensitive information or accessing abnormal websites that may lead to hacking.

7.7 Other important matters: None.

VII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Organizational chart



8.1.2 Information of associated enterprises

31 December 2019

Currency: USD\$, NT\$, RMB\$ million

Company	Date of Incorporation	Address	Capital Stock	Business Activities
ZENG HSING INDUSTRIAL CO.,LTD.(BVI)	3 December 1997	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD\$17.87	Holding company
Jetsun Technology Co., Ltd. (Seychelles)	8 April 2016	Global Gateway 8, Rue De La Perle Providence Mahe Seychelles	USD\$1.20	Holding company
Arcoris Pte. Ltd.	2 February 2015	8 Cross Street #24-03/04 PWC Building Singapore (048424)	USD\$4.03	Holding company
Mitsumichi Industrial Co. Ltd.	22 June 1999	No. 259, Taiming Rd., Wuri Dist., Taichung City 414, Taiwan	NT\$26	Manufacturing household sewing machines
Zeng Hsing Industrial Co., Ltd. (VN)	28 January 2005	Bing Doung, Vietnam	USD\$35	Manufacturing household sewing machines and sport equipment
Shinco Technologies Limited (VN)	14 December 2007	Bing Doung, Vietnam	USD\$11.17	Material die-casting of metal of aluminum, zinc and magnesium alloy
Jetsun Technology Company Limited	17 August 2016	Bing Doung, Vietnam	USD\$1.2	Research and design of filtration equipment
Zhangjiagang Zeng Hsing Machinery & Electronics Co., Ltd.	12 February 1998	Jiangsu, China	USD\$13	Manufacturing household sewing machines
Zhangjiagang Zeng Hsing Trading Co., Ltd.	18 October 2005	Jiangsu, China	RMB\$1	Selling household sewing machines and spare parts
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	20 June 2012	Jiangsu, China	USD\$0.5	Selling household sewing machines and spare part
Shanghai Debra Trading Company Limited	10 October 2018	Shanghai, China	RMB\$4	Selling household sewing machines and spare parts

8.1.3 Disclosure of Information on Overlapping Shareholders where Control is Presumed between the Company and any Group Companies: None.

8.1.4 The business activities of the group companies primarily involve the following industries:

Selling and manufacturing household sewing machines and spare part; Selling and manufacturing Tooling equipment and spare part; Import and export trade.

8.1.5 Directors, Supervisors, and Presidents of Our Group Companies

31 December 2019

Company	Title	Name	Shareholding	
			Number of Shares	% (Investment Holding)
Zeng Hsing Industrial Co., Ltd.(BVI)	Director	CHIH-CHENG LIN	-	-%
Jetsun Technology Co., Ltd. (Seychelles)	Director	CHIH-CHENG LIN	-	-%
Arcoris Pte. Ltd.	Director	TENG HONG JOE	-	-%
Mitsumichi Industrial Co. Ltd.	Chairman	Zeng Hsing Industrial Co., Ltd. (Represented by CHIH-CHENG LIN)	1,378,000	53%
	Director	Zeng Hsing Industrial Co., Ltd. (Represented by CHUN-SHEN CHOU)		
	Director and Managing Director	XIAN-ZHANG WANG	132,000	5.08%
	Supervisor	CUI-FEN WANG	-	-%
Zeng Hsing Industrial Co., Ltd. (VN)	Chairman	CHIH-CHENG LIN	-	-%
	Director	JIANG-DI TSAI	-	-%
	Managing Director	DONG-LIANG LIU	-	-%
Shinco Technologies Limited (VN)	Chairman	CHIH-CHENG LIN	-	-%
	Director	MING-YU TSAI	-	-%
	Managing Director	QIONG-MEI CHEN	-	-%
Jetsun Technology Company Limited	Managing Director	CHIH-CHENG LIN	-	-%

Zhangjiagang Zeng Hsing Machinery & Electronics Co., Ltd.	Chairman	CHIH-CHENG LIN	-	-%
	Director	MING-YU TSAI	-	-%
	Director and Managing Director	SHUN-CHANG LAI	-	-%
	Supervisor	JIA-RONG LIN	-	-%
Zhangjiagang Zeng Hsing Trading Co., Ltd.	Chairman	CHIH-CHENG LIN	-	-%
	Director	MING-YU TSAI	-	-%
	Director and Managing Director	SHUN-CHANG LAI	-	-%
	Supervisor	JIA-RONG LIN	-	-%
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	Chairman	CHIH-CHENG LIN	-	-%
	Director	MING-YU TSAI	-	-%
	Director and Managing Director	SHUN-CHANG LAI	-	-%
	Supervisor	CHUN-SHEN CHOU	-	-%
Shanghai Debra Trading Company Limited	Chairman	BANG-XIANG LIU	-	-%
	Managing Director and Supervisor	WEI-CEN CHEN	-	-%
			-	-%

8.1.6 Directors, Supervisors, and Presidents of Our Group Companies

(1) Summary of subsidiaries

31 December 2019 Currency: NT\$ thousands (EPS unit: NT\$)

Subsidiaries Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenue	Income (Loss) from Operation	Net Income (Loss)	Basic Earnings (Loss) Per Share
Zeng Hsing Industrial Co., Ltd. (BVI)	586,375	737,908	700	737,208	0	(2,196)	25,622	1,433.57
Jetsun Technology Co., Ltd. (Setchelles)	39,494	32,101	0	32,101	0	0	(1,886)	(1.57)
Arcoris Pte. Ltd. (Singapore)	129,291	110,316	0	110,316	0	(313)	5,459	1.35
Mitsumichi Industrial Co. Ltd.	26,000	113,819	24,148	89,671	136,976	31,905	25,969	9.99
Zeng Hsing Industrial Co., Ltd. (VN)	1,049,554	2,204,817	549,324	1,655,493	3,713,930	136,661	124,543	-

Shinco Technologies Limited (VN)	347,158	364,278	13,465	350,813	247,854	29,540	27,244	-
Jetsun Technology Company Limited (VN)	39,494	35,445	3,344	32,101	0	(1,888)	(1,886)	-
Zhangjiagang Zeng Hsing Machinery & Electronics Co., Ltd. (China)	416,390	701,787	151,146	550,641	633,645	2,641	26,171	-
Zhangjiagang Zeng Hsing Trading Co., Ltd. (China)	4,692	102,077	54,076	48,001	191,277	18,109	14,559	-
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. (China)	14,931	91,951	59,836	32,115	256,226	17,301	7,611	-
Shanghai Debra Trading Company Limited (China)	17,817	10,016	1,136	8,880	402	(8,570)	(8,699)	-

(2) Consolidated Financial Statements of Group Companies

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended 31 December 2019 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

(3) Relationship Report: None.

8.2 Any Private Placement of Securities for the Most Recent Fiscal Year and during the Current Fiscal Year up to the date of Publication of the Annual Report: None.

8.3 Summary of Share Ownership and Disposal of Shares of the Company by Subsidiaries for the Most Recent Fiscal Year and during the Current Fiscal Year up to the date of Publication of the Annual Report: None.

8.4 There has not been any event occurred within the latest fiscal year and as of the date of the Annual Report which would materially affect the shareholder equity or price of securities of the Company according to Item 2, Paragraph 3 of Article 36 of the Securities and Exchange Act.: None.

8.5 Additional Information Required to be Disclosed: None.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED
31 DECEMBER 2019 AND 2018

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.

Address: NO. 78, Yong Cheng Rd., Taiping Dist., Taichung City, Taiwan, R.O.C.

Telephone: 886-4-22785177

Independent Auditors' Report

To ZENG HSING INDUSTRIAL CO., LTD

Opinion

We have audited the accompanying consolidated balance sheets of ZENG HSING INDUSTRIAL CO., LTD and its subsidiaries (the "Group") as of 31 December 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2019 and 2018, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2019 and 2018, and their consolidated financial performance and cash flows for the years ended 31 December 2019 and 2018, in conformity 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.

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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 2019 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated 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 31 December 2019, the Group's accounts receivable and allowance for doubtful accounts amounted to NTD 1,008,879 thousand and NTD 5,942 thousand, respectively. Net accounts receivable represented 16% of the total consolidated assets that could have significant impacts on the Group. Since the collection of notes and accounts receivable is the key factor in the working capital management of the Group, and the adoption of provision policy requires significant management judgement, and the measurement results affect the net amount of accounts receivable, we therefore determined this a key audit matter.

Our audit procedures included, but not limited to, understanding and testing the effectiveness of internal control over accounts receivable; 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 considered the adequacy of the disclosures related to accounts receivable in Notes 5 and 6 to the consolidated financial statements.

Valuation for inventories

As of 31 December 2019, the net inventories amounted to NTD 574,123 thousand accounting for 9% of the total consolidated assets that could have significant impacts on the Group. The Group starts manufacturing after receiving orders from customers, so we mainly assessed the allowance for inventory valuation and slow-moving losses for raw materials, supply and parts. Due to diversity of products and uncertainty arising from rapid changes in products, allowance for obsolete and slow-moving inventory valuation requires significant management judgement, we therefore determined the issue as a key audit matter.

Our audit procedures included, but not limited to, understanding and testing the effectiveness of internal control system with respect to obsolete and slow-moving inventory; understanding the allowance for inventory loss and slow-moving inventory policies, ; sampling important storage locations to observe inventory counts; testing the correctness of the inventory aging intervals to make sure that the inventory aging schedule was appropriate. In addition, we sample tested inventories to check related certificates of purchases and sales 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 consolidated financial statements.

Emphasis of Matter – Applying the New Accounting Standards

As described in Note 3 to the consolidated financial statements, the Group applied the International Financial Reporting Standard 16, “Lease” on 1 January 2019, and elected not to restate the consolidated financial statements for prior periods. Our conclusion is not modified in respect of this matter.

Other Matter – Making Reference to the Audit of Component Auditor

Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other auditors. We did not audit the financial statements of certain associates and joint ventures accounted for under the equity method whose statements are based solely on the reports of other auditors. These associates and joint ventures under equity method amounted to NTD 26,841 thousand, representing 0.42% of consolidated total assets as of 31 December 2019. The related shares of profits from the associates and joint ventures under the equity method amounted to NTD 22,281 thousand, representing 2.46% of the consolidated net income before tax for the year ended 31 December 2019.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including supervisors, are responsible for overseeing the financial reporting process of the Group.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group.
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 Group. 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 consolidated 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 Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated 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 Group to express an opinion on the consolidated 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 2019 consolidated 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.

Others

We have audited and expressed an unqualified opinion including an Other Matter Paragraph on the parent company only financial statements of the Company as of and for the years ended 31 December 2019 and 2018.

Tu, Chin Yuan
Chen, Ming Hung
Ernst & Young, Taiwan
12 March 2020

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
31 December 2019 and 2018
(Expressed in Thousand New Taiwan Dollars)

Assets	Notes	As at	
		31 December 2019	31 December 2018
Current Assets			
Cash and cash equivalents	4, 6(1),12	\$2,427,869	\$3,023,147
Accounts receivable, net	4, 6(2),6(14),12	1,002,937	1,044,659
Other receivables	12	16,656	23,100
Inventories, net	4, 6(3)	574,123	613,996
Prepayment		93,368	73,540
Other current assets		96,055	95,652
Total Current Assets		4,211,008	4,874,094
Non-current assets			
Financial assets at fair value through other comprehensive income, noncurrent	4, 12	14,959	32,056
Investments accounted for under the equity method	4	81,623	53,465
Property, plant and equipment	4, 6(4), 8	1,696,637	1,431,041
Right of use assets	4, 6(15)	190,928	-
Investment property	4, 6(5)	67,362	68,592
Intangible assets	4	38,951	39,042
Deferred tax assets	4, 6(19)	84,031	75,530
Other non-current assets	4, 6(6), 12	56,559	237,799
Total non-current assets		2,231,050	1,937,525
Total assets		\$6,442,058	\$6,811,619

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

(continued)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
31 December 2019 and 2018
(Expressed in Thousand New Taiwan Dollars)

Liabilities and Equity	Notes	As at	
		31 December 2019	31 December 2018
Current liabilities			
Short-term loans	4, 6(7),12	\$290,000	\$220,000
Short-term notes and bills payable	4, 6(8),12	-	100,000
Contract liabilities, current	6(13)	13,801	21,779
Notes payable	12	8,900	7,877
Accounts payable	12	549,491	678,924
Other payables	12	245,646	313,361
Current tax liabilities	4	122,074	169,193
Long-term borrowings(including current portion with maturity less than 1 year)	4,6(9),12	40,000	40,000
Other current liabilities	4,6(15),12	25,559	21,194
Total current liabilities		<u>1,295,471</u>	<u>1,572,328</u>
Non-current liabilities			
Long-term loans	4, 6(9),12	80,000	120,000
Deferred tax liabilities	4, 6(19)	217,854	225,240
Accrued pension liabilities	4, 6(10)	40,455	46,598
Other non-current liabilities	4,6(15),12	4,299	360
Total non-current liabilities		<u>342,608</u>	<u>392,198</u>
Total liabilities		<u>1,638,079</u>	<u>1,964,526</u>
Equity attributable to the parent company	4, 6(11)		
Capital			
Common stock		605,356	605,356
Additional paid-in capital		1,385,352	1,385,352
Retained earnings			
Legal reserve		730,563	730,563
Special reserve		163,100	176,886
Retained earnings		2,088,848	2,067,432
Total Retained earnings		<u>2,982,511</u>	<u>2,974,881</u>
Other components of equity			
Exchange differences on translation of foreign operations		(216,223)	(173,468)
Unrealized gains and losses on equity instrument measured at fair value through other comprehensive income, noncurrent		4,838	10,368
Non-controlling interests	6(12)	42,145	44,604
Total equity		<u>4,803,979</u>	<u>4,847,093</u>
Total liabilities and equity		<u>\$6,442,058</u>	<u>\$6,811,619</u>

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended 31 December 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	Notes	For the years ended 31 December	
		2019	2018
Net Sales	4,6(13)	\$5,935,948	\$6,669,964
Cost of Sales	6(3),6(16)	(4,446,673)	(4,981,758)
Gross Profit		1,489,275	1,688,206
Operating Expenses	6(15),6(16)		
Selling and marketing		(151,012)	(154,140)
Management and administrative		(382,784)	(374,930)
Research and development		(105,013)	(114,216)
Expected credit gains (losses)	4,6(14)	564	(2,757)
Total Operating Expenses		(638,245)	(646,043)
Operating Income		851,030	1,042,163
Non-operating income and expenses	6(17)		
Other income		68,852	86,704
Other gain and loss		(26,272)	163,826
Financial costs		(4,215)	(8,027)
Share of profit or loss of associates and joint ventures		15,136	(2,866)
Subtotal		53,501	239,637
Income from continuing operations before income tax		904,531	1,281,800
Income tax expense	4,6(19)	(216,525)	(340,939)
Income from continuing operations, net of tax		688,006	940,861
Other comprehensive income	6(18),6(19)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans		(2,849)	(9,437)
Share of profit of associates accounted for using equity method		1,382	-
Income tax related to items not reclassified to profit or loss		570	1,896
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(53,444)	(6,034)
Income tax related to items that may be reclassified subsequently to profit or loss		10,689	9,452
Total other comprehensive income (loss), net of tax		(43,652)	(4,123)
Total comprehensive income		\$644,354	\$936,738
Net income attributable to:			
Stockholders of the parent		\$675,801	\$923,572
Non-controlling interests		12,205	17,289
		\$688,006	\$940,861
Comprehensive income attributable to:			
Stockholder of the parent		\$632,149	\$919,449
Non-controlling interests		12,205	17,289
		\$644,354	\$936,738
Earnings per share (NTD)	6(20)		
Earnings per share-basic		\$11.16	\$15.26
Earnings per share-diluted		\$11.13	\$15.20

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended 31 December 2019 and 2018
(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	Non-Controlling Interests	Total Equity
Balance as of 1 January 2018	6(11)	\$605,526	\$1,387,345	\$730,563	\$45,286	\$1,797,553	\$(176,886)	\$ -	\$(2,163)	\$4,387,224	\$38,313	\$4,425,537
Impact of retroactive applications								10,368		10,368		10,368
Adjusted balance as of 1 January 2018		605,526	1,387,345	730,563	45,286	1,797,553	(176,886)	10,368	(2,163)	4,397,592	38,313	4,435,905
Appropriations of earnings, 2017:												
Special reserve					131,600	(131,600)				-		-
Cash dividends						(514,552)				(514,552)		(514,552)
Net income for the year ended 31 December 2018						923,572				923,572	17,289	940,861
Other comprehensive income, net of tax for the year ended 31 December 2018						(7,541)	3,418			(4,123)		(4,123)
Total comprehensive income		-	-	-	-	916,031	3,418	-	-	919,449	17,289	936,738
Treasury stock acquired	6(12)	(170)	(1,993)						2,163	-		-
Cash dividends of subsidiary										-	(10,998)	(10,998)
Balance as of 31 December 2018	6(11)	\$605,356	\$1,385,352	\$730,563	\$176,886	\$2,067,432	\$(173,468)	\$10,368	\$ -	\$4,802,489	\$44,604	\$4,847,093
Balance as of 1 January 2019	6(11)	\$605,356	\$1,385,352	\$730,563	\$176,886	\$2,067,432	\$(173,468)	\$10,368	\$ -	\$4,802,489	\$44,604	\$4,847,093
Appropriations of earnings, 2018:												
Special reserve					(13,786)	13,786				-		-
Cash Dividends						(665,892)				(665,892)		(665,892)
Net income for the year ended 31 December 2019						675,801				675,801	12,205	688,006
Other comprehensive income, net of tax for the year ended 31 December 2019						(2,279)	(42,755)	1,382		(43,652)		(43,652)
Total comprehensive income		-	-	-	-	673,522	(42,755)	1,382	-	632,149	12,205	644,354
Disposal of financial assets at fair value through other comprehensive income								(6,912)		(6,912)		(6,912)
Cash dividends of subsidiary	6(12)										(14,664)	(14,664)
Balance as of 31 December 2019	6(11)	\$605,356	\$1,385,352	\$730,563	\$163,100	\$2,088,848	\$(216,223)	\$4,838	\$ -	\$4,761,834	\$42,145	\$4,803,979

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended 31 December 2019 and 2018

(Expressed in Thousand New Taiwan Dollars)

	<u>For the years ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income before tax	\$904,531	\$1,281,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	232,284	201,331
Amortization	45,433	44,008
Loss on disposal of property, plant and equipment	10,395	2,314
Gain on disposal of investments	(9,903)	-
Net gain of financial assets at fair value through profit or loss	(804)	(19,173)
(Gain) loss from price recovery of inventories	(7,985)	8,493
Share of profit or loss of associates and joint ventures	(15,136)	2,866
Expected credit profit or loss	(564)	2,757
Gain on reversal of impairment loss	(4,560)	-
Other revenue	(29)	-
Interest income	(41,043)	(41,868)
Interest expense	4,215	8,027
Changes in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	1,369	14,112
Decrease in accounts receivable	42,286	263,732
Decrease (increase) in inventories, net	47,858	(232,217)
Decrease in other receivables	6,444	47,519
Increase in prepayments	(5,888)	(16,000)
Increase in other current assets	(968)	(69,380)
(Decrease) increase in contract liabilities	(7,978)	1,992
Increase(decrease) in notes payable	1,023	(4,888)
(Decrease) increase in accounts payable	(129,433)	26,618
(Decrease) increase in other payables	(67,715)	63,318
Increase in other current liabilities	448	15,953
Decrease in accrued pension liabilities	(8,992)	(2,709)
Cash generated from operations	<u>995,288</u>	<u>1,598,605</u>
Interest received	41,043	41,868
Income tax paid	(266,890)	(218,248)
Net cash provided by operating activities	<u>769,441</u>	<u>1,422,225</u>

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

(continued)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018

(Expressed in Thousand New Taiwan Dollars)

	For the years ended 31 December	
	2019	2018
Cash flows from investing activities:		
Disposal of financial assets measured at amortized cost	-	72,461
Acquisition of debt instrument investments with no active market, current	19,466	-
Acquisition of investments accounted for under the equity method	(8,462)	-
Acquisition of property, plant and equipment	(549,905)	(369,175)
Proceeds from disposal of property, plant and equipment	16,550	5,351
Increase in refundable deposits	-	(3,486)
Decrease in refundable deposits	1,794	-
Acquisition of intangible assets	(12,503)	(6,559)
Increase in other non-current assets	(47,286)	(64,263)
Net cash used in investing activities	<u>(580,346)</u>	<u>(365,671)</u>
Cash flows from financing activities:		
Increase in short-term loans	1,444,936	2,378,987
Decrease in short-term loans	(1,374,936)	(2,829,910)
Increase in short-term notes and bills payable	190,000	4,330,000
Decrease in short-term notes and bills payable	(290,000)	(4,460,000)
Decrease in long-term loans	(40,000)	-
Lease principal repayment	(4,506)	-
Cash dividends	(665,892)	(514,552)
Interest paid	(4,215)	(8,027)
Cash dividends of subsidiary	(14,664)	(10,998)
Net cash used in financing activities	<u>(759,277)</u>	<u>(1,114,500)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(25,096)</u>	<u>(14,536)</u>
Net decrease in cash and cash equivalents	(595,278)	(72,482)
Cash and cash equivalents at beginning of period	<u>3,023,147</u>	<u>3,095,629</u>
Cash and cash equivalents at end of period	<u><u>\$2,427,869</u></u>	<u><u>\$3,023,147</u></u>

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended 31 December 2019 and 2018

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

1. ORGANIZATION AND OPERATIONS

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

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

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

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

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

The consolidated financial statements of the Company and subsidiaries (hereinafter referred to as “the Group”) for the years ended 31 December 2019 and 2018 were authorized for issue in accordance with the resolution of the board of directors’ meeting held on 12 March 2020.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after 1 January 2019. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

(1) *IFRS 16 “Leases”*

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 Group followed the transition provision in IFRS 16 and the date of initial application was 1 January 2019. The impacts arising from the adoption of IFRS 16 are summarized as follows:

- A. Please refer to Note 4 for the accounting policies before or after 1 January 2019.
- B. For the definition of a lease, the Group elected not to reassess whether a contract was, or contained, a lease on 1 January 2019. The Group was 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. That is, for contracts entered into (or changed) on or after 1 January 2019, the Group needs to assess whether contracts are, or contain, leases applying IFRS 16. When compared with IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assessed most of the contracts are, or contain, leases and no significant impact arose.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

C. The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognized 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 previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Group measured and recognized 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 Group chose, 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.

On 1 January 2019, the Group's right-of-use asset increased by \$203,449, lease liability increased by \$10,814.

Besides, on 1 January 2019, for leases that were previously classified as operating leases applying IAS 17 and those who have paid the rent in full, the Group reclassified the long-term rental prepayment of \$1,204 and other non-current assets-others in the amount of \$191,431 to the right-of-use asset.

In accordance with the transition provision in IFRS 16, the Group used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- ii. Rely on its assessment of whether leases are onerous immediately before 1 January 2019 as an alternative to performing an impairment review.
- iii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of 1 January 2019.
- iv. Exclude initial direct costs from the measurement of the right-of-use asset on 1 January 2019.
- v. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(b) Please refer to Note 4 and Note 6 for additional disclosure of lessee and lessor which required by IFRS 16.

(c) As of 1 January 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:

- i. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet on 1 January 2019 was 2%~2.67%.
- ii. The explanation for the difference of \$2,354 between: operating lease commitments disclosed applying IAS 17 as of 31 December 2018, discounted using the incremental borrowing rate on 1 January 2019 is summarized as follows:

Operating lease commitments disclosed applying IAS 17 as of 31 December 2018	\$13,168
Discounted using the incremental borrowing rate on 1 January 2019	\$12,959
Less: adjustment to leases that meet and elect to account in the same way as short-term leases	(4,980)
Add: adjustments to the options to extend or terminate the lease that is reasonably certain to exercise	2,835
The carrying value of lease liabilities recognized as of 1 January 2019	<u>\$10,814</u>

D. The Group is a lessor and has not made any adjustments. Please refer to Note 4 and Note 6 for the information relating to the lessor.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	Definition of a Business (Amendments to IFRS 3)	1 January 2020
b	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020
c	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

(a) *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.

(b) *Definition of a Material* (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(c) *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments include a number of exceptions, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is directly affected if the interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Hence, the entity shall apply the exceptions to all hedging relationships directly affected by the interest rate benchmark reform.

The amendments include:

(1) highly probable requirement

When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform.

(2) prospective assessments

When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

(3) IAS 39 retrospective assessment

An entity is not required to undertake the IAS 39 retrospective assessment (i.e. the actual results of the hedge are within a range of 80% ~ 125%) for hedging relationships directly affected by the interest rate benchmark reform.

(4) separately identifiable risk components

For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

The amendments also include the end of application of the exceptions requirements and the related disclosures requirements of the amendments.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2020. The standards and interpretations have no material impact on the Group.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 “Insurance Contracts”	1 January 2021
c	Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2022

- (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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(b) *IFRS 17 "Insurance Contracts"*

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

- (1) estimates of future cash flows;
- (2) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- (3) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides:

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(c) *Classification of Liabilities as Current or Non-current – Amendments to IAS 1*

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial statements and the amended paragraphs related to the classification of liabilities as current or non-current.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of compliance

The consolidated financial statements for the years ended 31 December 2019 and 2018 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 *Interim Financial Reporting* as endorsed and became effective by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statement

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

If the Group loses control of a subsidiary, it:

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

The consolidated entities are as follows:

Investor	Subsidiary	Business nature	Percentage of ownership (%) as of	
			31 December 2019	31 December 2018
the Company	Shinco Worldwide Ltd. (BVI) [Shinco (BVI)]	Selling household sewing machines and spare parts	-% (Note1)	100.00%
the Company	Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Trading and holding company	100.00%	100.00%
the Company	Zeng Hsing Industrial Co., Ltd. (VN) [Zeng Hsing (VN)]	Manufacturing household sewing machines	100.00%	100.00%
the Company	Shinco Technologies Limited (VN) [Shinco (VN)]	Material die-casting of metal of aluminum, zinc and magnesium alloy	100.00%	100.00%
the Company	Mitsumichi Industrial Co. Ltd. [Mitsumichi]	Manufacturing household sewing machines	53.00%	53.00%
Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd. [Zhangjiagang]	Manufacturing household sewing machines	100.00%	100.00%
Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. [Cheau Hsing]	Selling household sewing machines and spare part	-% (Note2)	100.00%

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Investor	Subsidiary	Business nature	Percentage of ownership (%) as of	
			31 December 2019	31 December 2018
Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Arcoris Pte Ltd.	Holding company	100.00%	100.00%
Zeng Hsing Industrial Co., Ltd. (BVI) [Zeng Hsing (BVI)]	Jetsun Technology Co.,Ltd (Seychelles)	Holding company	100.00%	100.00%
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd. [Zhangjiagang]	Zhangjiagang Zenghsing Trading Co., Ltd. [Zhangjiagang trading]	Selling household sewing machines and spare parts	100.00%	100.00%
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd. [Zhangjiagang]	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. [Cheau Hsing]	Selling household sewing machines and spare part	100.00% (Note2)	-
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. [Cheau Hsing]	Shanghai Debra Trading Company Limited	Selling household sewing machines and spare parts	100.00%	100.00%
Jetsun Technology Co., Ltd (Seychelles)	Jetsun Technology Company Limited	Research and design of filtration equipment	100.00%	100.00%

Note 1: On 2 May 2019, the board of directors resolved to liquidate SHINCO WORLDWIDE LTD. (BVI), an overseas subsidiary of the company that has invested 100%. The liquidation of the subsidiary was completed in August 2019.

Note 2: On 18 October 2019, the Company's reinvested subsidiary, Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd., transferred 100% of the shares held by the original shareholder, Zeng Hsing Industrial Co., Ltd. (BVI), to Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd. in the amount of USD 1,213 thousand.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(4) Foreign currency transactions

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

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as 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 1 January 2019: IAS 39 *Financial Instruments: Recognition and Measurement*) are accounted for based on the accounting policy for financial instruments.
- c. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(5) Translation of foreign currency financial statements

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

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

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

(6) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

A liability is classified as a current when:

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

All other liabilities are classified as non-current.

(7) Cash and cash equivalents

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

(8) Financial Instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments* 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

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

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Financial asset measured at fair value through other comprehensive income

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

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

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

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
 - (i) Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - (ii) Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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

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

Financial asset measured at fair value through profit or loss

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

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

(2) Impairment of financial assets

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

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Notes to Consolidated Financial Statements (Continued)

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

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

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

The loss allowance is measured as follows:

- A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.
- D. For lease receivables arising from transactions within the scope of IFRS 16 (before 1 January 2019: IAS 17), the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(3) Derecognition of financial assets

A financial asset is derecognized when:

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

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

(4) Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as of 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 of 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 liabilities or financial assets and, financial liabilities 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.

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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(5) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(9) Derivative instruments

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

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

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Notes to Consolidated Financial Statements (Continued)

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

When the principal contracts is a non-financial asset or financial liability, derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss.

(10) Fair value measurement

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

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

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

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

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(11) Inventories

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

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

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

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

Rendering of services is accounted for in accordance with IFRS 15 and not within the scope of inventories.

(12) Investments accounted for under the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

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

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Notes to Consolidated Financial Statements (Continued)

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

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 *Investments in Associates and Joint Ventures*. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(13) Property, plant and equipment

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

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

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

Items	Useful Lives
Buildings and facilities	20~50 years
Machinery and equipment	5~17 years
Items	Useful Lives
Tooling equipment	2~ 4 years
Transportation equipment	5~10 years
Furniture, fixtures and equipment	3~11 years
Miscellaneous equipment	3~15 years
Right-of-use assets	1~50 years
Prepaid rent expenses (Note)	
Leasehold improvements	The shorter of lease terms or economic useful lives

Note: The Group reclassified long-term prepaid rents as right-of-use assets after the adoption of IFRS16 from 1 January 2019.

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

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

(14) Investment property

The accounting policy adopted on 1 January 2019 is as follows:

The Group's owned 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, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, investment properties are measured using the cost model in accordance with the requirements of IAS 16 *Property, plant and equipment* for that model. If investment properties are held by a lessee as right-of-use assets and is not held for sale in accordance with IFRS 5, investment properties are measured in accordance with the requirements of IFRS 16.

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Notes to Consolidated Financial Statements (Continued)

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

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

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

The Group transfers to or from investment properties when there is a change in use for these assets. 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.

The accounting policy adopted before 1 January 2019 is as follows:

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

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

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

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Notes to Consolidated Financial Statements (Continued)

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The Group transfers to or from investment properties when there is a change in use for these assets.

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

(15) Leases

The accounting policy adopted on 1 January 2019 is as follows:

For contracts entered on or after 1 January 2019, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
- (b) the right to direct the use of the identified asset.

The Group elected not to reassess whether a contract is, or contains, a lease on 1 January 2019. The Group 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.

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Group for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

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Group as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Group recognizes right-of-use asset and lease liability for all leases which the Group is the lessee of those lease contracts.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as of the commencement date
- (c) amounts expected to be payable by the lessee under residual value guarantees
- (d) the exercise price of a purchase option if the Group is reasonably certain to exercise that option
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

After the commencement date, the Group measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

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- (a) the amount of the initial measurement of the lease liability
- (b) any lease payments made at or before the commencement date, less any lease incentives received
- (c) any initial direct costs incurred by the lessee
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

For subsequent measurement of the right-of-use asset, the Group measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Group measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Group accounted for as short-term leases or leases of low-value assets, the Group presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements comprehensive income.

For short-term leases or leases of low-value assets, the Group elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

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Group as a lessor

At inception of a contract, the Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Group recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Group allocates the consideration in the contract applying IFRS 15.

The Group recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

The accounting policy adopted before 1 January 2019 is as follows:

Group as a lessee

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

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

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

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Group as a lessor

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

(16) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as 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, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

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

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

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

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Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

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

	<u>Software</u>	<u>Trademarks</u>	<u>Patents</u>	<u>Others</u>
Useful lives	1~5 years	1~5 years	1~5 years	4 years
Method of amortization	Amortized on a straight- line basis over the estimated useful life	Amortized on a straight- line basis over the estimated useful life	Amortized on a straight- line basis over the estimated useful life	Amortized on a straight- line basis over the estimated useful life
Sources	Outside	Outside	Outside	Outside

(17) Impairment of non-financial assets

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

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

(18) Provisions

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

(19) Treasury Stock

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

(20) Revenue recognition

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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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.

(21) Borrowing cost

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

(22) Post-employment benefits

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

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

(23) Income Tax

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

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Notes to Consolidated Financial Statements (Continued)

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

Current income tax

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

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

Deferred tax

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

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

- i. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ii. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

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

- i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

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

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Notes to Consolidated Financial Statements (Continued)

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

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The estimated average annual effective income tax rate only includes current income tax. The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12. The Group recognizes the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(1) Judgement

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

(a) Operating lease commitment – Group as the lessor

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(2) Estimates and assumptions

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

(a) Accounts receivables—estimation of impairment loss

The Group 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.

(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.

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(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.

(e) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carry-forward 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.

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

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of	
	31 December 2019	31 December 2018
Cash on hand	\$675	\$397
Checking and savings accounts	1,323,052	2,039,957
Time deposits	1,012,919	982,793
Repurchase agreements	91,223	-
Total	<u>\$2,427,869</u>	<u>\$3,023,147</u>

(2) Accounts receivable, net

	As of	
	31 December 2019	31 December 2018
Accounts receivable - non related parties	\$1,008,897	\$1,052,214
Less : Allowance for doubtful accounts	(5,942)	(7,555)
Subtotal	<u>\$1,002,937</u>	<u>\$1,044,659</u>

Trade receivables are generally on 45-90 day terms. The total carrying amount as of 31 December 2019 and 2018 were \$1,008,879 and \$1,052,214, respectively. Please refer to Note 6 (14) for more details on loss allowance of trade receivables for the periods ended 31 December 2019 and 2018. Please refer to Note 12 for more details on credit risk management.

No accounts receivables were pledged.

(3) Inventories, net

a. Details as follows

	As of	
	31 December 2019	31 December 2018
Raw materials	\$320,868	\$349,533
Work in progress	2,464	5,932
Semi-manufactured goods	9,746	16,879
Finished goods	241,045	241,652
Total	<u>\$574,123</u>	<u>\$613,996</u>

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- b. For the years ended 31 December 2019 and 2018, the Group recognized \$4,446,673 and \$4,981,758, respectively, in operating cost, of which \$7,985 and \$8,493 was related to gain and loss from inventory price recovery.
- c. The gains from inventory price recovery were recognized in 2019 due to the fact that the inventory that has been established a valuation loss earlier has been scrapped and the sluggish inventory has been consumed.
- d. No inventories were pledged.

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

(4) Property, plant and equipment

(1) Owner occupied property, plant and equipment (applicable under IFRS 16 requirements)

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Leasehold improvements	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of January 1, 2019	\$21,075	\$645,651	\$905,949	\$360,329	\$31,855	\$19,416	\$-	\$328,021	\$242,617	\$2,554,913
Additions	-	3,372	72,010	71,817	2,276	1,420	-	6,964	392,046	549,905
Disposals	-	(11,634)	(78,621)	(4,467)	(3,004)	(3,535)	-	(25,097)	-	(126,358)
Transfers	-	444,807	35,140	27,318	48	-	-	98,576	(619,679)	(13,790)
Exchange differences	-	(14,015)	(19,692)	(8,703)	(607)	(323)	-	(5,875)	(183)	(49,398)
As of December 31, 2019	<u>\$21,075</u>	<u>\$1,068,181</u>	<u>\$914,786</u>	<u>\$446,294</u>	<u>\$30,568</u>	<u>\$16,978</u>	<u>\$-</u>	<u>\$402,589</u>	<u>\$14,801</u>	<u>\$2,915,272</u>
Depreciation and impairment:										
As of January 1, 2019	\$-	\$195,225	\$515,130	\$220,526	\$18,708	\$14,073	\$-	\$160,210	\$-	\$1,123,872
Depreciation	-	22,870	82,162	85,243	2,816	2,194	-	25,528	-	220,813
Disposals	-	(6,251)	(61,334)	(3,552)	(2,893)	(3,053)	-	(22,330)	-	(99,413)
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange differences	-	(5,477)	(11,654)	(5,817)	(366)	(246)	-	(3,077)	-	(26,637)
As of 31 December 2019	<u>\$-</u>	<u>\$206,367</u>	<u>\$524,304</u>	<u>\$296,400</u>	<u>\$18,265</u>	<u>\$12,968</u>	<u>\$-</u>	<u>\$160,331</u>	<u>\$-</u>	<u>\$1,218,635</u>
Net carrying amount as of:										
31 December 2019	<u>\$21,075</u>	<u>\$861,814</u>	<u>\$390,482</u>	<u>\$149,894</u>	<u>\$12,303</u>	<u>\$4,010</u>	<u>\$-</u>	<u>\$242,258</u>	<u>\$14,801</u>	<u>\$1,696,637</u>

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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

(2) Property, plant and equipment leased under operating leases (applicable under IFRS 16 requirements)

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Leasehold improvements	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:										
As of January 1, 2018	\$21,075	\$639,454	\$884,874	\$295,125	\$29,688	\$20,057	\$3,280	\$314,413	\$69,507	\$2,277,473
Additions	-	409	32,342	87,298	469	779	-	11,401	236,477	369,175
Disposals	-	-	(19,455)	(50,442)	(855)	(1,346)	(3,280)	(3,786)	-	(79,164)
Transfers	-	5,431	6,310	27,997	2,498	181	-	5,046	(63,653)	(16190)
Exchange differences	-	357	1,878	351	55	136	-	736	106	3,619
As of December 31, 2018	<u>\$21,075</u>	<u>\$645,651</u>	<u>\$905,949</u>	<u>\$360,329</u>	<u>\$31,855</u>	<u>\$19,807</u>	<u>\$-</u>	<u>\$327,810</u>	<u>\$242,437</u>	<u>\$2,554,913</u>
Depreciation and impairment:										
As of January 1, 2018	\$-	\$173,775	\$453,133	\$200,478	\$16,320	\$12,073	\$3,280	\$137,935	\$-	\$996,994
Depreciation	-	22,924	79,817	65,455	3,214	2,877	-	25,814	-	200,101
Disposals	-	-	(17,908)	(45,211)	(817)	(838)	(3,280)	(3,445)	-	(71,499)
Transfers	-	-	-	-	-	-	-	-	-	-
Exchange differences	-	(1,474)	88	(196)	(9)	101	-	(234)	-	(1,724)
As of 31 December 2018	<u>\$-</u>	<u>\$195,225</u>	<u>\$515,130</u>	<u>\$220,526</u>	<u>\$18,708</u>	<u>\$14,213</u>	<u>\$-</u>	<u>\$160,070</u>	<u>\$-</u>	<u>\$1,123,872</u>
Net carrying amount as of:										
31 December 2018	<u>\$21,075</u>	<u>\$450,426</u>	<u>\$390,819</u>	<u>\$139,803</u>	<u>\$13,147</u>	<u>\$5,594</u>	<u>\$-</u>	<u>\$167,740</u>	<u>\$242,437</u>	<u>\$1,431,041</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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- a. Please refer to Note 8 for property, plant and equipment pledged as collateral.
- b. The capitalization amount of the borrowing costs of the Group in 2019 and 2018 and its interest rates are as follows:

Items	2019	2018
Construction in progress	\$1,449	\$1,188
Borrowing cost capitalization interest rate interval	1.02%	1.02%

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Notes to Consolidated Financial Statements (Continued)

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

(5) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost:			
As of January 1, 2019	\$41,214	\$30,747	\$71,871
Additions	-	-	-
As of December 31, 2019	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
As of January 1, 2018	\$41,124	\$30,747	\$71,871
Additions	-	-	-
As of December 31, 2018	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
Depreciation and impairment:			
As of January 1, 2019	\$-	\$3,279	\$3,279
Depreciation	-	1,230	1,230
As of December 31, 2019	<u>\$-</u>	<u>\$4,509</u>	<u>\$4,509</u>
As of January 1, 2018	\$-	\$2,049	\$2,049
Depreciation	-	1,230	1,230
As of December 31, 2018	<u>\$-</u>	<u>\$3,279</u>	<u>\$3,279</u>
Net carrying amount:			
As of December 31, 2019	<u>\$41,124</u>	<u>\$26,238</u>	<u>\$67,362</u>
As of December 31, 2018	<u>\$41,124</u>	<u>\$27,468</u>	<u>\$68,592</u>
		<u>For the years ended 31 December</u>	
		<u>2019</u>	<u>2018</u>
Rental income from investment property		\$2,297	\$2,297
Less:			
Direct operating expenses from investment property generating rental income		-	-
Total		<u>\$2,297</u>	<u>\$2,297</u>

No investment property was pledged.

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Notes to Consolidated Financial Statements (Continued)

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Investment properties held by the Group are not measured at fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3. The fair value of the Group's investment properties was \$77,894 determined based on valuations performed by an independent valuer appointed on 31 December 2018. The fair value has been supported by prices in the active market. The valuation methods used are comparison approach and direct capitalization method, and the inputs of direct method used were net profit in the amount of \$3,449 and capitalization rate of 1.80%.

The Group's management has assessed the fair value of Investment property, and there were no significant changes on 31 December 2019 and 2018.

(6) Other non-current assets

	As of	
	31 December 2019	31 December 2018
Financial assets measured at amortized cost,		
noncurrent	\$200	\$200
Refundable deposits	6,126	7,920
Long-term prepaid rent expenses (Note)	-	158,650
Prepayment for equipment	13,925	41,978
Others	36,308	29,051
Total	<u>\$56,559</u>	<u>\$237,799</u>

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

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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(7) Short-term borrowings

	As of	
	31 December 2019	31 December 2018
Unsecured bank loans	<u>\$290,000</u>	<u>\$220,000</u>
	For the years ended 31 December	
	2019	2018
Interest rates	0.85%~0.89%	0.85%~0.98%

The Group's unused short-term lines of credits amounted to \$715,000 and \$1,169,896 as of 31 December 2019 and 2018, respectively.

(8) Short-term notes and bills payable

Accounting title	Guarantee	As of	
		31 December 2019	31 December 2018
Commercial paper payable	Mega Bills	\$-	\$100,000
Less: discount on short-term notes and bills payable		-	-
Net short-term notes and bills payable		<u>\$-</u>	<u>\$100,000</u>
		As of	
		31 December 2019	31 December 2018
Interest rates		-	0.94%

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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(9) Long-term loans

(a) Details of long-term loans in 31 December 2019 and 2018 are as follows:

Creditor	31 December 2019	31 December 2018	Rate (%)	Repayment period and methods
Bank of Taiwan (Secured)	\$120,000	\$160,000	1.02%	Interests are paid monthly from 7 December 2017 through 7 December 2022. Principals are paid in 48 installments starting from the second year.
Subtotal	120,000	160,000		
Less: current portion	(40,000)	(40,000)		
Total	\$80,000	\$120,000		

(b) Certain land and buildings and pledged as first priority security for secured bank loans with Bank of Taiwan, please refer to Note 8 for more details.

(10) Post-employment benefits

Defined contribution plan

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

Subsidiaries located in the People's Republic of China will contribute to the social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

Pension benefits for employees of foreign subsidiaries are provided in accordance with the local regulations.

Pension expenses under the defined contribution plan were \$11,578 and \$10,777 for the years ended 31 December 2019 and 2018, respectively.

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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 \$12,261 to its defined benefit plan during the 12 months beginning after 31 December 2019.

As of 31 December 2019 and 2018, the weighted average duration of the Group's defined benefit plan is 15 years.

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Notes to Consolidated Financial Statements (Continued)

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

	For the years ended 31 December	
	2019	2018
Current period service costs	\$1,056	\$1,281
Interest income or expense	413	396
Pre-service cost	-	16,004
Total	\$1,469	\$17,681

The Group recognized pension cost for high-ranking officers amounting to \$1,800 and \$1,200 for the years ended 31 December 2019 and 2018, respectively. As of 31 December 2019 and 2018, accrued pension liabilities non-current amounted to \$11,207 and \$9,407, respectively. In addition, the Group recognized pension expenses for early retirement in 2019 and 2018 amounting to \$0 and \$3,358, respectively.

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

	As of		
	31 December 2019	31 December 2018	1 January 2018
Defined benefit obligation	\$95,810	\$97,492	\$132,186
Plan assets at fair value	(66,562)	(60,301)	(100,523)
Other non-current liabilities - accrued pension liabilities recognized on the consolidated balance sheets	\$29,248	\$37,191	\$31,663

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

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As of 1 January 2018	\$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

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Notes to Consolidated Financial Statements (Continued)

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	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
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 31 December 2018	\$97,492	\$(60,301)	\$37,191
Current period service costs	1,056	-	1,056
Net interest expense (income)	1,082	(669)	413
Past service cost and gains and losses arising from settlements	-	-	-
Subtotal	99,630	(60,970)	38,660
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	756	-	756
Actuarial gains and losses arising from changes in financial assumptions	4,225	-	4,225
Experience adjustments	561	-	561
Remeasurements of benefit assets	-	(2,693)	(2,693)
Subtotal	5,542	(2,693)	2,849
Payments from the plan	(9,362)	9,362	-
Contributions by employer	-	(12,261)	(12,261)
Effect of changes in foreign exchange rates	-	-	-
As of 31 December 2019	\$95,810	\$(66,562)	\$29,248

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

	As of	
	31 December 2019	31 December 2018
Discount rate	0.80%	1.11%
Expected rate of salary increases	3.00%	3.00%

A sensitivity analysis for significant assumption as of 31 December 2019 and 2018 is as shown below:

	Effect on the defined benefit obligation			
	2019		2018	
	Increase	Decrease	Increase	Decrease
Discount rate increase by 0.50%	\$-	\$6,753	\$-	\$6,914
Discount rate decrease by 0.50%	7,405	-	7,590	-
Future salary increase by 0.50%	7,203	-	7,406	-
Future salary decrease by 0.50%	-	6,646	-	6,824

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.

(11) Equities

a. Share capital

As of 1 January 2018, 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.

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Notes to Consolidated Financial Statements (Continued)

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

On 8 November 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 8 November 2018. After the capital reduction, the paid-in capital was \$605,356, and the registration of the change was completed on 4 December 2018.

As of 31 December 2019, 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 one 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 was held on 28 August 2015 and approved to repurchase 1,200,000 shares, which would be transferred to employees to motivate them. The expected period to execute the decision will take place between 29 August 2015 and 27 October 2015; the repurchase price will be between \$100 to \$150. On 8 November 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 8 November 2018, and the registration of the change was completed on 4 December 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.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (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 from the date of purchase. If the overdue is not transferred, it shall be regarded as the unissued shares of the company and shall be subject to change registration. In addition to shares. In order to maintain the company's credit and shareholders' rights to buy back shares, the change registration and sales shares shall be processed 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. It is in a mature stage that is profitable with a sound financial structure. In addition to complying with the Company Act and the Company's Articles of Association, the dividend distribution will be determined based on the Company's capital planning and operating results. However, the principle of dividend stability and balance is adopted in principle. Before the annual shareholders' meeting, the board of directors formulates the method of surplus distribution based on the financial situation, and at least 50% of the surplus is distributed as shareholders' dividends. The cash dividend ratio is not less than 30% of the total dividend. However, the Company shall not distribute dividends if there is no surplus earning.

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Notes to Consolidated Financial Statements (Continued)

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

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.

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 1 January 2012 (adoption date) was \$0.

Details of the 2019 and 2018 earnings distribution and dividends per share as approved and resolved by the board of directors' meeting and shareholders' meeting on 12 March 2020 and 14 June 2019, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NTD)	
	2019	2018	2019	2018
(Reversal)Special reserve	\$48,285	\$(13,786)		
Cash dividends-common stock	532,714	665,892	\$8.8	\$11

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

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Notes to Consolidated Financial Statements (Continued)

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

(12) Non-controlling interests

	For the years ended 31 December	
	2019	2018
Balance as of 1 January	\$44,604	\$38,313
Profit attributable to non-controlling interests	12,205	17,289
Cash dividends	(14,664)	(10,998)
Balance as of 31 December	\$42,145	\$44,604

(13) Sales

	For the years ended 31 December	
	2019	2018
Revenue from contracts with customers		
Sale of goods	\$5,933,548	\$6,668,402
Commissions	2,400	1,562
Net sales	\$5,935,948	\$6,669,964

Analysis of revenue from contracts with customers during the years ended in 31 December 2019 and 2018 are as follows:

(1) Disaggregation of revenue

For the year ended 31 December 2019

	Taiwan	China	Vietnam	Total
Sale of goods	\$5,477,698	\$255,175	\$200,675	\$5,933,548
Commissions	2,400	-	-	2,400
Total	\$5,480,098	\$255,175	\$200,675	\$5,935,948

For the year ended 31 December 2018

	Taiwan	China	Vietnam	Total
Sale of goods	\$6,198,852	\$276,111	\$193,439	\$6,668,402
Commissions	1,562	-	-	1,562
Total	\$6,200,414	\$276,111	\$193,439	\$6,669,964

The Group recognizes revenues when control of the products is transferred to the customers, therefore the performance obligation is satisfied at a point in time.

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Notes to Consolidated Financial Statements (Continued)

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

(2) Contract balances

Contract liabilities - current

	As of	
	31 December 2019	31 December 2018
Sales of goods	<u>\$13,801</u>	<u>\$21,779</u>

During the year ended 31 December 2019, contract liabilities decreased as performance obligations were satisfied.

(3) Transaction price allocated to unsatisfied performance obligations

None.

(4) Assets recognized from costs to fulfil a contract

None.

(14) Expected credit losses / (gains)

	For the years ended 31 December	
	2019	2018
Operating expenses –		
Expected credit losses		
Trade receivables	<u>\$(564)</u>	<u>\$ 2,757</u>

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

The Group measures the loss allowance of its trade receivables (including note receivables and trade receivables) at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as of 31 December 2019 and 2018 is as follows:

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Notes to Consolidated Financial Statements (Continued)

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

31 December 2019

	Not yet due	Overdue					Total
		<=30 days	31-60 days	61-90 days	91-360 days	>=361 days	
Gross carrying amount	\$937,842	\$62,364	\$338	\$2,971	\$43	\$5,321	\$1,008,879
Loss ratio	-%	-%	10%	20%	50%	100%	
Lifetime expected credit losses	-	-	(34)	(570)	(17)	(5,321)	(5,942)
Carrying amount	\$937,842	\$62,364	\$304	\$2,401	\$26	\$-	\$1,002,937

31 December 2018

	Not yet due	Overdue					Total
		<=30 days	31-60 days	61-90 days	91-360 days	>=361 days	
Gross carrying amount	\$1,013,527	\$17,593	\$7,972	\$351	\$11,716	\$1,055	\$1,052,214
Loss ratio	-%	-%	10%	20%	50%	100%	
Lifetime expected credit losses	-	-	(642)	-	(5,858)	(1,055)	(7,555)
Carrying amount	\$1,013,527	\$17,593	\$7,330	\$351	\$5,858	\$-	\$1,044,659

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

The movement in the provision for impairment of note receivables and trade receivables for the years ended 31 December 2019 and 2018 is as follows:

	Note receivables	Trade receivables
Beginning balance at 2019.1.1	\$-	\$7,555
Reversal for the current period	-	(564)
Written off due to unrecoverable	-	(991)
Exchange differences	-	(58)
Ending balance at 2019.12.31	\$-	\$5,942
Beginning balance (in accordance with IAS 39)	\$-	\$4,799
Transition adjustment to retained earnings	-	-
Beginning balance (in accordance with IFRS 9)	-	4,799
Addition for the current period	-	2,757
Exchange differences	-	(1)
Ending balance at 2018.12.31	\$-	\$7,555

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Notes to Consolidated Financial Statements (Continued)

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(15) Lease

(1) Group as a lessee (applicable to the disclosure requirement under IFRS 16)

The Group leases various properties, including real estate such as land and buildings, machinery and equipment, transportation equipment, office equipment and other equipment. The lease terms range from 1 to 50 years. There are no restrictions placed upon the Group by entering into these leases.

The Group's leases effect on the financial position, financial performance and cash flows are as follows:

A. Amounts recognized in the balance sheet

a. Right-of-use assets

The carrying amount of right-of-use assets

	As of	
	31 December 2019	31 December 2018(Note)
Land	\$183,249	\$-
Buildings	5,087	-
Transportation equipment	2,353	-
Other equipment	239	-
Total	<u>\$190,928</u>	<u>\$-</u>

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

During the year ended 31 December 2019, the Group's additions to right-of-use assets amounted to \$1,549.

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Notes to Consolidated Financial Statements (Continued)

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

b. Lease liabilities

	As of	
	31 December 2019	31 December 2018(Note)
Lease liabilities		
Current	\$3,917	\$-
Non-current	3,940	-
Total	<u>\$7,857</u>	<u>\$-</u>

Please refer to Note 6 (17)(c) for the interest on lease liabilities recognized during the year ended 31 December 2019 and refer to Note 12 (5) Liquidity Risk Management for the maturity analysis for lease liabilities as of 31 December 2019.

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

B. Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	For the years ended 31 December	
	2019	2018(Note)
Land	\$5,558	\$-
Buildings	1,614	-
Transportation equipment	2,496	-
Other equipment	573	-
Total	<u>\$10,241</u>	<u>\$-</u>

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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C. Income and costs relating to leasing activities

	For the years ended 31 December	
	2019	2018(Note)
The expenses relating to short-term leases	\$10,359	\$-

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

D. Cash outflow relating to leasing activities

During the year ended 31 December 2019, the Group's total cash outflows for leases amounted to \$4,506.

(2) Group as lessee – operating lease (applicable to the disclosure requirement in IAS 17)

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

Future minimum rentals payable under non-cancellable operating leases as of 31 December 2019 and 2018 are as follows:

	As of	
	31 December 2019(Note)	31 December 2018
Lower than 1 year	\$-	\$8,566
Between 1 to 5 years	-	4,602
Total	\$-	\$13,168

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The expenses of operating lease were as follows:

	For the years ended 31 December	
	2019(Note)	2018
Minimum lease payments	\$-	\$7,080

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(16) Summary of employee benefits, depreciation and amortization expenses by function for the years ended 31 December 2019 and 2018:

Nature \ Function	For the years ended 31 December					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$435,150	\$312,012	\$747,162	\$484,288	\$313,090	\$797,378
Labor and health insurance	55,494	24,133	79,627	60,304	22,714	83,018
Pension	2,470	12,377	14,847	3,126	29,890	33,016
Director's remuneration	-	4,944	4,944	-	5,259	5,259
Others	34,578	10,271	44,849	37,362	11,510	48,872
Depreciation	195,295	36,989	232,284	172,865	28,466	201,331
Amortization	21,518	23,915	45,433	17,865	26,143	44,008

Note: The number of employees were 2,672 and 2,859 as of December 31, 2019 and 2018, respectively, the number of directors who were not concurrently employees was 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.

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Notes to Consolidated Financial Statements (Continued)

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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, 2019 and 2018 are as follows:

	For the years ended 31 December	
	2019	2018
Employees' compensation	\$23,000	\$32,000
Remuneration to directors and supervisors	4,600	4,700

A resolution was passed at a board of directors meeting held on 12 March 2020 to distribute \$23,000 and \$4,600 in cash as the employees' compensation and remuneration to directors and supervisors of 2019, respectively. No material differences existed between the estimated amount and the amount determined at the board meeting for the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2019.

No material differences existed between the estimated amount and the actual distribution of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2018.

(17) Non-operating income and expenses

a. Other income

	For the years ended 31 December	
	2019	2018
Interest income	\$41,043	\$41,868
Rental revenue	2,297	2,297
Dividends income	3,750	2,262
Others	21,762	40,277
Total	\$68,852	\$86,704

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b. Other gains and losses

	For the years ended 31 December	
	2019	2018
Foreign exchange (losses) gains, net	\$(27,905)	\$148,827
Losses on disposal of property, plant and equipment	(10,395)	(2,314)
Net gains on financial assets at fair value through profit or loss	804	19,173
Gain on disposal of investments	9,903	-
Gain on reversal of impairment loss	4,560	-
Others	(3,239)	(1,860)
Total	<u>\$(26,272)</u>	<u>\$163,826</u>

c. Financial costs

	For the years ended 31 December	
	2019	2018
Interest on loans from bank	\$3,750	\$8,027
Interest on lease liabilities	465	(Note)
Total	<u>\$4,215</u>	<u>\$8,027</u>

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(18) Components of other comprehensive income

a. For the year ended 31 December 2019

	Arising during the period	Current reclassification adjustment	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(2,849)	\$-	\$(2,849)	\$570	\$(2,279)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	1,382	-	1,382	-	1,382
	(53,444)	-	(53,444)	10,689	(42,755)
Total of other comprehensive income	<u>\$(54,911)</u>	<u>\$-</u>	<u>\$(54,911)</u>	<u>\$11,259</u>	<u>\$(43,652)</u>

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b. For the year ended 31 December 2018

	Arising during the period	Current reclassification adjustment	Other comprehensive income, net of tax	Income tax effect	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(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	<u>\$(15,471)</u>	<u>\$-</u>	<u>\$(15,471)</u>	<u>\$11,348</u>	<u>\$(4,123)</u>

(19) Income tax

Based on the amendments to the Income Tax Act announced on 7 February 2018, the Company's applicable corporate income tax rate for the year ended 31 December 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 31 December	
	2019	2018
Current income tax expense:		
Current income tax charge	\$221,153	\$256,279
Adjustments in respect of current income tax of prior periods	-	6,308
Deferred income tax (benefit) expense:		
Deferred income tax expense related to origination and reversal of temporary differences	(4,628)	63,749
Deferred tax expense relating to changes in tax rate or the imposition of new taxes	-	14,603
Income tax expense recognized in profit or loss	<u>\$216,525</u>	<u>\$340,939</u>

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Notes to Consolidated Financial Statements (Continued)

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

b. Income tax relating to components of other comprehensive income

	For the years ended 31 December	
	2019	2018
Deferred income tax (benefit) expense:		
Exchange differences on translation of foreign operations	\$(10,689)	\$(9,452)
Remeasurements of defined benefit plans	(570)	(1,896)
Income tax relating to components of other comprehensive income	<u>\$(11,259)</u>	<u>\$(11,348)</u>

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

	For the years ended 31 December	
	2019	2018
Accounting profit before tax from continuing operations	<u>\$904,531</u>	<u>\$1,281,800</u>
The amount of tax at each statutory income tax rate	222,838	\$305,965
Tax effect of non-deductible expenses	(1,685)	(49,686)
Income tax impact of deferred income tax assets/liabilities	(4,628)	78,352
Adjustments in respect of current income tax of prior periods	-	6,308
Total income tax expenses recorded in profit or loss	<u>\$216,525</u>	<u>\$340,939</u>

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

i. For the year ended 31 December 2019

Items	Balance as of 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of 31 December
Temporary difference				
Unrealized intercompany transactions	\$944	\$(843)	\$-	\$101
Unrealized foreign currency exchange gain or loss	1,518	277	-	1,795
Provision for allowance to reduce inventories to market value	3,233	(1,584)	-	1,649
Impairment of long-term investment under equity method	912	(912)	-	-
Defined benefit liability	11,990	(2,158)	570	10,402
Reserve for land appreciation tax	(87)	-	-	(87)
Investment income under equity method	(224,400)	9,848	-	(214,552)
Exchange differences on translation of foreign operations	56,180	-	10,689	66,869
Deferred income tax expense (benefit)		<u>\$4,628</u>	<u>\$11,259</u>	
Deferred income tax assets (liabilities)	<u>\$(149,710)</u>			<u>\$(133,823)</u>
The information represent in balance statement				
Deferred income tax assets	<u>\$75,530</u>			<u>\$84,031</u>
Deferred income tax liabilities	<u>\$(225,240)</u>			<u>\$(217,854)</u>

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ii. For the year ended 31 December 2018

Items	Balance as of 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of 31 December
Temporary difference				
Unrealized intercompany transactions	\$132	\$812	\$-	\$944
Unrealized foreign currency exchange gain or loss	1,653	(135)	-	1,518
Provision for allowance to reduce inventories to market value	1,868	1,365	-	3,233
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)	(81,222)	-	(224,400)
Exchange differences on translation of foreign operations	46,728	-	9,452	56,180
Deferred income tax expense (benefit)		<u>\$(78,352)</u>	<u>\$11,348</u>	
Deferred income tax assets (liabilities)	<u>\$(82,706)</u>			<u>\$(149,710)</u>
The information represent in balance statement				
Deferred income tax assets	<u>\$61,199</u>			<u>\$75,530</u>
Deferred income tax liabilities	<u>\$(143,905)</u>			<u>\$(225,240)</u>

iii. As of 31 December 2019 and 2018, deferred tax assets that have not been recognized as they may not be used to offset taxable profits as follows:

None.

iv. As of 31 December 2019 and 2018, the taxable temporary differences of unrecognized deferred tax liabilities associated with investment in subsidiaries as follows:

None.

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e. The assessment of income tax returns

As of 31 December 2019, the assessment of the income tax returns of the Company and its subsidiaries is as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2017
Mitsumichi Industrial Co., Ltd.	Assessed and approved up to 2017

As of 31 December 2019, the foreign subsidiaries of the Company have been subject to foreign taxation jurisdiction and have been declared in 2018.

(20) Earnings per share

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

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

a. Earnings per share-basic

	<u>For the years ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Net profit attributable to ordinary equity holders of the Company	<u>\$675,801</u>	<u>\$923,572</u>
Weighted-average number of ordinary shares for basic earnings per share (thousand shares)	<u>60,536</u>	<u>60,536</u>
Earnings per share-basic (NTD)	<u>\$11.16</u>	<u>\$15.26</u>

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

b. Earnings per share-diluted

	<u>For the years ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Net profit attributable to ordinary equity holders of the Company	<u>\$675,801</u>	<u>\$923,572</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	60,536	60,536
Effect of dilution:		
Employee compensation – stock (thousand shares)	<u>173</u>	<u>237</u>
Weighted average number of ordinary shares outstanding after dilution (thousand shares)	<u>60,709</u>	<u>60,773</u>
Diluted earnings per share (NTD)	<u>\$11.13</u>	<u>\$15.20</u>

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

7. RELATED PARTY TRANSACTIONS

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

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
Lin Zhi Cheng and other 22 people	Directors and Deputy General Manager of the Company

(2) Key management personnel compensation

	<u>For the years ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$55,006	\$52,279
Post-employment Benefits	<u>679</u>	<u>1,889</u>
	<u>\$55,685</u>	<u>\$54,168</u>

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Notes to Consolidated Financial Statements (Continued)

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8. ASSETS PLEDGED AS COLLATERAL

The following assets were pledged:

	As of		Secured liabilities
	31 December 2019	31 December 2018	
Property, Plant and Equipment-land	\$21,075	\$21,075	Bank loan
Financial assets measured at amortized cost-noncurrent	200	200	Customs import customs clearance deposit
Total	<u>\$21,275</u>	<u>\$21,275</u>	

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The important contracts of construction in progress

a. As of 31 December 2019

Contracting parties	Subject matter	Total contract amount	Contract amount paid as of 31 December 2019
Company A	Building	\$69,411	\$-
Company B	Building	18,698	-
Company C	Dormitory	53,626	49,941
Company D	Building	9,330	-
Company E	Building	17,029	5,109
Company F	Building	12,575	-

b. As of 31 December 2018

Contracting parties	Subject matter	Total contract amount	Contract amount paid as of 31 December 2018
Company A	Building	\$450,612	\$196,085
Company B	Building	57,029	11,976
Company C	Dormitory	53,626	13,405
Company D	Building	41,975	15,540
Company E	Building	17,029	5,109

(2) The Group entered into the financial guarantees to related parties: refer to Table 1 on page 104.

10. SIGNIFICANT DISASTER LOSS

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Categories of financial instruments

	As of	
	31 December 2019	31 December 2018
<u>Financial Assets</u>		
Financial assets at fair value through profit or loss:		
Designated at fair value through profit or loss at initial recognition	\$-	\$565
Financial assets at fair value through other comprehensive income	14,959	32,056
Financial assets measured at amortized cost		
Cash and cash equivalents (excludes cash on hand)	2,427,194	3,022,750
Notes and accounts receivable	1,002,937	1,044,659
Other receivables	16,656	23,100
Financial assets measured at amortized cost, noncurrent	200	200
Total	<u>\$3,461,946</u>	<u>\$4,123,330</u>
<u>Financial Liabilities</u>		
Financial liabilities at amortized cost:		
Short-term loans	\$290,000	\$220,000
Short-term notes and bills payable	-	100,000
Notes and accounts payables	558,391	686,801
Other payables	245,646	313,361
Long-term loans(Long-term loans due within one year)	120,000	160,000
Lease liability	7,857	(Note)
Subtotal	<u>1,221,894</u>	<u>1,480,162</u>
Financial liabilities at fair value through profit or loss:		
Held for trading	777	-
Total	<u>\$1,222,671</u>	<u>\$1,480,162</u>

Note: The Group adopted IFRS 16 on 1 January 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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Notes to Consolidated Financial Statements (Continued)

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(2) Financial risk management objectives and policies

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

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

(3) Market risk

The market risk of the Group is the risk that the financial instruments will be subject to fluctuations in fair value or cash flows due to changes in market prices. Market risks mainly include exchange rate risk, interest rate risk and other price risks (such as equity instruments).

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

Foreign currency risk

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

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

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Notes to Consolidated Financial Statements (Continued)

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

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

- a. When NTD strengthens/weakens against USD by 1%, the profit for the years ended 31 December 2019 and 2018 is decreased by \$19,127 and \$23,807, respectively; and no impact on the equity.
- b. When NTD strengthens/weakens against RMB by 1%, the profit for the years ended 31 December 2019 and 2018 is increased by \$225 and decreased by \$561, respectively; and no impact on the equity.
- c. When NTD strengthens/weakens against VND by 1%, the profit for the years ended 31 December 2019 and 2018 is increased by \$1,383 and \$2,249, respectively; and no impact on the equity.

Interest rate risk

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

The interest rate sensitivity analysis is performed on the borrowings with variable interest rates as of the end of the reporting period. At the reporting date, a change of 10 basis points of interest rate in a reporting period will result in a decrease of \$120 and \$160 for the years ended 31 December 2019 and 2018, respectively.

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Notes to Consolidated Financial Statements (Continued)

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Equity price risk

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

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

(4) Credit risk management

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

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

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As of 31 December 2019 and 2018, amounts receivables from top ten customers represented 90.05% and 84.47% of the total trade receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

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

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank borrowings. The table below summarizes the maturity profile of the Group'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 31 December 2019					
Short-term loans	\$290,000	\$-	\$-	\$-	\$290,000
Payables	558,391	-	-	-	558,391
Long-term loans	41,224	80,816	-	-	122,040
Lease liability	4,272	4,132	-	-	8,404
As of 31 December 2018					
Short-term loans	\$220,000	\$-	\$-	\$-	\$220,000
Short-term notes and bills payable	100,000	-	-	-	100,000
Payables	686,801	-	-	-	686,801
Long-term loans	41,632	81,224	40,480	-	163,336

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Derivative financial instruments

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As of 31 December 2019					
Inflow	\$-	\$-	\$-	\$-	\$-
Outflow	(777)	-	-	-	(777)
Net	<u>\$(777)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(777)</u>
As of 31 December 2018					
Inflow	\$565	\$-	\$-	\$-	\$565
Outflow	-	-	-	-	-
Net	<u>\$565</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$565</u>

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

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended 31 December 2019:

	Short-term Short-term loans	Short-term notes and bills payable	Long-term loans	Lease liability	Total liabilities from financing activities
As of 1 January 2019	\$220,000	\$100,000	\$160,000	\$10,814	\$490,814
Cash flow	70,000	(100,000)	(40,000)	(4,506)	(74,506)
Non-cash change	-	-	-	1,549	1,549
Currency change	-	-	-	-	-
As of 31 December 2019	<u>\$290,000</u>	<u>\$-</u>	<u>\$120,000</u>	<u>\$7,857</u>	<u>\$417,857</u>

Reconciliation of liabilities for the year ended 31 December 2018:

	Short-term Short-term loans	Short-term notes and bills payable	Long-term loans	Total liabilities from financing activities
As of 1 January 2018	\$672,585	\$230,000	\$160,000	\$1,062,585
Cash flow	(450,923)	(130,000)	-	(580,923)
Currency change	(1,662)	-	-	(1,662)
As of 31 December 2018	<u>\$220,000</u>	<u>\$100,000</u>	<u>\$160,000</u>	<u>\$480,000</u>

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(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 Group to measure or disclose the fair values of financial assets and financial liabilities:

- i. The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.
- ii. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures, etc.) at the reporting date.
- iii. Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).
- iv. Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

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

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

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

- c. Fair value measurement hierarchy for financial instruments

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

(8) Derivative financial instruments

The Group's derivative financial instruments include a foreign exchange swap and a cross currency swap. The related information for derivative financial instruments not qualified for hedge accounting and not yet settled as of 31 December 2019 and 2018 is as follows:

Foreign Exchange Swap and Cross Currency Swap

The Group entered into a foreign exchange swap and a cross currency swap to manage its exposure to financial risk, but these contracts are not designated as hedging instruments.

The table below lists the information related to these contracts:

<u>Contract</u>	<u>Contract amount</u>	<u>Maturity</u>
As of 31 December 2019		
Foreign Exchange Swap	Sell USD 3,000 thousand	2019/10/30-2020/02/07
As of 31 December 2018		
Foreign Exchange Swap	Sell USD 3,000 thousand	2018/10/02-2019/02/20

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

(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 Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

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

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

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As of 31 December 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income				
Equity instrument measured at fair value through other comprehensive income	\$-	\$-	\$14,959	\$14,959
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Foreign exchange swap	-	777	-	777

As of 31 December 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Foreign exchange swap	\$-	\$565	\$-	\$565
Financial assets at fair value through other comprehensive income				
Equity instrument measured at fair value through other comprehensive income	-	-	32,056	32,056

Transfers between Level 1 and Level 2 during the period

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	<u>Assets</u>	
	<u>At fair value through other comprehensive income</u>	
	<u>Stocks</u>	
	<u>For the years ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Beginning balances	\$32,056	\$19,096
Impact of retrospective application and retrospective restatement		12,960
Retrospective balances		32,056
Acquisition(Disposal)	(17,097)	-
Ending balances	<u>\$14,959</u>	<u>\$32,056</u>

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Information on significant unobservable inputs to valuation

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

As of 31 December 2019

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets: At fair value through other comprehensive income					
Stocks	Market approach	discount for lack of marketability	10%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase (decrease) in the discount for lack of marketability would result in (decrease) increase in the Group's profit or loss by \$1,496

As of 31 December 2018

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

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

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

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

As of 31 December 2019

	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. (5))	\$-	\$-	\$77,894	\$77,894

As of 31 December 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. (5))	\$-	\$-	\$77,894	\$77,894

(10) Significant assets and liabilities denominated in foreign currencies

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

Unit: Thousands

	As of					
	31 December 2019			31 December 2018		
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchang e rate	NTD
Financial assets						
Monetary item:						
USD	\$79,814	30.106	\$2,402,880	\$97,440	30.733	\$2,994,629
CNY	23,280	4.3217	100,609	62,438	4.4762	279,484
VND	107,667,892	0.001299	139,861	50,087,547	0.001325	66,366

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

	As of					
	31 December 2019			31 December 2018		
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD
<u>Financial liabilities</u>						
<u>Monetary item:</u>						
USD	\$397	30.106	\$11,952	\$609	30.733	\$18,703
CNY	29,798	4.3217	128,778	46,776	4.4762	209,380
VND	240,729,494	0.001299	312,708	262,268,883	0.001325	347,506

Due to the large number of functional currencies used in the Group, it's impossible to disclose foreign exchange gains and losses on the basis of each monetary item which has significant impact. The Group recognized \$(27,905) and \$148,827 for foreign exchange (loss) gain for the years ended 31 December 2019 and 2018, respectively.

(11) Capital management

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

(12) In order to facilitate the analysis and comparison, some of the accounts of the financial statements as of 31 December 2018 have been properly reclassified.

13. ADDITIONAL DISCLOSURES

1. Information on significant transactions:

- (1) Financing provided: none.
- (2) Endorsement/guarantee provided: Table 1 on page 104.
- (3) Marketable securities held: Table 2 on page 105.
- (4) Marketable securities acquired or disposed of that cost or amounted to at least \$300 million or 20% of the paid-in capital: none.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

- (5) Acquisition of individual real estate that cost at least \$300 million or 20% of the paid-in capital: Table 3 on page 105.
- (6) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital: none.
- (7) Related party transactions for purchases and sales amounts exceeding the lower of \$100 million or 20% of capital stock: Table 4 on page 106 to 107.
- (8) Receivables from related parties amounting to over \$100 million or 20% of the paid-in capital: Table 5 on page 108.
- (9) Information about derivatives of investees over which the Group has a controlling interest: refer to Note 12(8).
- (10) Inter-company relationships and significant intercompany transactions: refer to Table 4 on page 106 to 107.

2. Information on investees

- (1) Names, locations, and related information of investees on which the company exercises significant influence: Table 6 on page 109 to 110.

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: Table 7 of page 111 to 112.

14. OPERATING SEGMENT INFORMATION

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

Taiwan segment produces computerized and electronic sewing machines.

China segment produces computerized, electronic and mechanical sewing machines.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Vietnam segment produces mechanical sewing machines.

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

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

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

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

(1) For the year ended 31 December 2019

	Taiwan	China	Vietnam	Adjustments and eliminations (Note 1)	Consolidated
Revenue					
External customers	\$5,480,098	\$255,175	\$200,675	\$-	\$5,935,948
Inter-segment	71,159	826,375	3,761,108	(4,658,642)	-
Total revenue	<u>\$5,551,257</u>	<u>\$1,081,550</u>	<u>\$3,961,783</u>	<u>\$(4,658,642)</u>	<u>\$5,935,948</u>
Interest expense	3,284	-	931	-	4,215
Depreciation and amortization	50,850	24,328	202,539	-	277,717
Investment income	240,438	967	-	(226,269)	15,136
Segment profit	<u>\$892,032</u>	<u>\$54,980</u>	<u>\$181,854</u>	<u>\$(224,335)</u>	<u>\$904,531</u>
Assets					
Investment using the equity method	3,631,899	88,995	-	(3,639,271)	81,623
Capital expenditures of non-current assets	324,146	4,476	221,283	-	549,905

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

(2) For the year ended 31 December 2018

	Taiwan	China	Vietnam	Adjustments and eliminations (Note 1)	Consolidated
Revenue					
External customers	\$6,200,414	\$276,111	\$193,439	\$-	\$6,669,964
Inter-segment	90,844	1,475,356	3,651,219	(5,217,419)	-
Total revenue	<u>\$6,291,258</u>	<u>\$1,751,467</u>	<u>\$3,844,658</u>	<u>\$(5,217,419)</u>	<u>\$6,669,964</u>
Interest expense	6,887	-	1,140	-	8,027
Depreciation and amortization	52,343	31,968	161,028	-	245,339
Investment income	287,123	11,603	-	(301,592)	(2,866)
Segment profit	<u>\$1,351,291</u>	<u>\$164,911</u>	<u>\$174,234</u>	<u>\$(408,636)</u>	<u>\$1,281,800</u>
Assets					
Investment using the equity method	4,010,703	39,624	-	(3,996,862)	53,465
Capital expenditures of non-current assets	189,234	6,300	173,641	-	369,175

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

The segment assets and liabilities of the Group for the years ended 31 December 2019 and 2018 , information are listed as follows:

Operating segment Assets

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
2019.12.31	<u>\$7,458,920</u>	<u>\$905,830</u>	<u>\$2,604,539</u>	<u>\$(4,527,231)</u>	<u>\$6,442,058</u>
2018.12.31	<u>\$8,006,731</u>	<u>\$1,128,293</u>	<u>\$2,592,346</u>	<u>\$(4,915,751)</u>	<u>\$6,811,619</u>

Operating segment liabilities

	Taiwan	China	Vietnam	Adjustments and eliminations	Consolidated
2019.12.31	<u>\$1,661,279</u>	<u>\$266,194</u>	<u>\$566,132</u>	<u>\$(855,526)</u>	<u>\$1,638,079</u>
2018.12.31	<u>\$1,927,243</u>	<u>\$289,549</u>	<u>\$662,366</u>	<u>\$(914,632)</u>	<u>\$1,964,526</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

2. Geographic information

a. Revenue from external customers:

Country	For the years ended 31 December	
	2019	2018
USA	\$1,094,318	\$1,364,205
Germany	926,510	1,228,502
Switzerland	315,192	396,723
Italy	258,102	236,314
Brazil	248,672	121,763
Other countries	3,093,154	3,322,457
Total	<u>\$5,935,948</u>	<u>\$6,669,964</u>

Incomes are classified based on the customer's country.

b. Non-current assets:

Country	As of 31 December	
	2019	2018
Taiwan	\$951,982	\$527,055
China	86,674	247,011
Vietnam	1,192,394	1,163,459
Total	<u>\$2,231,050</u>	<u>\$1,937,525</u>

3. Important customer information

Country	For the years ended 31 December	
	2019	2018
From a customer's Taiwan branch	<u>\$3,920,800</u>	<u>\$4,431,740</u>

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 1

No. (Note 1)	Endorser/ Guarantor	Company name	Relationship (Note 2)	Limit of guarantee/ endorsement amount for receiving party (Note 3)	Maximum balance for the period	Ending balance	Actual amount provided	Amount of collateral guarantee/ endorsement	Ratio of Accumulated Amount of Guarantee Provided to Net Equity of the Latest Financial Statements	Guaranty Limited Amount (Note 4)	Parent company to subsidiary	Subsidiary to parent company	To Mainland China
0	Zeng Hsing Industrial CO., LTD.	Zeng Hsing Industrial CO., Ltd. (VN)	(2)	\$1,428,550	\$602,120 (USD20,000,000)	\$406,431 (USD13,500,000)	\$-	\$-	8.54%	\$1,904,734	Yes	No	No

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

(1) The Company is coded "0".

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

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

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

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

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

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

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

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

Note 3: The amount of guarantees/endorsements shall not exceed 30% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of 31 December 2019.

Note 4: Limit of total guarantee/endorsement amount shall not exceed 40% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of 31 December 2019.

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

MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 2

Securities Held By	Type	Type and name of securities	Relationship with the Company	Financial Statement Account	31 December 2019			
					Shares/Units	Carrying Value	Ownership Percentage	Market Value or Net Asset Value
ARCORIS PTE LTD	Stocks	HEYDAY INTERNATIONAL LIMITED	non-relationship	Financial assets at fair value through other comprehensive income	282,240 shares	\$14,959	7%	\$14,959

ACQUISITION OF INDIVIDUAL REAL ESTATE THAT COST AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 3

Company name	Name of properties	Transaction date	Transaction amount	Payment status	Counterparty	Relationship	Where counter-party is a related party, details of prior transactions				Price reference	Date of acquisition and status of utilization	Other commitments
							Former property owner	Relationship between former owner and acquirer of property	Date of transaction	Transaction amount			
Zeng Hsing Industrial CO., LTD.	Buildings and Facilities	2017.08.30 (Note)	\$510,291	\$440,880	Te Chang Construction Co., Ltd., Ruisheng Engineering Co., Ltd.	non-relationship	Not applicable				Not applicable	Operating demand	None

Note: The new construction of the operating headquarters was completed in December 2019.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

RELATED PARTY TRANSACTIONS FOR PURCHASES AND SALES AMOUNTS EXCEEDING THE LOWER OF \$100 MILLION OR 20 PERCENT OF CAPITAL STOCK FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 4

Company Name	Counter Party	Nature of Relationship (Note 1)	Transactions				Details of non-arm's length transaction		Notes and accounts receivable (payable)		Note
			Purchases (Sales)	Amount	% to Total	Term	Unit price	Term	Balance	% to Total	
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$443,073	7.46%	There is no difference with other clients	Regular	Regular	Account receivable \$76,334 (RMB17,688,042)	7.61%	-
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	1	Purchases	\$443,073	7.46%	There is no difference with other clients	Regular	Regular	Account payable \$(76,334)	(7.61)%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd	2	Sales	\$3,695,714	62.26%	There is no difference with other clients	Regular	Regular	Account receivable \$498,556 (VND 382,691,633,393)	49.71%	-
Zeng Hsing Industrial CO., Ltd	Zeng Hsing Industrial CO., Ltd. (VN)	1	Purchases	\$3,695,714	62.26%	There is no difference with other clients	Regular	Regular	Account payable \$(498,556)	(49.71)%	-
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Sales (Note2)	\$478,225	8.14%	There is no difference with other clients	Regular	Regular	Account receivable \$119,068	11.87%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Purchases	\$478,225	8.14%	There is no difference with other clients	Regular	Regular	Account payable, payables on equipment and other payables \$(119,068) (VND 91,992,538,235)	(11.87)%	-

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Company Name	Counter Party	Nature of Relationship (Note 1)	Transactions				Details of non-arm's length transaction		Notes and accounts receivable (payable)		Note
			Purchases (Sales)	Amount	% to Total	Term	Unit price	Term	Balance	% to Total	
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd	3	Sales	\$175,321	2.95%	There is no difference with other clients	Regular	Regular	Account receivable and other receivables \$ 48,542 (RMB 11,232,200)	4.84%	-
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	3	Purchases	\$175,321	2.95%	There is no difference with other clients	Regular	Regular	Account payable \$(48,542) (RMB 11,232,200)	(4.84)%	-
Zhangjiagang Zenghsing Trading Co., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	3	Sales	\$170,568	2.87%	There is no difference with other clients	Regular	Regular	Account receivable \$38,027 (RMB8,799,136)	3.79%	
Zeng Hsing Industrial CO., Ltd. (VN)	Zhangjiagang Zenghsing Trading Co., Ltd.	3	Purchases	\$170,568	2.87%	There is no difference with other clients	Regular	Regular	Account payable \$(38,027) (VND29,338,065,849)	(3.79)%	

Note 1: "1" represents the transactions from the parent company to a subsidiary.

"2" represents the transactions from a subsidiary to the parent company.

"3" represents the transaction between subsidiaries.

Note2: The Company reported the net sales of triangle trade and recognized commission of \$28,542 for the year ended 31 December 2019.

Note3: Related party transactions were eliminated when preparing the consolidated financial statements.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO OVER NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 5

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	\$119,068	3.56	\$-	-	\$94,133	\$-	accounts receivable-customers
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	Subsidiary	\$498,556 (VND 382,691,633,393)	7.40	\$-	-	\$498,556 (VND 382,691,633,393)	\$-	accounts receivable-customers
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	Subsidiary	\$76,334 (RMB 17,688,042)	3.09	\$-	-	\$63,542 (RMB 14,702,965)	\$-	accounts receivable-customers

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

NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 6

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as at 31 December 2019			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				31 December 2019	31 December 2018	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)	-	-	-	\$-	\$-	Note1
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)	586,375 (USD17,873,452)	17,873	100%	736,021	24,780	24,780	Note2
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)	129,291 (USD4,030,000)	4,030,000	100%	110,316	5,459	5,459	
Zeng Hsing Industrial Co.,Ltd. (BVI)	Jetsun Technology Co.,Ltd (Seychelles)	Global Gateway 8, Rue de la Perle Providence Mahe Seychelles	Holding company	33,239 (USD1,100,000)	33,239 (USD1,100,000)	1,200,000	100%	32,101	(1,886)	(1,886)	

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as at 31 December 2019			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				31 December 2019	31 December 2018	Shares	Percentage of Ownership	Carrying Value			
Jetsun Technology Co.,Ltd (Seychelles)	Jetsun Technology Company Limited	Bing Doung, Vietnam	Research and design of filtration equipment	39,494 (USD1,204,000)	39,494 (USD1,204,000)	-	100%	32,101	VND (1,417,330,388)	(1,886)	
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%	1,655,165	VND 93,571,330,957	124,543	
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%	350,813	VND 20,468,973,800	27,244	
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%	26,841	13,257	22,281	
Zeng Hsing Industrial CO., Ltd.	Mitsumichi industrial CO. Ltd	Taichung, Taiwan	Manufacturing household sewing machines	31,330	31,330	1,378,000	53.00%	48,707	25,969	13,764	

Note 1: The liquidation of SHINCO WORLDWIDE LTD. (BVI) was completed on 28 August 2019.

Note 2: The long-term investment losses under equity method incurred by Zeng Hsing Industrial CO., Ltd (BVI) included the gains from investees.

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED 31 DECEMBER 2019

(a)

TABLE 7

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of 1 January 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of 31 December 2019	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as of 31 December 2019	Accumulated Inward Remittance of Earnings as of 31 December 2019
					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%	\$26,171	\$550,641	\$498,363 (USD11,888,961) (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%	RMB 1,700,924	RMB 7,431,072	RMB 26,251,891
Zhangjiagang Zenghsing Trading Co., Ltd.	Selling household sewing machines and spare parts	RMB1,000,000	Indirect investments through Zeng Hsing (BVI)	-	-	-	-	100%	RMB3,253,620	RMB11,106,901	RMB9,197,561

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of 1 January 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of 31 December 2019	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as of 31 December 2019	Accumulated Inward Remittance of Earnings as of 31 December 2019
					Outflow	Inflow					
Shanghai Debra Trading Company Limited	Selling household sewing machines and spare parts	RMB4,000,000	Indirect investments through Zeng Hsing (BVI)	-	-	-	-	100%	RMB(1,944,124)	RMB2,054,698	-

Accumulated investment in Mainland China as of 31 December 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$319,130 (USD9,603,039)	\$459,409(Note2) (USD13,848,355)	\$2,857,100

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

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

- (b) As of 31 December 2019, refer to Table 4 on Pages 106 and 107 for information on significant transactions and prices, payments, etc. between the parent company and subsidiaries.

ZENG HSING INDUSTRIAL CO., LTD.

PARENT COMPANY ONLY FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

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 31 December 2019 and 2018, 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 31 December 2019 and 2018, and notes to the parent company only financial statements, including the summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditor(s) (please refer to the Other Matter – Making Reference to the Audit of Component Auditor section of our report), 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 31 December 2019 and 2018, and the parent company only financial performance and the parent company only cash flows for the years ended 31 December 2019 and 2018, 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 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 and the reports of other auditor, 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 2019 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 31 December 2019, the Company's accounts receivable and allowance for doubtful accounts amounted to NTD1,080,270 thousand and NTD5,942 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 31 December 2019, 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.

Other Matter – Making Reference to the Audit of Component Auditor

We did not audit the financial statements of certain associates and joint ventures accounted for under the equity method whose statements are based solely on the reports of other auditors. These associates and joint ventures under equity method amounted to NTD26,841 thousand, representing 0.42% of the total assets as of 31 December 2019, and the related shares of profits from the associates and joint ventures under equity method amounted to NTD22,281 thousand, representing 2.66% of the net income before tax for the year ended 31 December 2019.

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 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 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 2019 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
12 March 2020

ZENG HSING INDUSTRIAL CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
31 December 2019 and 2018
(Expressed in Thousand New Taiwan Dollars)

Assets	Notes	As of	
		31 December 2019	31 December 2018
Current Assets			
Cash and cash equivalents	4, 6(1),12	\$1,606,029	\$2,047,261
Accounts receivable, net	4, 6(2),6(14),12	930,855	964,535
Accounts receivable-related parties, net	4, 6(2),6(14),7,12	143,473	177,233
Other receivables	12	11,112	6,165
Inventories, net	4, 6(3)	62,984	61,261
Prepayment		2,744	12,364
Other current assets		4,588	5,481
Total Current Assets		2,761,785	3,274,300
Non-current assets			
Financial assets measured at amortized cost, noncurrent	4, 8, 12	200	200
Investments accounted for under the equity method	4, 6(4)	2,817,547	2,903,346
Property, plant and equipment	4, 6(5), 8	622,386	334,544
Investment property	4, 6(6)	67,362	68,592
Intangible assets	4	27,624	32,930
Deferred tax assets	4, 6(19)	83,279	74,068
Other non-current assets	4,6(7),6(15),12	18,083	14,261
Total non-current assets		3,636,481	3,427,941
Total assets		\$6,398,266	\$6,702,241

(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
31 December 2019 and 2018
(Expressed in Thousand New Taiwan Dollars)

Liabilities and Equity	Notes	As of	
		31 December 2019	31 December 2018
Current liabilities			
Short-term loans	4, 6(8), 12	\$290,000	\$220,000
Short-term notes and bills payable	4, 6(9), 12	-	100,000
Contract liabilities, current	6(13)	12,290	18,711
Notes payable	12	3,253	2,006
Accounts payable	12	111,947	127,815
Accounts payable-related parties	7, 12	586,956	658,356
Other payables	12	140,918	190,083
Current tax liabilities	4	89,164	139,500
Long-term borrowings(including current portion with maturity less than 1 year)	4, 6(10), 12	40,000	40,000
Other current liabilities	4, 6(15), 12	22,540	13,675
Total current liabilities		1,297,068	1,510,146
Non-current liabilities			
Long-term loans	4, 6(10), 12	80,000	120,000
Deferred tax liabilities	4, 6(19)	216,644	222,648
Accrued pension liabilities	4, 6(11)	40,455	46,598
Non-current liabilities-other	4, 6(15), 12	2,265	360
Total non-current liabilities		339,364	389,606
Total liabilities		1,636,432	1,899,752
Equity attributable to the parent company			
Capital			
Common stock		605,356	605,356
Additional paid-in capital		1,385,352	1,385,352
Retained earnings			
Legal reserve		730,563	730,563
Special reserve		163,100	176,886
Retained earnings		2,088,848	2,067,432
Total Retained earnings		2,982,511	2,974,881
Other components of equity			
Exchange differences on translation of foreign operations		(216,223)	(173,468)
Unrealized gains and losses on equity instrument measured at fair value through other comprehensive income, noncurrent		4,838	10,368
Total equity		4,761,834	4,802,489
Total liabilities and equity		\$6,398,266	\$6,702,241

(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 31 December 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	Notes	For the Years Ended 31 December	
		2019	2018
Net Sales	4,6(13), 7	\$5,415,138	\$6,137,712
Cost of Sales	6(3), 6(16), 7	(4,352,831)	(4,899,723)
Gross Profit		1,062,307	1,237,989
Unrealized Intercompany Profit	7	(406)	(4,832)
Realized Intercompany Profit		3,775	1,585
Gross Profit		1,065,676	1,234,742
Operating Expenses	6(15),6(16), 7		
Selling and marketing		(98,713)	(110,804)
Management and administrative		(234,266)	(255,729)
Research and development		(105,013)	(114,215)
Expected credit gains (losses)	4, 6(14)	564	(2,757)
Total Operating Expenses		(437,428)	(483,505)
Operating Income		628,248	751,237
Non-operating income and expenses	6(17)		
Other income		42,010	62,456
Other gain and loss		(42,222)	102,523
Financial costs		(2,947)	(6,887)
Share of profit or loss of associates and joint ventures	4, 6(4)	212,612	287,123
Subtotal		209,453	445,215
Income from continuing operations before income tax		837,701	1,196,452
Income tax expense	4, 6(19)	(161,900)	(272,880)
Income from Continuing Operations, net of tax		675,801	923,572
Other comprehensive income	6(18),6(19)		
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans		(2,849)	(9,437)
Share of profit of associates accounted for using equity method		1,382	-
Income tax related to items not reclassified subsequently to profit or loss		570	1,896
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(53,444)	(6,034)
Income tax related to items that may be reclassified subsequently to profit or loss		10,689	9,452
Total other comprehensive loss , net of tax		(43,652)	(4,123)
Total comprehensive income		\$632,149	\$919,449
Earnings per share (NTD)	6(20)		
Earnings per share-basic		\$11.16	\$15.26
Earnings per share-diluted		\$11.13	\$15.20

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
For the Years Ended 31 December 2019 and 2018
(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 or Losses from Financial Assets Measured at Fair Value through Other Comprehensive Income	Treasury stock	Total Equity
Balance as of 1 January 2018	6(12)	\$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 1 January 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:										
Special reserve					131,600	(131,600)				-
Cash dividends						(514,552)				(514,552)
Net income for the year ended 31 December 2018						923,572				923,572
Other comprehensive income, net of tax for the year ended 31 December 2018						(7,541)	3,418			(4,123)
Total comprehensive income		-	-	-	-	916,031	3,418	-	-	919,449
Treasury stock acquired		(170)	(1,993)						2,163	-
Balance as of 31 December 2018	6(12)	\$605,356	\$1,385,352	\$730,563	\$176,886	\$2,067,432	\$(173,468)	\$10,368	\$ -	\$4,802,489
Balance as of 1 January 2019	6(12)	\$605,356	\$1,385,352	\$730,563	\$176,886	\$2,067,432	\$(173,468)	\$10,368	\$ -	\$4,802,489
Appropriations of earnings, 2018:										
Special reserve					(13,786)	13,786				-
Cash Dividends						(665,892)				(665,892)
Net income for the year ended 31 December 2019						675,801				675,801
Other comprehensive income, net of tax for the years ended 31 December 2019						(2,279)	(42,755)	1,382		(43,652)
Total comprehensive income		-	-	-	-	673,522	(42,755)	1,382	-	632,149
Disposal of financial assets measured at fair value through other comprehensive								(6,912)		(6,912)
Balance as of 31 December 2019	6(12)	\$605,356	\$1,385,352	\$730,563	\$163,100	\$2,088,848	\$(216,223)	\$4,838	\$ -	\$4,761,834

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

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the Years Ended 31 December 2019 and 2018

(Expressed in Thousand New Taiwan Dollars)

	For the Years Ended 31 December	
	2019	2018
Cash flows from operating activities:		
Net income before tax	\$837,701	\$1,196,452
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	32,086	30,657
Amortization	15,266	18,871
Loss on disposal of property, plant and equipment	6,901	-
Net gain of financial assets at fair value through profit or loss	(804)	(19,173)
(Gain) loss from price recovery of inventories	(7,921)	5,162
Share of profit or loss of associates and joint ventures	(212,612)	(287,123)
Gain on reversal of impairment loss	(4,560)	-
Expected credit profit or loss	(564)	2,757
Unrealized Intercompany Profit	406	4,832
Realized Intercompany Profit	(3,775)	(1,585)
Others revenue	(29)	-
Interest income	(22,702)	(29,767)
Interest expense	2,947	6,887
Changes in operating assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	1,369	14,112
Decrease in accounts receivable	34,244	278,346
Decrease (increase) in accounts receivable-related parties	33,760	(59,453)
Decrease (increase) in inventories, net	6,198	(8,288)
(Increase) decrease in other receivables	(4,947)	25,409
Decrease (increase) in prepayments	9,620	(833)
Decrease (increase) in other current assets	328	(968)
Increase in other non-current assets	(5,193)	(3,801)
(Decrease) increase in contract liabilities	(6,421)	3,093
Increase (Decrease) in notes payable	1,247	(4,148)
Decrease in accounts payable	(15,868)	(7,175)
Decrease in accounts payable-related parties	(71,400)	(389,383)
(Decrease) increase in other payables	(49,165)	28,385
Increase in other current liabilities	6,165	12,239
Decrease in accrued pension liabilities	(8,992)	(2,709)
Cash generated from operations	<u>573,285</u>	<u>812,796</u>
Interest received	22,702	29,767
Income tax paid	(216,193)	(141,893)
Net cash provided by operating activities	<u>379,794</u>	<u>700,670</u>

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

(Continued)

ZENG HSING INDUSTRIAL CO., LTD. AND SUBSIDIARIES
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the Years Ended 31 December 2019 and 2018

(Expressed in Thousand New Taiwan Dollars)

	For the Years Ended 31 December	
	2019	2018
(Continued)		
Cash flows from investing activities:		
Acquisition of investments accounted for under the equity method	-	(39,059)
Disposal of investments accounted for under the equity method	14,576	-
Acquisition of property, plant and equipment	(320,947)	(187,703)
Increase in refundable deposits	-	(1,660)
Decrease in refundable deposits	224	-
Acquisition of intangible assets	(5,269)	(3,511)
Dividends received	232,820	12,402
Net cash used in investing activities	(78,596)	(219,531)
Cash flows from financing activities:		
Increase in short-term loans	1,390,000	2,321,620
Decrease in short-term loans	(1,320,000)	(2,546,120)
Increase in short-term notes and bills payable	190,000	4,330,000
Decrease in short-term notes and bills payable	(290,000)	(4,460,000)
Decrease in long-term loans	(40,000)	-
Lease principal repayment	(3,591)	-
Interest paid	(2,947)	(6,887)
Cash dividends	(665,892)	(514,552)
Net cash used in financing activities	(742,430)	(875,939)
Net decrease in cash and cash equivalents	(441,232)	(394,800)
Cash and cash equivalents at beginning of period	2,047,261	2,442,061
Cash and cash equivalents at end of period	\$1,606,029	\$2,047,261

(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 31 December 2019 and 2018
(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 in April 2004, and was authorized for trading over the counter on 28 December 2007. On 23 December 2014, the Company was authorized to be listed on Taiwan Stock Exchange.

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

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

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

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

The financial statements of the Company for the years ended 31 December 2019 and 2018 were authorized for issue in accordance with the resolution of the board of directors' meeting held on 12 March 2020.

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 1 January 2019. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(1) *IFRS 16 “Leases”*

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 Company followed the transition provision in IFRS 16 and the date of initial application was 1 January 2019. The impacts arising from the adoption of IFRS 16 are summarized as follows:

- A. Please refer to Note 4 for the accounting policies before or after 1 January 2019.
- B. For the definition of a lease, the Company elected not to reassess whether a contract was, or contained, a lease on 1 January 2019. The Company was 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. That is, for contracts entered into (or changed) on or after 1 January 2019, the Company needs to assess whether contracts are, or contain, leases applying IFRS 16. When compared with IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assessed most of the contracts are, or contain, leases and no significant impact arose.
- C. The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognized 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(a) Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Company measured and recognized 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 chose, 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.

On 1 January 2019, the Company's right-of-use asset increased by \$8,195, lease liability increased by \$8,195.

In accordance with the transition provision in IFRS 16, the Company used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- ii. Rely on its assessment of whether leases are onerous immediately before 1 January 2019 as an alternative to performing an impairment review.
- iii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of 1 January 2019.
- iv. Exclude initial direct costs from the measurement of the right-of-use asset on 1 January 2019.
- v. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

- (b) Please refer to Note 4 and Note 6 for additional disclosure of lessee and lessor which required by IFRS 16.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(c) As at 1 January 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:

- i. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet on 1 January 2019 was 2%~2.67%.
- ii. The explanation for the difference of \$1,823 between: operating lease commitments disclosed applying IAS 17 as at 31 December 2018, discounted using the incremental borrowing rate on 1 January 2019 is summarized as follows:

Operating lease commitments disclosed applying IAS 17 as at 31 December 2018	<u>\$10,018</u>
Discounted using the incremental borrowing rate on 1 January 2019	\$10,341
Less: adjustment to leases that meet and elect to account in the same way as short-term leases	(4,980)
Add: adjustments to the options to extend or terminate the lease that is reasonably certain to exercise	<u>2,835</u>
The carrying value of lease liabilities recognized as at 1 January 2019	<u>\$8,196</u>

D. The Company is a lessor and has not made any adjustments. Please refer to Note 4 and Note 6 for the information relating to the lessor.

(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	Definition of a Business (Amendments to IFRS 3)	1 January 2020
b	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020
c	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS39 and IFRS 7)	1 January 2020

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(a) *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.

(b) *Definition of a Material* (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

(c) *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments include a number of exceptions, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is directly affected if the interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Hence, the entity shall apply the exceptions to all hedging relationships directly affected by the interest rate benchmark reform.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

The amendments include:

(1) highly probable requirement

When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform.

(2) prospective assessments

When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

(3) IAS 39 retrospective assessment

An entity is not required to undertake the IAS 39 retrospective assessment (i.e. the actual results of the hedge are within a range of 80%–125%) for hedging relationships directly affected by the interest rate benchmark reform.

(4) separately identifiable risk components

For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

The amendments also include the end of application of the exceptions requirements and the related disclosures requirements of the amendments.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2020. The standards and interpretations have no material impact on the Company.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 Insurance Contracts	1 January 2021
c	Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2022

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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) *Classification of Liabilities as Current or Non-current – Amendments to IAS 1*

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial statements and the amended paragraphs related to the classification of liabilities as current or non-current.

The abovementioned standards and interpretations issued by IASB have not yet been 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 31 December 2019 and 2018 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

(3) Foreign Currency Transactions

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

Transactions in foreign currencies are initially recorded by the Company’s entities at their respective functional currency rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as 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 1 January 2019: 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

All other assets are classified as non-current.

A liability is classified as a current when:

- a. The 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 and cash equivalents

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

(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* 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

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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:

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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.

(2) Impairment of financial assets

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 Company 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.

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Notes to Financial Statements (Continued)

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

- 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 Company measures the loss allowance at an amount equal to lifetime expected credit losses.
- D. For lease receivables arising from transactions within the scope of IFRS 16 (before 1 January 2019: IAS 17), the Company 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.

(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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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* 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 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

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.

(6) 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 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.

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Notes to Financial Statements (Continued)

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

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, which is recognized in equity.

When the host contracts are either non-financial assets or liabilities, 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 designated at fair value through profit or loss.

(9) Fair value measurement

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

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

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

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

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

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(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.

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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 the associate on a pro-rata basis.

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

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 or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Company estimates:

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

Because goodwill that forms part of the carrying amount of an investment in an associate 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

Items	Useful Lives
Buildings and facilities	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

The accounting policy adopted on 1 January 2019 is as follows:

The Company's owned 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, 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*, investment properties are measured using the cost model in accordance with the requirements of IAS 16 *Property, plant and equipment* for that model. If investment properties are held by a lessee as right-of-use assets and is not held for sale in accordance with IFRS 5, investment properties are measured in accordance with the requirements of IFRS 16.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

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

The Company transfers to or from investment properties when there is a change in use for these assets. 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.

The accounting policy adopted before 1 January 2019 is as follows:

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

The Company transfers to or from investment properties when there is a change in use for these assets.

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

The accounting policy adopted on 1 January 2019 is as follows:

For contracts entered on or after 1 January 2019, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use, has both of the following:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
- (b) the right to direct the use of the identified asset.

The Company elected not to reassess whether a contract is, or contains, a lease on 1 January 2019. 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.

For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company estimates the stand-alone price, maximising the use of observable information.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Company as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company recognizes right-of-use asset and lease liability for all leases which the Company is the lessee of those lease contracts.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- (c) amounts expected to be payable by the lessee under residual value guarantees
- (d) the exercise price of a purchase option if the Company is reasonably certain to exercise that option
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

After the commencement date, the Company measures the lease liability on an amortised cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

- (a) the amount of the initial measurement of the lease liability
- (b) any lease payments made at or before the commencement date, less any lease incentives received
- (c) any initial direct costs incurred by the lessee
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

For subsequent measurement of the right-of-use asset, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company applies IAS 36 “Impairment of Assets” to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Company accounted for as short-term leases or leases of low-value assets, the Company presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements comprehensive income.

For short-term leases or leases of low-value assets, the Company elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

Company as a lessor

At inception of a contract, the Company classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Company allocates the consideration in the contract applying IFRS 15.

The Company recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

The accounting policy adopted before 1 January 2019 is as follows:

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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:

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

(16) Impairment of Non-financial Assets

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(19) Revenue recognition

The Company'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 Company 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 Company 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 Company's sale of goods is from 45 to 90 days. For most of the contracts, when the Company 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 Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

(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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(2) Estimates and assumptions

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

(a) Accounts receivables—estimation of impairment loss

The Company 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.

(b) Inventories evaluation

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(e) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The 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	
	31 December 2019	31 December 2018
Cash on hand	\$390	\$259
Checking and savings accounts	971,832	1,586,007
Time deposits	542,584	460,995
Repurchase agreements	91,223	-
Total	<u>\$1,606,029</u>	<u>\$2,047,261</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(2) ACCOUNTS RECEIVABLE, NET

	As of	
	31 December 2019	31 December 2018
Accounts receivable - non related parties	\$936,797	\$972,032
Less: Allowance for doubtful accounts	(5,942)	(7,497)
Subtotal	930,855	964,535
Accounts receivable - related parties	143,473	177,233
Accounts receivable, net	<u>\$1,074,328</u>	<u>\$1,141,768</u>

Trade receivables are generally on 45-90 day terms. The total carrying amount as of 31 December 2019 and 2018 were \$1,080,270 and \$1,149,265, respectively. Please refer to Note 6 (14) for more details on loss allowance of trade receivables for the 31 December 2019 and 2018. Please refer to Note 12 for more details on credit risk management.

No accounts receivables were pledged.

(3) INVENTORIES, NET

a. Details as follows

	As of	
	31 December 2019	31 December 2018
Raw materials	\$37,317	\$34,324
Work in progress	63	2,062
Semi-manufactured goods	4,700	5,289
Finished goods	20,904	19,586
Total	<u>\$62,984</u>	<u>\$61,261</u>

b. For the years ended 31 December 2019 and 2018, the Company recognized \$4,352,831 and \$4,899,723, respectively, in operating cost, of which \$7,921 and \$5,162 was related to gain and loss from inventory price recovery.

c. The gains from inventory price recovery were recognized in 2019 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:

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

	31 December 2019		31 December 2018	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership
Subsidiaries:				
Zeng Hsing Industrial Co., Ltd. (VN)	\$1,655,165	100.00%	\$1,561,244	100.00%
Zeng Hsing Industrial Co., Ltd. (BVI)	736,021	100.00%	945,334	100.00%
Shinco Technologies Limited (VN)	350,813	100.00%	330,713	100.00%
Shinco Worldwide Limited (BVI)	-	-%	14,576	100.00%
Mitsumichi Industrial Co., Ltd.	48,707	53.00%	51,479	53.00%
Subtotal	2,790,706		2,903,346	
Associates				
Taiwan Carbon Technology Co., Ltd.	\$26,841	19.53%	\$4,559	19.53%
Loss of impairment	-		(4,559)	
Subtotal	26,841		-	
Total	\$2,817,547		\$2,903,346	

a. Subsidiaries

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

On 2 May 2019, the board of directors resolved to liquidate SHINCO WORLDWIDE LTD. (BVI), an overseas subsidiary of the company that has invested 100%. The liquidation of the subsidiary was completed in August 2019.

For the years ended 31 December 2019 and 2018, the Company recognized share of profit or loss of associates and joint ventures and exchange differences on translation of foreign operations with report of independent accountants, the details as follows:

Investee companies	31 December 2019		31 December 2018	
	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)	\$24,780	\$(12,603)	\$114,471	\$(22,121)
Zeng Hsing Industrial Co., Ltd. (VN)	124,543	(33,697)	132,018	13,293
Shinco Technologies Limited (VN)	27,244	(7,144)	21,679	2,794
Shinco Worldwide Limited (BVI)	-	-	(540)	-
Mitsumichi Industrial Co., Ltd.	13,764	-	19,495	-
Taiwan Carbon Technology Co., Ltd.	22,281	-	-	-
Total	\$212,612	\$(53,444)	\$287,123	\$(6,034)

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

b. Investments in associates

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

	As of	
	31 December 2019	31 December 2018
Total assets (100%)	\$141,575	\$134,657
Total liabilities (100%)	4,141	10,481
	31 December 2019	31 December 2018
Total revenue (100%)	\$56,086	\$88,522
Total expense (100%)	13,257	28,972

No investments were pledged.

c. Other investments

For the years ended 31 December 2019 and 2018, the details of the Company invested to subsidiaries by cash as follows:

Subsidiaries	For the years ended 31 December	
	2019	2018
Zeng Hsing Industrial Co., Ltd. (BVI)	\$-	\$39,059

For the years ended 31 December 2019 and 2018, the details of the Company received dividends from subsidiaries by cash as follows:

Subsidiaries	For the years ended 31 December	
	2019	2018
Zeng Hsing Industrial Co., Ltd. (BVI)	\$216,284	\$-
Mitsumichi Industrial Co., Ltd.	16,536	12,402
Total	\$232,820	\$12,402

(5) PROPERTY, PLANT AND EQUIPMENT

(a) Owner occupied property, plant and equipment (applicable under IFRS 16 requirements)

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Cost:									
As of 1 January 2019	\$21,075	\$44,195	\$29,318	\$74,736	\$2,994	\$2,555	\$57,748	\$229,942	\$462,563
Additions	-	-	547	2,566	709	-	2,731	314,394	320,947
Disposals	-	(10,715)	-	(2,770)	-	(1,767)	(15,322)	-	(30,574)
Transfers	-	444,515	19	800	-	-	94,911	(539,227)	1,018
As of 31 December 2019	<u>\$21,075</u>	<u>\$477,995</u>	<u>\$29,884</u>	<u>\$75,332</u>	<u>\$3,703</u>	<u>\$788</u>	<u>\$140,068</u>	<u>\$5,109</u>	<u>\$753,954</u>
Depreciation and impairment:									
As of 1 January 2019	\$-	\$16,379	\$20,209	\$41,281	\$1,977	\$2,093	\$46,080	\$-	\$128,019
Depreciation	-	1,023	1,849	18,768	398	146	5,038	-	27,222
Disposals	-	(5,333)	-	(1,853)	-	(1,470)	(15,017)	-	(23,673)
As of 31 December 2019	<u>\$-</u>	<u>\$12,069</u>	<u>\$22,058</u>	<u>\$58,196</u>	<u>\$2,375</u>	<u>\$769</u>	<u>\$36,101</u>	<u>\$-</u>	<u>\$131,568</u>
Net carrying amount as of:									
As of 31 December 2019	<u>\$21,075</u>	<u>\$465,926</u>	<u>\$7,826</u>	<u>\$17,136</u>	<u>\$1,328</u>	<u>\$19</u>	<u>\$103,967</u>	<u>\$5,109</u>	<u>\$622,386</u>

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(b) Property, plant and equipment leased under operating leases (applicable under IFRS 16 requirements)

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
As of 1 January 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 31 December 2018	<u>\$21,075</u>	<u>\$44,195</u>	<u>\$29,318</u>	<u>\$74,736</u>	<u>\$2,994</u>	<u>\$2,555</u>	<u>\$57,748</u>	<u>\$229,942</u>	<u>\$462,563</u>
As of 1 January 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	-	-	-	-	-	-	-	-	-
31 December 2018	<u>\$-</u>	<u>\$16,379</u>	<u>\$20,209</u>	<u>\$41,281</u>	<u>\$1,977</u>	<u>\$2,093</u>	<u>\$46,080</u>	<u>A\$-</u>	<u>\$128,019</u>
Net carrying amount as of:									
31 December 2018	<u>\$21,075</u>	<u>\$27,816</u>	<u>\$9,109</u>	<u>\$33,455</u>	<u>\$1,017</u>	<u>\$462</u>	<u>\$11,668</u>	<u>\$229,942</u>	<u>\$334,544</u>

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

b. The capitalization amount of the borrowing costs of the Company in 2019 and 2018 were interest rates are as follows:

Items	2019	2018
Construction in progress	\$1,449	\$1,188
Borrowing cost capitalization interest rate interval	1.02%	1.02%

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(6) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost:			
As of 1 January 2019	\$41,124	\$30,747	\$71,871
Additions	-	-	-
As of 31 December 2019	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
As of 1 January 2018	\$41,124	\$30,747	\$71,871
Additions	-	-	-
As of 31 December 2018	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
Depreciation and impairment:			
As of 1 January 2019	\$-	\$3,279	\$3,279
Depreciation	-	1,230	1,230
As of 31 December 2019	<u>\$-</u>	<u>\$4,509</u>	<u>\$4,509</u>
As of 1 January 2018	\$-	\$2,049	\$2,049
Depreciation	-	1,230	1,230
As of 31 December 2018	<u>\$-</u>	<u>\$3,279</u>	<u>\$3,279</u>
Net carrying amount:			
As of 31 December 2019	<u>\$41,124</u>	<u>\$26,238</u>	<u>\$67,362</u>
As of 31 December 2018	<u>\$41,124</u>	<u>\$27,468</u>	<u>\$68,592</u>

	<u>For the years ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Rental income from investment property	\$2,297	\$2,297
Less: Direct operating expenses from investment property generating rental income	-	-
Total	<u>\$2,297</u>	<u>\$2,297</u>

No investment property was pledged.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

(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 Company's investment properties was \$77,894 determined based on valuations performed by an independent valuer appointed on 31 December 2018. The fair value has been supported by prices in the active market. The valuation methods used are comparison approach and direct capitalization method, and the inputs of direct method used were net profit in the amount of \$3,449 and capitalization rate of 1.80%.

The Company's management has assessed the fair value of Investment property, and there were no significant changes on 31 December 2019 and 2018.

(7) OTHER NON-CURRENT ASSETS

	As of	
	31 December 2019	31 December 2018
Refundable deposits	\$4,062	\$4,286
Prepayment for equipment	9,292	8,938
Others	168	1,037
Right-of-use assets (Note)	4,561	-
Total	\$18,083	\$14,261

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(8) SHORT-TERM BORROWINGS

	As of	
	31 December 2019	31 December 2018
Unsecured bank loans	\$290,000	\$220,000
	For the years ended 31 December	
	2019	2018
Interest rates	0.85%~0.89%	0.85%~0.98%

The Company's unused short-term lines of credits amounted to \$715,000 and \$755,000 as of 31 December 2019 and 2018, respectively.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(9) SHORT-TERM NOTES AND BILLS PAYABLE

Accounting title	Guarantee	As of	
		31 December 2019	31 December 2018
Commercial paper payable	Mega Bills	\$-	\$100,000
Less: discount on short-term notes and bills payable		-	-
Net short-term notes and bills payable		\$-	\$100,000

	As of	
	31 December 2019	31 December 2018
Interest rates	-	0.94%

(10) LONG-TERM LOANS

(a) Details of long-term loans in 31 December 2019 and 2018 are as follows:

Creditor	31 December 2019	31 December 2018	Rate (%)	Repayment period and methods
Bank of Taiwan (Secured)	\$120,000	\$160,000	1.02%	Interests are paid monthly from 7 December 2017 through 7 December 2022. Principals are paid in 48 installments starting from the second year.
Subtotal	120,000	160,000		
Less: current portion	(40,000)	(40,000)		
Total	\$80,000	\$120,000		

(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.

(11) POST-EMPLOYMENT BENEFITS

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. According to the Act, the rate of contributions 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Pension expenses under the defined contribution plan were \$9,775 and \$9,838 for the years ended 31 December 2019 and 2018, 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 \$12,261 to its defined benefit plan during the 12 months as of 31 December 2019.

The expected weighted average duration of the Company's defined benefits plan obligation as of 31 December 2019 and 2018 were both 15 years.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

	For the years ended 31 December	
	2019	2018
Current period service costs	\$1,056	\$1,281
Interest income or expense	413	396
Pre-service costs	-	16,004
Total	\$1,469	\$17,681

The Company recognized pension cost for high-ranking officers amounting to \$1,800 and \$1,200 respectively for the years ended 31 December 2019 and 2018. As of 31 December 2019 and 2018, accrued pension liabilities non-current amounted to \$11,207 and \$9,407 respectively. In addition, the Company recognized pension expenses for early retirement in 2019 and 2018 amounting to \$0 and \$3,358, respectively.

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

	As of		
	31 December 2019	31 December 2018	1 January 2018
Defined benefit obligation	\$95,810	\$97,492	\$132,186
Plan assets at fair value	(66,562)	(60,301)	(100,523)
Other non-current liabilities - accrued pension liabilities recognized on the balance sheets	\$29,248	\$37,191	\$31,663

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

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As of 1 January 2018	\$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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
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 31 December 2018	\$97,492	\$(60,301)	\$37,191
Current period service costs	1,056	-	1,056
Net interest expense (income)	1,082	(669)	413
Past service cost and gains and losses arising from settlements	-	-	-
Subtotal	99,630	(60,970)	38,660
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	756	-	756
Actuarial gains and losses arising from changes in financial assumptions	4,225	-	4,225
Experience adjustments	561	-	561
Remeasurements of benefit assets	-	(2,693)	(2,693)
Subtotal	5,542	(2,693)	2,849
Payments from the plan	(9,362)	9,362	-
Contributions by employer	-	(12,261)	(12,261)
Effect of changes in foreign exchange rates	-	-	-
As of 31 December 2019	\$95,810	\$(66,562)	\$29,248

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

	As of	
	31 December 2019	31 December 2018
Discount rate	0.80%	1.11%
Expected rate of salary increases	3.00%	3.00%

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

A sensitivity analysis for significant assumption as of 31 December 2019 and 2018 are as shown below:

	Effect on the defined benefit obligation			
	2019		2018	
	Increase	Decrease	Increase	Decrease
Discount rate increase by 0.50%	\$-	\$6,753	\$-	\$6,914
Discount rate decrease by 0.50%	7,405	-	7,590	-
Future salary increase by 0.50 %	7,203	-	7,406	-
Future salary decrease by 0.50%	-	6,646	-	6,824

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.

(12) EQUITIES

a. Share capital

As of 1 January 2018, 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 8 November 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 8 November 2018. After the capital reduction, the paid-in capital was \$605,356, and the registration of the change was completed on 4 December 2018.

As of 31 December 2019, 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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 28 August 2015 approved to repurchase 1,200,000 shares, which would be transferred to employees to motivate them. The expected period to execute the decision will take place between 29 August 2015 and 27 October 2015; the repurchase price will be between \$100 to \$150. On 8 November 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 8 November 2018. The registration of the change was completed on 4 December 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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 also 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. At least 50% of the dividends shall be distributed to shareholders, of which the cash dividend ratio shall not be less than 30% of the total dividends. However, when the Company has no profit, no dividend will 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.

Following the adoption of IFRS, the FSC on 6 April 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

Details of the 2019 and 2018 earnings distribution and dividends per share as approved and resolved by the board of directors' meeting and shareholders' meeting on 12 March 2020 and 14 June 2019, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NTD)	
	2019	2018	2019	2018
(Reversal)Special reserve	\$48,285	\$(13,786)		
Cash dividends-common stock	532,714	665,892	\$8.8	\$11

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

(13) SALES

	For the years ended 31 December	
	2019	2018
Revenue from contracts with customers		
Sale of goods	\$5,371,654	\$6,064,609
Repair income	3,708	36,728
Commission income	33,069	27,876
Premium income	6,707	8,499
Net sales	<u>\$5,415,138</u>	<u>\$6,137,712</u>

Analysis of revenue from contracts with customers during the years ended 31 December 2019 and 2018 are as follows:

(a) Disaggregation of revenue

	For the years ended 31 December	
	2019	2018
	Taiwan	Taiwan
Sale of goods	\$5,371,654	\$6,064,609
Repair income	3,708	36,728
Commissions	33,069	27,876
Premium income	6,707	8,499
Net sales	<u>\$5,415,138</u>	<u>\$6,137,712</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

The Company recognizes revenues when control of the products is transferred to the customers, therefore the performance obligation is satisfied at a point in time.

(b) Contract balances

Contract liabilities – current

	As of	
	31 December 2019	31 December 2018
Sales of goods	<u>\$12,290</u>	<u>\$18,711</u>

During the year ended 31 December 2019, contract liabilities decreased as performance obligations were satisfied.

(c) Transaction price allocated to unsatisfied performance obligations

None.

(d) Assets recognized from costs to fulfil a contract

None.

(14) Expected credit losses / (gains)

	For the years ended 31 December	
	2019	2018
Operating expenses – Expected credit (gains) losses		
Trade receivables	<u>\$(564)</u>	<u>\$ 2,757</u>

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 31 December 2019 and 2018 are as follows:

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Notes to Financial Statements (Continued)

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

31 December 2019

	Not yet due	Overdue					Total
		<=30 days	31-60 days	61-90 days	91-360 days	>=361 days	
Gross carrying amount	\$1,011,766	\$59,959	\$337	\$2,852	\$35	\$5,321	\$1,080,270
Loss ratio	-	-	10%	20%	50%	100%	
Lifetime expected credit losses	-	-	(34)	(570)	(17)	(5,321)	(5,942)
Carrying amount	\$1,011,766	\$59,959	\$303	\$2,282	\$18	\$-	\$1,074,328

31 December 2018

	Not yet due	Overdue					Total
		<=30 days	31-60 days	61-90 days	91-360 days	>=361 days	
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.

The movement in the provision for impairment of note receivables and trade receivables for the years ended 31 December 2019 and 2018 are as follows:

	Note receivables	Trade receivables
Beginning balance at 2019.1.1	\$-	\$7,497
Reversal for the current period	-	(564)
Written off due to unrecoverable	-	(991)
Ending balance at 2019.12.31	\$-	\$5,942
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 at 2018.12.31	\$-	\$7,497

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(15) Lease

(1) Company as a lessee (applicable to the disclosure requirement under IFRS 16)

The Company leases various properties, including real estate such as land and buildings, machinery and equipment, transportation equipment, office equipment and other equipment. The lease terms range from 1 to 3 years. There are no restrictions placed upon the Company by entering into these leases.

The Company's leases effect on the financial position, financial performance and cash flows are as follows:

A. Amounts recognized in the balance sheet

a. Right-of-use assets

The carrying amount of right-of-use assets

	As of	
	31 December 2019	30 December 2018(Note)
Buildings	\$1,969	\$-
Transportation equipment	2,353	-
Other equipment	239	-
Total	<u>\$4,561</u>	<u>\$-</u>

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

During the year ended 31 December 2019, the Company did not have any additional right-of-use assets.

b. Lease liabilities

	As of	
	31 December 2019	31 December 2018(Note)
Lease liabilities		
Current	\$2,700	\$-
Non-current	1,905	-
Total	<u>\$4,605</u>	<u>\$-</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Please refer to Note 6 (17)(c) for the interest on lease liabilities recognized during the ended 31 December 2019 and refer to Note 12 (5) Liquidity Risk Management for the maturity analysis for lease liabilities as at 31 December 2019.

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

B. Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	For the years ended 31 December	
	2019	2018(Note)
Buildings	\$866	\$-
Transportation equipment	2,195	-
Other equipment	573	-
Total	<u>\$3,634</u>	<u>\$-</u>

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

C. Income and costs relating to leasing activities

	For the years ended 31 December	
	2019	2018(Note)
The expenses relating to short-term leases	<u>\$8,411</u>	<u>\$-</u>

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

D. Cash outflow relating to leasing activities

During the year ended 31 December 2019, the Company's total cash outflows for leases amounted to \$3,591.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(2) Company as lessee – operating lease (applicable to the disclosure requirement in IAS 17)

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 of 31 December 2019 and 2018 are as follows:

	As of	
	31 December 2019(Note)	31 December 2018
Lower than 1 year	\$-	\$10,018
Between 1 to 5 years	-	-
Total	\$-	\$10,018

The expenses of operating lease were as follows:

	For the years ended 31 December	
	2019	2018
Minimum lease payments	\$-	\$6,180

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(16) SUMMARY OF EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES BY FUNCTION FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018:

Nature \ Function	For the years ended 31 December					
	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$38,090	\$248,499	\$286,589	\$47,232	\$272,111	\$319,343
Labor and health insurance	3,110	19,591	22,701	4,224	18,637	22,861
Pension	1,710	11,334	13,044	2,401	29,676	32,077
Director's remuneration	-	4,944	4,944	-	5,259	5,259
Others	1,964	5,905	7,869	2,223	7,512	9,735
Depreciation	21,651	10,435	32,086	23,121	7,536	30,657
Amortization	411	14,855	15,266	1,014	17,857	18,871

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- Note: (1) The number of employees were 334 and 356 as of 31 December 2019 and 2018, respectively. The number of directors who do not concurrently serve as employees is 7 people.
- (2) Average labor cost for the years ended 31 December 2019 and 2018 were \$1,010 and \$1,100, respectively; average salary and bonus for the years ended 31 December 2019 and 2018 were \$876 and \$915, respectively; the average salary and bonus decreased by 4.26% year over year.

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 31 December 2019 and 2018 are as follows:

	For the years ended 31 December	
	2019	2018
Employees' compensation	\$23,000	\$32,000
Remuneration to directors and supervisors	4,600	4,700

A resolution was passed at a board of directors meeting held on 12 March 2020 to distribute \$23,000 and \$4,600 in cash as the employee's compensation and remuneration to directors and supervisors of 2019, respectively. No material differences existed between the estimated amount and the amount determined at the board meeting for the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2019.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

No material differences existed between the estimated amount and the actual distribution of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2018.

(17) NON-OPERATING INCOME AND EXPENSES

a. Other income

	For the years ended 31 December	
	2019	2018
Interest income	\$22,702	\$29,767
Rental revenue	2,297	2,297
Others	17,011	30,392
Total	\$42,010	\$62,456

b. Other gains and losses

	For the years ended 31 December	
	2019	2018
Foreign exchange (losses) gains, net	\$(39,283)	\$83,722
Net gains on financial assets at fair value through profit or loss	804	19,173
Losses on disposal of property, plant and equipment	(6,901)	-
Gains on disposal of investment	88	
Gain on reversal of impairment loss	4,560	
Others	(1,490)	(372)
Total	\$(42,222)	\$102,523

c. Financial costs

	For the years ended 31 December	
	2019	2018
Interest on loans from bank	\$2,820	\$6,887
Interest on lease liabilities	127	(Note)
Total	\$2,947	\$6,887

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(18) COMPONENTS OF OTHER COMPREHENSIVE INCOME

a. For the year ended 31 December 2019

	Arising during the period	Current reclassification adjustment	Other comprehensive income, net of tax	Income tax effect	After-tax amount
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(2,849)	\$-	\$(2,849)	\$570	\$(2,279)
Financial assets unrealized profit or loss measured at fair value through other comprehensive income	1,382	-	1,382	-	1,382
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(53,444)	-	(53,444)	10,689	(42,755)
Total of other comprehensive income	\$(54,911)	\$-	\$(54,911)	\$11,259	\$(43,652)

b. For the year ended 31 December 2018

	Arising during the period	Current reclassification adjustment	Other comprehensive income, net of tax	Income tax effect	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)

(19) INCOME TAX

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

The major components of income tax expense are as follows:

a. Income tax recorded in profit or loss

	For the years ended 31 December	
	2019	2018
Current income tax expense:		
Current income tax charge	\$165,856	\$189,604
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	(3,956)	62,343
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	<u>\$161,900</u>	<u>\$272,880</u>

b. Income tax relating to components of other comprehensive income

	For the years ended 31 December	
	2019	2018
Deferred income tax (benefit) expense:		
Remeasurements of defined benefit plans	\$(570)	\$(1,896)
Exchange differences on translation of foreign operations	(10,689)	(9,452)
Income tax relating to components of other comprehensive income	<u>\$(11,259)</u>	<u>\$(11,348)</u>

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

	For the years ended 31 December	
	2019	2018
Accounting profit before tax from continuing operations	<u>\$837,701</u>	<u>\$1,196,452</u>
The amount of tax at each statutory income tax rate	\$167,540	\$239,290
Tax effect of non-deductible expenses	(1,684)	(49,686)
Tax effect of deferred tax assets and liabilities	(3,956)	76,968
Adjustments in respect of current income tax of prior periods	-	6,308
Total income tax expenses recorded in profit or loss	<u>\$161,900</u>	<u>\$272,880</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

i. For the year ended 31 December 2019

Items	Balance as of 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of 31 December
Temporary difference				
Unrealized foreign currency exchange gain or loss	\$1,111	\$610	\$-	\$1,721
Provision for allowance to reduce inventories to market value	3,122	(1,585)	-	1,537
Allowance for losses	-	(307)	-	(307)
Impairment of long-term investment under equity method	912	(912)	-	-
Defined benefit Liability	11,990	(2,158)	570	10,402
Reserve for land appreciation tax	(87)	-	-	(87)
Investment income under equity method	(221,808)	8,308	-	(213,500)
Exchange differences on translation of foreign operations	56,180	-	10,689	66,869
Deferred income tax expense (benefit)		<u>\$3,956</u>	<u>\$11,259</u>	
Deferred income tax assets (liabilities)	<u>\$(148,580)</u>			<u>\$(133,365)</u>
The information presented in balance statement				
Deferred income tax assets	<u>\$74,068</u>			<u>\$83,279</u>
Deferred income tax liabilities	<u>\$(222,648)</u>			<u>\$(216,644)</u>

ii. For the year ended 31 December 2018

Items	Balance as of 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of 31 December
Temporary difference				
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)		<u>\$(76,968)</u>	<u>\$11,348</u>	
Deferred income tax assets (liabilities)	<u>\$(82,960)</u>			<u>\$(148,580)</u>
The information presented in balance statement				
Deferred income tax assets	<u>\$60,945</u>			<u>\$74,068</u>
Deferred income tax liabilities	<u>\$(143,843)</u>			<u>\$(222,648)</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- iii. As of 31 December 2019 and 2018, deferred tax assets that have not been recognized as they may not be used to offset taxable profits as follows:

None.

- iv. As of 31 December 2019 and 2018, the taxable temporary differences of unrecognized deferred tax liabilities associated with investment in subsidiaries as follows:

None.

- e. The assessment of income tax returns

The tax authorities have assessed income tax returns of the Company through 2017.

(20) 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

	<u>For the years ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
Net profit attributable to ordinary equity holders of the company	<u>\$675,801</u>	<u>\$923,572</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	<u>60,536</u>	<u>60,536</u>
Earnings per share-basic (NTD)	<u>\$11.16</u>	<u>\$15.26</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

b. Earnings per share-diluted

	For the years ended 31 December	
	2019	2018
Net profit attributable to ordinary equity holders of company	\$675,801	\$923,572
Weighted average number of ordinary shares outstanding for basic earnings per share (thousand shares)	60,536	60,536
Effect of dilution:		
Employees' compensation stock (thousand shares)	173	237
Weighted average number of ordinary shares outstanding after dilution (thousand shares)	60,709	60,773
Diluted earnings per share (NTD)	\$11.13	\$15.20

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

7. RELATED PARTY TRANSACTIONS

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

Name of the related parties	Nature of relationship of the related parties
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 16 People	Directors and Deputy General Manager of the Company

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(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 31 December 2019 and 2018 are summarized as follows:

i. For the year ended 31 December 2019

Name of Related Parties	Price	Cost	Commission income
Zeng Hsing Industrial Co., Ltd. (VN)	\$478,225	\$449,683	\$28,542
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	52,100	49,042	3,058
Mitsumichi Industrial Co., Ltd.	2,115	3,046	(931)
	\$532,440	\$501,771	\$30,669

ii. For the year ended 31 December 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

Unrealized intercompany profit resulted from the abovementioned transactions amounted to \$406 and \$4,832 during 2019 and 2018, respectively. Sales prices and the terms between related parties are not significantly different from any third parties.

For the years ended 31 December 2019 and 2018, the trade credit terms for related parties were the same as general customers. For domestic customers, the credit terms were 30 to 60 days. For foreign customers, they were 60 to 120 days. The outstanding amounts at the end of the year were unsecured, interest-free and must be settled in cash. Accounts receivable from related parties did not have any guarantees.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

b. Purchase

Name of Related Parties	For the years ended 31 December	
	2019	2018
Zeng Hsing Industrial Co., Ltd. (VN)	\$3,695,714	\$3,600,300
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	443,073	998,810
Zhangjiagang Zenghsing Trading Co., Ltd.	20,847	30,251
Mitsumichi Industrial Co., Ltd.	27,664	38,311
Shinco Technologies Limited (VN)	691	1,648
Total	\$4,187,989	\$4,669,320

For the years ended 31 December 2019 and 2018, the payment terms for related parties were same as general supplies, from one to three months.

c. Accounts receivable

Name of Related Parties	As of	
	31 December 2019	31 December 2018
Zeng Hsing Industrial Co., Ltd. (VN)	\$119,068	\$152,071
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	15,617	21,566
Zhangjiagang Free Trade Zone Qiao Xing Electrical Co., Ltd.	8,300	3,215
Mitsumichi Industrial Co., Ltd.	488	381
Total	\$143,473	\$177,233

d. Accounts payable

Name of Related Parties	As of	
	31 December 2019	31 December 2018
Zeng Hsing Industrial Co., Ltd. (VN)	\$498,556	\$499,679
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	76,334	147,790
Zhangjiagang Zenghsing Trading Co., Ltd.	2,984	4,582
Mitsumichi Industrial Co., Ltd.	8,898	6,192
Shinco Technologies Limited (VN)	184	113
Total	\$586,956	\$658,356

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

e. Premium income

Name of Related Parties	For the years ended 31 December	
	2019	31 December 2018
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	\$6,707	\$8,499

f. Premium expenses (established as other selling expense)

	For the years ended 31 December	
	2019	2018
Mitsumichi Industrial Co., Ltd.	\$5,442	\$17,727

g. Key management personnel compensation

	For the years ended 31 December	
	2019	2018
Short-term employee benefits	\$34,479	\$35,314
Post-employment Benefits	577	1,751
Total	\$35,056	\$37,065

8. ASSETS PLEDGED AS COLLATERAL

The following assets were pledged:

	As of		Secured liabilities
	31 December 2019	31 December 2018	
Property, Plant and Equipment-land	\$21,075	\$21,075	Bank loan
Financial assets measured at amortized cost-noncurrent	200	200	Customs import customs clearance deposit
Total	\$21,275	\$21,275	

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT

COMMITMENTS

(1) The important contracts of construction in progress

a. As of 31 December 2019

<u>Contracting parties</u>	<u>Subject matter</u>	<u>Total contract amount</u>	<u>Contract amount paid as of 31 December 2019</u>
Company A	Property	\$69,411	\$-
Company B	Property	18,698	-
Company C	Property	9,330	-
Company D	Property	17,029	5,109
Company E	Property	12,575	-

b. As of 31 December 2018

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

(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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

12. OTHERS

(1) Categories of financial instruments

	As of	
	31 December 2019	31 December 2018
<u>Financial Assets</u>		
Financial assets at fair value through profit or loss:		
Designated at fair value through profit or loss at initial recognition	\$-	\$565
Financial assets measured at amortized cost		
Cash and cash equivalents (excluding cash on hand)	1,605,639	2,047,002
Notes and accounts receivable (includes related party)	1,074,328	1,141,768
Other receivables	11,112	6,165
Financial assets measured at amortized cost, noncurrent	200	200
Total	<u>\$2,691,279</u>	<u>\$3,195,700</u>
<u>Financial Liabilities</u>		
Financial liabilities carried at amortized cost:		
Short-term loans	\$290,000	\$220,000
Short-term notes and bills payable	-	100,000
Notes and accounts payables (includes related party)	702,156	788,177
Other payables	140,918	190,083
Long-term loans (including long-term loans due within one year)	120,000	160,000
Lease liability	4,605	(Note)
Subtotal	<u>1,257,679</u>	<u>1,458,260</u>
Financial liabilities at fair value through profit or loss:		
Held for trading	777	-
Total	<u>\$1,258,456</u>	<u>\$1,458,260</u>

Note: The Company adopted IFRS 16 on 1 January 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

The market risk of the Company is the risk that the financial instruments will be subject to fluctuations in fair value or cash flows due to changes in market prices. Market risks mainly include exchange rate risk, interest rate risk and other price risks (such as equity instruments).

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:

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- a. When NTD strengthens/weakens against USD by 1%, the profit for the years ended 31 December 2019 and 2018 is increased /decreased by \$11,364 and \$15,560 respectively; and no impact on the equity.
- b. When NTD strengthens/weakens against VND by 1%, the profit for the years ended 31 December 2019 and 2018 is increased/decreased by \$16,050 and \$15,163, respectively; and no impact on the equity.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 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 \$120 and \$160 for the years ended 31 December 2019 and 2018, 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.

Each business 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

As of 31 December 2019 and 2018, amounts receivables from top ten customers represented 85.06% and 79.51% 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

	<u>< 1 year</u>	<u>2 ~ 3 years</u>	<u>4 ~ 5 years</u>	<u>> 5 years</u>	<u>Total</u>
As of 31 December 2019					
Short-term loans	\$290,000	\$-	\$-	\$-	\$290,000
Payables	702,156	-	-	-	702,156
Long-term loans	41,224	80,816	-	-	122,040
Lease liability	2,766	1,922	-	-	4,688
As of 31 December 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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Derivative financial instruments

	<u>< 1 year</u>	<u>2 ~ 3 years</u>	<u>4 ~ 5 years</u>	<u>> 5 years</u>	<u>Total</u>
As of 31 December 2019					
Inflow	\$-	\$-	\$-	\$-	\$-
Outflow	(777)	-	-	-	(777)
Net	<u>\$(777)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(777)</u>
As of 31 December 2018					
Inflow	\$565	\$-	\$-	\$-	\$565
Outflow	-	-	-	-	-
Net	<u>\$565</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$565</u>

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

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended 31 December 2019:

	<u>Short-term loans</u>	<u>Short-term notes and bills payable</u>	<u>Long-term loans</u>	<u>Lease liability</u>	<u>Total liabilities from financing activities</u>
As of 1 January 2019	\$220,000	\$100,000	\$160,000	\$8,196	\$488,196
Cash flow	70,000	(100,000)	(40,000)	(3,591)	(73,591)
As of 31 December 2019	<u>\$290,000</u>	<u>\$-</u>	<u>\$120,000</u>	<u>\$4,605</u>	<u>\$414,605</u>

Reconciliation of liabilities for the year ended 31 December 2018:

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

b. Fair value of financial instruments measured at amortized cost

The carrying amount of the 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 31 December 2019 and 2018 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 information related to these contracts:

<u>Contract</u>	<u>Contract amount</u>	<u>Maturity</u>
As of 31 December 2019		
Foreign Exchange Swap	Sell USD 3,000 thousand	2019/10/30-2020/02/07
As of 31 December 2018		
Foreign Exchange Swap	Sell USD 3,000 thousand	2018/10/02-2019/02/20

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(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:

As of 31 December 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Foreign exchange swap	\$-	\$777	\$-	\$777

As of 31 December 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Foreign exchange swap	\$-	\$565	\$-	\$565

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Transfers between Level 1 and Level 2 during the period

During the years ended 31 December 2019 and 2018, 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.

As of 31 December 2019

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

As of 31 December 2018

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

(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					
	<u>31 December 2019</u>			<u>31 December 2018</u>		
	<u>Foreign Currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary item:</u>						
USD	\$68,098	30.106	\$2,050,158	\$85,008	30.733	\$2,612,549
<u>Investment using the equity method</u>						
VND	1,544,500,593	0.001299	2,006,306	1,430,460,289	0.001325	1,895,360
<u>Financial liabilities</u>						
<u>Monetary item:</u>						
USD	20,914	30.106	629,637	21,723	30.733	667,602

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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 \$(39,283) and \$83,722 for foreign exchange gains and losses for the years ended 31 December 2019 and 2018, 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.

(12) In order to facilitate the analysis and comparison, some of the accounts of the financial statements as of 31 December 2018 have been properly reclassified.

13. ADDITIONAL DISCLOSURES

(1) Information at significant transactions

(a) Financing provided: none

(b) Endorsement/guarantee provided: Table 1 on page 90.

(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: Table 2 on page 91.

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

(g) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 3 on pages 92 and 93.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

- (h) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 4 on page 94.
 - (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 3 on pages 92 and 93.
- (2) Information on investees
- (a) Names, locations, and related information of investees on which the Company exercises significant influence: refer to Table 5 on pages 94 to 96.
 - (b) Financing provided: none.
 - (c) Endorsement/guarantee provided: none.
 - (d) Marketable securities held: refer to Table 6 on page 97.
 - (e) Marketable securities acquired or disposed of that cost or amounted to at least \$300 million or 20% of the paid-in capital: none.
 - (f) Acquisition of individual real estate that cost at least \$300 million or 20% of the paid-in capital: none.
 - (g) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital: none.
 - (h) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 3 on pages 92 to 93.
 - (i) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Table 7 on page 97.
 - (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 8 on page 98.

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 31 DECEMBER 2019

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)	\$1,428,550	\$602,120 (USD20,000,000)	\$406,431 (USD13,500,000)	\$-	\$-	8.54%	\$1,904,734	Yes	No	No

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

(1) The Company is coded "0".

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

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

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

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

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

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

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

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

Note 3: The amount of guarantees/endorsements shall not exceed 30% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of 31 December 2019.

Note 4: Limit of total guarantee/endorsement amount shall not exceed 40% of ZENG HSING INDUSTRIAL CO., LTD's net assets value as of 31 December 2019.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

ACQUISITION OF INDIVIDUAL REAL ESTATE THAT COST AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 2

Company name	Name of properties	Transaction date	Transaction amount	Payment status	Counterparty	Relationship	Where counter-party is a related party, details of prior transactions				Price reference	Date of acquisition and status of utilization	Other commitments
							Former property owner	Relationship between former owner and acquirer of property	Date of transaction	Transaction amount			
Zeng Hsing Industrial CO., LTD.	Buildings and Facilities	2017.08.30 (Note)	\$510,291	\$440,880	Te Chang Construction Co., Ltd., Ruisheng Engineering Co., Ltd.	non-relationship	Not applicable				Not applicable	Operating demand	None

Note: The new construction of the operation headquarters was completed in December 2019.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

RELATED PARTY TRANSACTIONS FOR PURCHASES AND SALES AMOUNTS EXCEEDING THE LOWER OF \$100 MILLION OR 20 PERCENT OF CAPITAL STOCK
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 3

Company Name	Counter Party	Nature of Relationship (Note 1)	Transactions				Details of non-arm's length transaction		Notes and accounts receivable (payable)		Note
			Purchases (Sales)	Amount	% to Total	Term	Unit price	Term	Balance	% to Total	
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$443,073	8.18%	There is no difference with other clients	Regular	Regular	Account receivable \$76,334 (RMB17,688,042)	7.07%	-
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	1	Purchases	\$443,073	8.18%	There is no difference with other clients	Regular	Regular	Account payable \$(76,334)	(7.07%)	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$3,695,714	68.25%	There is no difference with other clients	Regular	Regular	Account receivable \$498,556 (VND 382,691,633,393)	46.15%	-
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Purchases	\$3,695,714	68.25%	There is no difference with other clients	Regular	Regular	Account payable \$(498,556)	(46.15%)	-
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Sales (Note 2)	\$478,225	7.93%	There is no difference with other clients	Regular	Regular	Account receivable \$119,068	11.02%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Purchases	\$478,225	7.93%	There is no difference with other clients	Regular	Regular	Account payable \$(119,068) (VND 91,992,538,235)	(11.02%)	-

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	
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	3	Sales	\$175,321	3.24%	There is no difference with other clients	Regular	Regular	Account Receivable and other account receivable \$48,542 (RMB 11,232,200)	4.49%	-
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	3	Purchases	\$175,321	3.24%	There is no difference with other clients	Regular	Regular	Account payable \$(48,542) (RMB 11,232,200)	(4.49%)	-
Zhangjiagang Zenghsing Trading Co., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	3	Sales	\$170,568	3.15%	There is no difference with other clients	Regular	Regular	Account receivable \$38,027 (RMB 8,799,136)	3.52%	-
Zeng Hsing Industrial CO., Ltd. (VN)	Zhangjiagang Zenghsing Trading Co., Ltd.	3	Purchases	\$170,568	3.15%	There is no difference with other clients	Regular	Regular	Account payable \$(38,027) (VND 29,338,065,849)	(3.52%)	-

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 \$28,542 for the year ended 31 DECEMBER 2019.

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 31 DECEMBER 2019

TABLE 4

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Loss allowance	Note
					Amounts	Action Taken			
Zeng Hsing Industrial CO., Ltd	Zeng Hsing Industrial CO., Ltd. (VN)	Subsidiary	\$119,068	3.56	\$-	-	\$94,133	\$-	accounts receivable-customers

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 5

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as at 31 December 2019			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				31 December 2019	31 December 2018	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)	-	-	\$-	\$-	\$-	Note1

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as at 31 December 2019			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				31 December 2019	31 December 2018	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)	586,375 (USD17,873,452)	17,873	100%	736,021	24,780	24,780	Note 2
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)	129,291 (USD4,030,000)	4,030,000	100%	110,316	5,459	5,459	
Zeng Hsing Industrial Co., Ltd. (BVI)	Jetsun Technology Co.,Ltd (Seychelles)	Global Gateway 8, Rue de la Perle Providence Mahe Seychelles	Holding company	33,239 (USD1,100,000)	33,239 (USD1,100,000)	1,200,000	100%	32,101	(1,886)	(1,886)	
Jetsun Technology Co., Ltd (Seychelles)	Jetsun Technology Company Limited	Bing Doung, Vietnam	Research and design of filtration equipment	39,494 (USD1,204,000)	39,494 (USD1,204,000)	-	100%	32,101	VND (1,417,330,388)	(1,886)	

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as at 31 December 2019			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				31 December 2019	31 December 2018	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%	1,655,165	VND 93,571,330,957	124,543	
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%	350,813	VND 20,468,973,800	27,244	
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%	26,841	13,257	22,281	
Zeng Hsing Industrial CO., Ltd.	Mitsumichi industrial CO. Ltd	Taichung, Taiwan	Manufacturing household sewing machines	31,330	31,330	1,378,000	53.00%	48,707	25,969	13,764	

Note 1: The liquidation of SHINCO WORLDWIDE LTD. (BVI) was completed on 28 August 2019.

Note 2: The long-term investment losses under equity method incurred by Zeng Hsing Industrial CO., Ltd (BVI) included the gains from investees.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 6

Securities Held By	Type	Name of securities	Relationship with the Company	Financial Statement Account	December 31, 2019			
					Shares/Units	Carrying Value	Ownership Percentage	Market Value or Net Asset Value
ARCORIS PTE LTD	Stocks	HEYDAY INTERNATIONAL LIMITED	non-relationship	Financial assets at fair value through other comprehensive income	282,240 shares	\$14,959	7%	\$14,959

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO OVER NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 7

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts	Note
					Amounts	Action Taken			
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	Subsidiary	\$498,556 (VND 382,691,633,393)	7.40	\$-	-	\$498,556 (VND 382,691,633,393)	\$-	accounts receivable-customers
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	Subsidiary	\$76,334 (RMB 17,688,042)	3.95	\$-	-	\$63,542 (RMB 14,702,965)	\$-	accounts receivable-customers

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE 8

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as at January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as at December 31, 2019	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as at December 31, 2019	Accumulated Inward Remittance of Earnings as at December 31, 2019
					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%	\$26,171	\$550,641	\$498,363 (USD 11,888,961) (RMB 27,000,000)
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%	RMB 1,700,924	RMB 7,431,072	RMB26,251,891
Zhangjiagang Zenghsing Trading Co., Ltd.	Selling household sewing machines and spare parts	RMB1,000,000	Indirect investments through Zeng Hsing (BVI)	-	-	-	-	100%	RMB 3,253,620	RMB 11,106,901	RMB 9,197,561
Shanghai Debra Trading Company Limited	Selling household sewing machines and spare parts	RMB4,000,000	Indirect investments through Zeng Hsing (BVI)	-	-	-	-	100%	RMB (1,944,124)	RMB 2,054,698	-

Accumulated investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$319,130 (USD9,603,039)	\$459,409(Note2) (USD13,848,355)	\$2,857,100

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.

Thank you for joining the shareholders' meeting,

Any suggestions and insights are welcome!

MEMO

Zeng Hsing Industrial CO., LTD

Chairman : CHIH-CHENG LIN