

ZENG HSING INDUSTRIAL CO., LTD.

PARENT COMPANY ONLY FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

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 2021 and 2020, 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 2021 and 2020, 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 2021 and 2020, and the parent company only financial performance and the parent company only cash flows for the years ended 31 December 2021 and 2020, 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 2021 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 2021, the Company's accounts receivable and allowance for doubtful accounts amounted to NTD 1,126,298 thousand and NTD 4,828 thousand, respectively. Net accounts receivable represented 16% 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; 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; analyzing the receivable turnover to evaluate recoverability based on individual customers with significant sales amount; evaluating the reasonableness of the allowance for doubtful accounts based on individual customers with significant overdue accounts or longer aging, reviewing the collection in subsequent period.

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 2021, 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 NTD 30,339 thousand and NTD 32,443 thousand, representing 0.43% and 0.45% of consolidated total assets as of 31 December 2021 and 2020, respectively. The related shares of profits from the associates and joint ventures under the equity method amounted to NTD 2,896 thousand and NTD 5,602 thousand, representing 0.44% and 0.54% of the consolidated net income before tax for the years ended 31 December 2021 and 2020, respectively.

### **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 for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, 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 2021 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  
10 March 2022

ZENG HSING INDUSTRIAL CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS  
31 December 2021 and 2020  
(Expressed in Thousand New Taiwan Dollars)

Assets	Notes	As of	
		31 December 2021	31 December 2020
Current Assets			
Cash and cash equivalents	4, 6(1), 12	\$1,917,641	\$1,754,180
Financial assets at fair value through profit or loss, current	12	108,131	114,282
Accounts receivable, net	4, 6(2), 6(14), 12	861,457	1,127,951
Accounts receivable-related parties, net	4, 6(2), 6(14), 7, 12	260,013	269,388
Other receivables	12	4,389	4,542
Inventories, net	4, 6(3)	151,396	70,325
Prepayment		4,346	11,650
Other current assets		2,660	3,518
Total current assets		<u>3,310,033</u>	<u>3,355,836</u>
Non-current assets			
Financial assets measured at amortized cost, non-current	4, 8, 12	200	200
Investments accounted for under the equity method	4, 6(4)	2,916,538	2,978,306
Property, plant and equipment	4, 6(5), 8	736,693	722,445
Investment property	4, 6(6)	64,902	66,132
Intangible assets	4	24,525	24,825
Deferred tax assets	4, 6(19)	19,411	106,353
Other non-current assets	4, 6(7), 6(15)	14,467	7,135
Total non-current assets		<u>3,776,736</u>	<u>3,905,396</u>
Total assets		<u>\$7,086,769</u>	<u>\$7,261,232</u>

(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 2021 and 2020  
(Expressed in Thousand New Taiwan Dollars)

Liabilities and Equity	Notes	As of	
		31 December 2021	31 December 2020
Current liabilities			
Short-term loans	4, 6(8), 12	\$629,000	\$490,000
Short-term notes and bills payable	4, 6(9), 12	130,000	35,000
Financial liabilities at fair value through profit or loss, current	12	1,545	4,081
Contract liabilities, current	6(13)	62,441	53,698
Notes payable	12	501	492
Accounts payable	12	127,256	219,928
Accounts payable-related parties	7, 12	484,357	519,004
Other payables	12	156,212	163,378
Current tax liabilities	4	89,034	112,504
Long-term borrowings (including current portion with maturity less than 1 year)	4, 6(10), 12	64,000	64,000
Other current liabilities	4, 6(15), 12	18,439	20,562
Total current liabilities		<u>1,762,785</u>	<u>1,682,647</u>
Non-current liabilities			
Long-term loans	4, 6(10), 12	240,000	304,000
Deferred tax liabilities	4, 6(19)	151,294	255,209
Accrued pension liabilities	4, 6(11)	23,806	35,522
Other non-current liabilities	4, 6(15), 12	777	1,020
Total non-current liabilities		<u>415,877</u>	<u>595,751</u>
Total liabilities		<u>2,178,662</u>	<u>2,278,398</u>
Equity attributable to the parent company	4, 6(12)		
Capital			
Common stock		605,356	605,356
Additional paid-in capital		1,389,627	1,393,097
Retained earnings			
Legal reserve		730,563	730,563
Special reserve		295,491	211,385
Retained earnings		<u>2,213,284</u>	<u>2,337,924</u>
Total Retained earnings		<u>3,239,338</u>	<u>3,279,872</u>
Other components of equity			
Exchange differences on translation of foreign operations - the parent company		<u>(326,214)</u>	<u>(295,491)</u>
Total equity		<u>4,908,107</u>	<u>4,982,834</u>
Total liabilities and equity		<u>\$7,086,769</u>	<u>\$7,261,232</u>

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



ZENG HSING INDUSTRIAL CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME  
For the Years Ended 31 December 2021 and 2020  
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

		For the Years Ended 31 December	
	Notes	2021	2020
Net Sales	4, 6(13), 7	\$6,798,275	\$6,197,136
Cost of Sales	6(3), 6(16), 7	(5,539,998)	(4,892,000)
Gross Profit		<u>1,258,277</u>	<u>1,305,136</u>
Unrealized Intercompany Profit	7	(2,440)	1,086
Realized Intercompany Profit		(1,086)	406
Gross Profit		<u>1,254,751</u>	<u>1,306,628</u>
Operating Expenses	6(15), 6(16), 7		
Selling and marketing		(116,192)	(103,666)
Management and administrative		(258,591)	(255,350)
Research and development		(114,325)	(108,110)
Expected credit gains	4, 6(14)	807	307
Total Operating Expenses		<u>(488,301)</u>	<u>(466,819)</u>
Operating Income		<u>766,450</u>	<u>839,809</u>
Non-operating income and expenses	6(17)		
Other income		19,378	33,212
Other gain and loss		(79,848)	(114,334)
Financial costs		(5,601)	(4,377)
Share of profit or loss of associates and joint ventures	4, 6(4)	(42,924)	283,317
Subtotal		<u>(108,995)</u>	<u>197,818</u>
Income before income tax		657,455	1,037,627
Income tax expense	4, 6(19)	(132,307)	(204,647)
Income, net of tax		<u>525,148</u>	<u>832,980</u>
Other comprehensive income	6(18), 6(19)		
Items that may not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans		11,757	(3,631)
Income tax related to items that may not be reclassified subsequently		(2,351)	726
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(38,404)	(99,085)
Income tax related to items that may be reclassified subsequently		7,681	19,817
Total other comprehensive loss, net of tax		<u>(21,317)</u>	<u>(82,173)</u>
Total comprehensive income		<u>\$503,831</u>	<u>\$750,807</u>
Earnings per share (NTD)	6(20)		
Earnings per share-basic		<u>\$8.68</u>	<u>\$13.76</u>
Earnings per share-diluted		<u>\$8.65</u>	<u>\$13.72</u>

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

ZENG HSING INDUSTRIAL CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY  
For the Years Ended 31 December 2021 and 2020  
(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 on Financial Assets Measured at Fair Value through Other Comprehensive	Total Equity
Balance as of 1 January 2020	6(12)	\$605,356	\$1,385,352	\$730,563	\$163,100	\$2,088,848	\$(216,223)	\$4,838	\$4,761,834
Appropriations of earnings, 2019:									
Special reserve					48,285	(48,285)			-
Cash dividends						(532,714)			(532,714)
Net income for the year ended 31 December 2020						832,980			832,980
Other comprehensive income, net of tax for the year ended 31 December 2020						(2,905)	(79,268)		(82,173)
Total comprehensive income		-	-	-	-	830,075	(79,268)	-	750,807
From share of changes in equity of subsidiaries			7,745						7,745
Disposal of financial assets at fair value through other comprehensive income								(4,838)	(4,838)
Balance as of 31 December 2020	6(12)	<u>\$605,356</u>	<u>\$1,393,097</u>	<u>\$730,563</u>	<u>\$211,385</u>	<u>\$2,337,924</u>	<u>\$(295,491)</u>	<u>\$ -</u>	<u>\$4,982,834</u>
Balance as of 1 January 2021	6(12)	\$605,356	\$1,393,097	\$730,563	\$211,385	\$2,337,924	\$(295,491)	\$ -	\$4,982,834
Appropriations of earnings, 2020:									
Special reserve					84,106	(84,106)			-
Cash dividends						(575,088)			(575,088)
Net income for the year ended 31 December 2021						525,148			525,148
Other comprehensive income, net of tax for the years ended 31 December 2021						9,406	(30,723)		(21,317)
Total comprehensive income		-	-	-	-	534,554	(30,723)	-	503,831
From share of changes in equity of subsidiaries			(3,470)						(3,470)
Balance as of 31 December 2021	6(12)	<u>\$605,356</u>	<u>\$1,389,627</u>	<u>\$730,563</u>	<u>\$295,491</u>	<u>\$2,213,284</u>	<u>\$(326,214)</u>	<u>\$ -</u>	<u>\$4,908,107</u>

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

ZENG HSING INDUSTRIAL CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
For the Years Ended 31 December 2021 and 2020  
(Expressed in Thousand New Taiwan Dollars)

	For the Years Ended 31 December	
	2021	2020
Cash flows from operating activities:		
Net income before tax	\$657,455	\$1,037,627
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating		
Depreciation	52,334	51,789
Amortization	17,113	19,125
Gain on disposal of property, plant and equipment	(199)	(1,526)
Net loss of financial assets at fair value through profit or loss	2,381	9,365
Loss (gain) from market value decline, obsolete and slow-moving of inventories	5,717	(1,579)
Share of profit or loss of associates and joint ventures	42,924	(283,317)
Expected credit profit	(807)	(307)
Unrealized intercompany profit (loss)	2,440	(1,086)
Realized intercompany loss (profit)	1,086	(406)
Gain from bargain purchase	(741)	-
Interest income	(2,951)	(11,732)
Interest expense	5,601	4,377
Changes in operating assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss	1,234	(120,343)
Decrease (increase) in accounts receivable	267,301	(196,789)
Decrease (increase) in accounts receivable-related parties	9,375	(125,915)
Increase in inventories, net	(86,788)	(5,762)
Decrease in other receivables	153	6,570
Decrease (increase) in prepayments	7,304	(9,125)
Decrease in other current assets	858	1,289
Increase in other non-current assets	(18,299)	(8,786)
Increase in contract liabilities	8,743	41,408
Increase (decrease) in notes payable	9	(2,761)
(Decrease) increase in accounts payable	(92,672)	107,981
Decrease in accounts payable-related parties	(34,647)	(67,952)
(Decrease) increase in other payables	(7,166)	22,460
Decrease in other current liabilities	(384)	(482)
Increase (decrease) in accrued pension liabilities	41	(8,564)
Cash generated from operations	837,415	455,559
Interest received	2,951	11,732
Income tax paid	(167,420)	(145,273)
Net cash provided by operating activities	672,946	322,018

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

(Continued)

ZENG HSING INDUSTRIAL CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
For the Years Ended 31 December 2021 and 2020  
(Expressed in Thousand New Taiwan Dollars)

	For the Years Ended 31 December	
	2021	2020
(Continued)		
Cash flows from investing activities:		
Acquisition of investments accounted for under the equity method	(43,217)	(63,686)
Acquisition of property, plant and equipment	(63,896)	(144,907)
Proceeds from disposal of property, plant and equipment	791	2,599
Decrease in deposits-out	807	2,164
Acquisition of intangible assets	(8,701)	(4,964)
Dividends received	17,402	91,558
Net cash used in investing activities	(96,814)	(117,236)
Cash flows from financing activities:		
Increase in short-term loans	2,098,000	2,910,000
Decrease in short-term loans	(1,959,000)	(2,710,000)
Increase in short-term notes and bills payable	200,000	360,000
Decrease in short-term notes and bills payable	(105,000)	(325,000)
Increase in long-term loans	-	288,000
Decrease in long-term loans	(64,000)	(40,000)
Lease principal repayment	(1,982)	(2,540)
Interest paid	(5,601)	(4,377)
Cash dividends	(575,088)	(532,714)
Net cash used in financing activities	(412,671)	(56,631)
Net increase in cash and cash equivalents	163,461	148,151
Cash and cash equivalents at beginning of period	1,754,180	1,606,029
Cash and cash equivalents at end of period	\$1,917,641	\$1,754,180

(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 2021 and 2020  
(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 2021 and 2020 were authorized for issue in accordance with the resolution of the board of directors' meeting held on 10 March 2022.

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 the Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2021. The adoption of these new standards and amendments had no material impact on the Company.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to 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 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	Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements	1 January 2022

- (a) Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements

A. Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments updated IFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. The amendments also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities. Besides, the amendments clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Conceptual Framework.

B. Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

C. Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

D. Annual Improvements to IFRS Standards 2018 - 2020

*Amendment to IFRS 1*

The amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.

*Amendment to IFRS 9 Financial Instruments*

The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

*Amendment to Illustrative Examples Accompanying IFRS 16 Leases*

The amendment to Illustrative Example 13 accompanying IFRS 16 modifies the treatment of lease incentives relating to lessee's leasehold improvements.

*Amendment to IAS 41*

The amendment removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

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 2022.

- (3) Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, and not yet adopted by the Company as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 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 2023
c	Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2023
d	Disclosure Initiative - Accounting Policies – Amendments to IAS 1	1 January 2023
e	Definition of Accounting Estimates – Amendments to IAS 8	1 January 2023
f	Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	1 January 2023

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.

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

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.



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Notes to Financial Statements (Continued)

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

IFRS 17 was issued in May 2017 and it was amended in 2020 and 2021. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after 1 January 2023 (from the original effective date of 1 January 2021); provide additional transition reliefs; simplify some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim Standard – IFRS 4 Insurance Contracts – from annual reporting periods beginning on or after 1 January 2023.

- (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.

- (d) Disclosure Initiative - Accounting Policies – Amendments to IAS 1

The amendments improve accounting policy disclosures that to provide more useful information to investors and other primary users of the financial statements.

- (e) Definition of Accounting Estimates – Amendments to IAS 8

The amendments introduce the definition of accounting estimates and included other amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to help companies distinguish changes in accounting estimates from changes in accounting policies.

- (f) Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The Company's financial statements for the years ended 31 December 2021 and 2020 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

(2) Basis of Preparation

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

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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 are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

(4) Translation of Foreign Currency Financial Statements

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

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

(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
- B. The Company holds the asset primarily for the purpose of trading
- C. The Company expects to realize the asset within twelve months after the reporting period
- D. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as a current when:

- A. The 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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.

A. 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

*Financial assets measured at amortized cost*

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

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

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

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

Financial asset measured at fair value through other comprehensive income

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

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

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

- (A) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (B) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (C) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
  - 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

(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 Company made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

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

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

B. 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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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.
- (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, 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.

C. Derecognition of financial assets

A financial asset is derecognized when:

- (A) The rights to receive cash flows from the asset have expired
- (B) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (C) 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.



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Notes to Financial Statements (Continued)

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

D. Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities within the scope of IFRS 9 *Financial Instruments* 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:

- (A) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (B) 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; or
- (C) 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:

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

- (A) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (B) a Company 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 Company 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.

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.

E. 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(8) Derivative 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 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 hedges, which is recognized in either profit or loss or equity according to types of hedges used.

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

(10) Inventories

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

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

Materials	– 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 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”.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

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

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

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Notes to Financial Statements (Continued)

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

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

(12) Property, plant and equipment

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

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

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Notes to Financial Statements (Continued)

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

Items	Useful Lives
Buildings and facilities	5~50 years
Machinery and equipment	8~11 years
Tooling equipment	2~ 7 years
Transportation equipment	5~10 years
Furniture, fixtures and equipment	5~ 6 years
Miscellaneous equipment	3~15 years
Leasehold improvements	The shorter of lease terms or economic useful lives

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

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

(13) Investment property

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.

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

Buildings	25 years
Right-of-use assets	1~5 years

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Notes to Financial Statements (Continued)

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

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 properties to or from investment properties according to the actual use of the properties.

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 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.

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; and
- 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; and
- 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)

(15) Intangible Assets

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

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

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

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

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

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

	<u>Software</u>	<u>Trademarks</u>	<u>Patents</u>
Useful lives	1~6 years	7~10 years	5~25 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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(16) Impairment of Non-financial Assets

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

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

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(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) 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.

(19) 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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(20) 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 financial statements.

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.

(21) Income Taxes

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

Current income tax

Current income tax assets and liabilities for the current 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 in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

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

- A. 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.
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- 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 interest in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

ZENG HSING INDUSTRIAL CO., LTD.

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 deferred tax 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 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.

**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 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

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, and changes of the future salary etc. 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 2021	31 December 2020
Cash on hand	\$335	\$357
Checking and savings accounts	752,027	747,433
Time deposits	359,970	57,016
Repurchase agreements	805,309	949,374
Total	<u>\$1,917,641</u>	<u>\$1,754,180</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(2) Accounts receivables, net

	As of	
	31 December 2021	31 December 2020
Accounts receivable - non related parties	\$866,285	\$1,133,586
Less: loss allowance	(4,828)	(5,635)
Subtotal	861,457	1,127,951
Accounts receivable - related parties	260,013	269,388
Accounts receivable, net	<u>\$1,121,470</u>	<u>\$1,397,339</u>

Trade receivables are generally on 45-90 day terms. The total carrying amount as of 31 December 2021 and 2020 were \$1,126,298 and \$1,402,974, respectively. Please refer to Note 6 (14) for more details on loss allowance of trade receivables for the years ended 31 December 2021 and 2020. 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 2021	31 December 2020
Raw materials	\$73,812	\$32,240
Work in progress	1,454	9
Semi-manufactured goods	8,462	5,746
Finished goods	67,668	32,330
Total	<u>\$151,396</u>	<u>\$70,325</u>

b. The Company cost of inventories recognized in cost of sales amounts to \$5,539,998 for the year ended 31 December 2021, including the loss from market value decline, obsolete and slow-moving of inventories \$5,717.

c. The Company cost of inventories recognized in cost of sales amounts to \$4,892,000 for the years ended 31 December 2020, including the gain from inventory price recovery \$1,579. For the years ended 31 December 2020, the gains from inventory price recovery were recognized due to the fact that the inventory that has been established a valuation loss earlier has been scrapped and the sluggish inventory has been consumed.

d. No inventories were pledged.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(4) Investments accounted for using the equity method

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

	31 December 2021		31 December 2020	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership
Subsidiaries:				
Zeng Hsing Industrial Co., Ltd. (VN)	\$1,703,190	100.00%	\$1,792,727	100.00%
Zeng Hsing Industrial Co., Ltd. (BVI)	776,971	100.00%	806,400	100.00%
Shinco Technologies Limited (VN)	309,901	100.00%	295,553	100.00%
Mitsumichi Industrial Co., Ltd.	52,495	53.00%	51,183	53.00%
Subtotal	2,842,557		2,945,863	
Associates:				
Taiwan Carbon Technology Co., Ltd.	30,339	19.53%	32,443	19.53%
FOREMOST GULF INTERNATIONAL CO., LTD. (BVI).	43,642	30.00%	(Note)	(Note)
Subtotal	73,981		32,443	
Total	\$2,916,538		\$2,978,306	

Note: The company has acquired 30% equity of FOREMOST GULF INTERNATIONAL CO., LTD. (BVI) since 1 November 2021.

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

C. For the years ended 31 December 2021 and 2020, 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 2021		31 December 2020	
	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
Subsidiaries:				
Zeng Hsing Industrial Co., Ltd. (VN)	\$(56,474)	\$(30,140)	\$224,391	\$(88,262)
Zeng Hsing Industrial Co., Ltd. (BVI)	(22,471)	(2,885)	22,764	3,555
Shinco Technologies Limited (VN)	19,486	(5,138)	16,371	(14,378)
Mitsumichi Industrial Co., Ltd.	13,714	-	14,189	-
Subtotal	(45,745)	(38,163)	277,715	(99,085)

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Investee companies	31 December 2021		31 December 2020	
	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
Associates:				
Taiwan Carbon Technology Co., Ltd.	2,896	-	5,602	-
FOREMOST GULFINTERNATIONAL CO., LTD. (BVI)	(75)	(241)	-	-
Subtotal	2,821	(241)	5,602	-
Total	\$(42,924)	\$(38,404)	\$283,317	\$(99,085)

D. Investments in associates

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

Company: Taiwan Carbon Technology Co., Ltd.

	As of	
	31 December 2021	31 December 2020
Total assets (100%)	\$171,274	\$180,197
Total liabilities (100%)	15,927	14,077
	For the years ended	
	31 December 2021	31 December 2020
Total revenue (100%)	\$64,114	\$113,121
Total expense (100%)	14,828	28,686

Company: FOREMOST GULF INTERNATIONAL CO., LTD. (BVI).

	As of	
	31 December 2021	31 December 2020
Total assets (100%)	\$113,535	\$-
Total liabilities (100%)	-	-

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

	For the years ended	
	31 December 2021	31 December 2020
Total revenue (100%)	\$-	\$-
Total expense (100%)	693	-

No investments were pledged.

E. Other investments

(A) For the years ended 31 December 2021 and 2020, the details of the Company invested to subsidiaries by cash as follows:

Subsidiaries	For the years ended 31 December	
	2021	2020
Zeng Hsing Industrial Co., Ltd. (BVI)	\$-	\$63,686

(B) For the years ended 31 December 2021 and 2020, the details of the Company received dividends from subsidiaries by cash as follows:

Subsidiaries	For the years ended 31 December	
	2021	2020
Mitsumichi Industrial Co., Ltd.	\$12,402	\$11,713
Taiwan Carbon Technology Co., Ltd.	5,000	-
Shinco Technologies Limited (VN)	-	57,253
Zeng Hsing Industrial Co., Ltd. (BVI)	-	22,592
Total	<u>\$17,402</u>	<u>\$91,558</u>

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

(5) Property, plant and equipment

Owner occupied property, plant and equipment

	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 2021	\$21,075	\$499,072	\$10,900	\$74,440	\$4,106	\$8,018	\$236,344	\$26,210	\$880,165
Additions	-	9,632	388	1,107	791	-	51,978	-	63,896
Disposals	-	-	-	-	(1,440)	-	-	-	(1,440)
Transfers	-	-	39	57	-	-	26,210	(26,210)	96
As of 31 December 2021	<u>\$21,075</u>	<u>\$508,704</u>	<u>\$11,327</u>	<u>\$75,604</u>	<u>\$3,457</u>	<u>\$8,018</u>	<u>\$314,532</u>	<u>\$-</u>	<u>\$942,717</u>
As of 1 January 2020	\$21,075	\$477,995	\$29,884	\$75,332	\$3,703	\$788	\$140,068	\$5,109	\$753,954
Additions	-	16,636	128	909	988	-	74,570	51,676	144,907
Disposals	-	-	(19,112)	(1,855)	(585)	-	(1,392)	-	(22,944)
Transfers	-	4,441	-	54	-	7,230	23,098	(30,575)	4,248
As of 31 December 2020	<u>\$21,075</u>	<u>\$499,072</u>	<u>\$10,900</u>	<u>\$74,440</u>	<u>\$4,106</u>	<u>\$8,018</u>	<u>\$236,344</u>	<u>\$26,210</u>	<u>\$880,165</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

	Land	Buildings and Facilities	Machinery and equipment	Tooling equipment	Transportation equipment	Furniture, fixtures and equipment	Miscellaneous equipment	Construction in progress and equipment awaiting examination	Total
Depreciation and impairment:									
As of 1 January 2021	\$-	\$25,049	\$5,171	\$70,213	\$2,311	\$889	\$54,087	\$-	\$157,720
Depreciation	-	13,162	1,053	3,239	673	1,204	29,821	-	49,152
Disposals	-	-	-	-	(848)	-	-	-	(848)
As of 31 December 2021	<u>\$-</u>	<u>\$38,211</u>	<u>\$6,224</u>	<u>\$73,452</u>	<u>\$2,136</u>	<u>\$2,093</u>	<u>\$83,908</u>	<u>\$-</u>	<u>\$206,024</u>
As of 1 January 2020	\$-	\$12,069	\$22,058	\$58,196	\$2,375	\$769	\$36,101	\$-	\$131,568
Depreciation	-	12,980	1,193	13,831	521	120	19,378	-	48,023
Disposals	-	-	(18,080)	(1,814)	(585)	-	(1,392)	-	(21,871)
31 December 2020	<u>\$-</u>	<u>\$25,049</u>	<u>\$5,171</u>	<u>\$70,213</u>	<u>\$2,311</u>	<u>\$889</u>	<u>\$54,087</u>	<u>\$-</u>	<u>\$157,720</u>
Net carrying amount as of:									
31 December 2021	<u>\$21,075</u>	<u>\$470,493</u>	<u>\$5,103</u>	<u>\$2,152</u>	<u>\$1,321</u>	<u>\$5,925</u>	<u>\$230,624</u>	<u>\$-</u>	<u>\$736,693</u>
31 December 2020	<u>\$21,075</u>	<u>\$474,023</u>	<u>\$5,729</u>	<u>\$4,227</u>	<u>\$1,795</u>	<u>\$7,129</u>	<u>\$182,257</u>	<u>\$26,210</u>	<u>\$722,445</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 2020 were interest rates are as follows:

Items	For the year ended 31 December 2020
Construction in progress	\$231
Borrowing cost capitalization interest rate interval	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

	Land	Buildings	Total
<b>Cost:</b>			
As of 1 January 2021	\$41,124	\$30,747	\$71,871
Additions	-	-	-
As of 31 December 2021	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
As of 1 January 2020	\$41,124	\$30,747	\$71,871
Additions	-	-	-
As of 31 December 2020	<u>\$41,124</u>	<u>\$30,747</u>	<u>\$71,871</u>
<b>Depreciation and impairment:</b>			
As of 1 January 2021	\$-	\$5,739	\$5,739
Depreciation	-	1,230	1,230
As of 31 December 2021	<u>\$-</u>	<u>\$6,969</u>	<u>\$6,969</u>
As of 1 January 2020	\$-	\$4,509	\$4,509
Depreciation	-	1,230	1,230
As of 31 December 2020	<u>\$-</u>	<u>\$5,739</u>	<u>\$5,739</u>
Net carrying amount:			
As of 31 December 2021	<u>\$41,124</u>	<u>\$23,778</u>	<u>\$64,902</u>
As of 31 December 2020	<u>\$41,124</u>	<u>\$25,008</u>	<u>\$66,132</u>

	For the years ended 31 December	
	2021	2020
Rental income from investment property	\$1,954	\$1,894
Less: Direct operating expenses from investment property generating rental income	-	-
Total	<u>\$1,954</u>	<u>\$1,894</u>

No investment property was pledged.

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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 \$78,294 determined based on valuations performed by an independent valuer appointed on 31 December 2020, respectively. 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 values and quantitative information used in the direct method are as follows:

	31 December 2021	31 December 2020
Net profit	\$-	\$3,441
Capitalization rate	-	1.80%

(7) Other non-current assets

	As of	
	31 December 2021	31 December 2020
Prepayment for equipment	\$10,569	\$521
Others	2,158	2,115
Refundable deposits	1,091	1,898
Right-of-use assets	649	2,601
Total	\$14,467	\$7,135

(8) Short-term borrowings

	Interest Rates (%)	As of	
		31 December 2021	31 December 2020
Unsecured bank loans	0.68%~0.89%	\$629,000	\$490,000

The Company's unused short-term lines of credits amounted to \$450,985 and \$670,000 as of 31 December 2021 and 2020, respectively.

(9) Short-term notes and bills payable

		As of	
Accounting title	Guarantee	31 December 2021	31 December 2020
Commercial paper payable	Mega Bills	\$100,000	\$35,000
Commercial paper payable	Daqing Bills	30,000	-
Net short-term notes and bills payable		\$130,000	\$35,000

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Notes to Financial Statements (Continued)

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

	As of	
	31 December 2021	31 December 2020
Interest rates	0.84%-0.85%	0.86%

(10) Long-term loans

A. Details of long-term loans in 31 December 2021 and 2020 are as follows:

Creditor	31 December		Repayment period and methods
	2021	Rate (%)	
Bank of Taiwan (Secured)	\$40,000	0.89%	Interests are paid monthly from 7 December 2017 through 7 December 2022. Principals are paid in 48 installments starting from the second year.
Bank of Taiwan (Secured)	264,000	0.73%	Interests are paid monthly from 2 September 2020 through 7 December 2032. Principal is repaid monthly with 144 installments.
Subtotal	304,000		
Less: current portion	(64,000)		
Total	<u>\$240,000</u>		

  

Creditor	31 December		Repayment period and methods
	2020	Rate (%)	
Bank of Taiwan (Secured)	\$80,000	0.89%	Interests are paid monthly from 7 December 2017 through 7 December 2022. Principals are paid in 48 installments starting from the second year.
Bank of Taiwan (Secured)	288,000	0.73%	Interests are paid monthly from 2 September 2020 through 7 December 2032. Principal is repaid monthly with 144 installments.
Subtotal	368,000		
Less: current portion	(64,000)		
Total	<u>\$304,000</u>		

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(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.

Pension expenses under the defined contribution plan were \$10,983 and \$9,885 for the years ended 31 December 2021 and 2020, 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 \$12,614 to its defined benefit plan during the 12 months as of 31 December 2021.

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Notes to Financial Statements (Continued)

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

The expected weighted average duration of the Company's defined benefits plan obligation as of 31 December 2021 and 2020 were both maturity in 2035.

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

	For the years ended 31 December	
	2021	2020
Current period service costs	\$766	\$775
Interest income or expense	89	233
Total	<u>\$855</u>	<u>\$1,008</u>

The Company recognized pension cost for high-ranking officers amounting to \$11,800 and \$1,800 for the years ended 31 December 2021 and 2020, respectively. As of 31 December 2021 and 2020, accrued pension liabilities non-current amounted to \$24,807 and \$13,007, respectively. In addition, the Company recognized pension expenses for early retirement in 2021 and 2020 amounting to \$0 and \$1,238, respectively.

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

	As of		
	31 December 2021	31 December 2020	1 January 2020
Defined benefit obligation	\$83,778	\$93,386	\$95,810
Plan assets at fair value	(86,017)	(72,109)	(66,562)
Other non-current liabilities - accrued pension liabilities recognized on the balance sheets	<u>\$(2,239)</u>	<u>\$21,277</u>	<u>\$29,248</u>

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 2020	\$95,810	\$(66,562)	\$29,248
Current period service costs	775	-	775
Net interest expense (income)	767	(534)	233
Subtotal	<u>97,352</u>	<u>(67,096)</u>	<u>30,256</u>

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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 financial assumptions	5,196	-	5,196
Experience adjustments	397	-	397
Remeasurements of benefit assets	-	(1,961)	(1,961)
Subtotal	5,593	(1,961)	3,632
Payments from the plan	(9,559)	9,559	-
Contributions by employer	-	(12,611)	(12,611)
As of 31 December 2020	\$93,386	\$(72,109)	\$21,277
Current period service costs	766	-	766
Net interest expense (income)	392	(303)	89
Subtotal	94,544	(72,412)	22,132
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	(16,974)	-	(16,974)
Experience adjustments	6,208	-	6,208
Remeasurements of benefit assets	-	(991)	(991)
Subtotal	(10,766)	(991)	(11,757)
Contributions by employer	-	(12,614)	(12,614)
As of 31 December 2021	\$83,778	\$(86,017)	\$(2,239)

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

	As of	
	31 December 2021	31 December 2020
Discount rate	0.75%	0.42%
Expected rate of salary increases	2.00%	3.00%

A sensitivity analysis for significant assumption as of 31 December 2021 and 2020 are as shown below:

	Effect on the defined benefit obligation			
	2021		2020	
	Increase	Decrease	Increase	Decrease
Discount rate increase by 0.50%	\$-	\$5,576	\$-	\$6,765
Discount rate decrease by 0.50%	6,062	-	7,398	-
Future salary increase by 0.50 %	5,954	-	7,168	-
Future salary decrease by 0.50%	-	5,536	-	6,634

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Notes to Financial Statements (Continued)

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

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. Common stock

The Company's authorized and issued capital was \$850,000 and \$605,356 for the years ended 31 December 2021 and 2020, respectively, divided into 85,000,000 shares and 60,535,631 shares with par value of \$10 (in dollar) each. Each share has one right to vote and receive dividends.

B. Capital surplus

	As of	
	31 December 2021	31 December 2020
Premium from common stock issuance	\$1,306,540	\$1,306,540
Employee stock option	69,565	69,565
Increase through changes in ownership interests in subsidiaries	4,275	7,745
Other	9,247	9,247
Total	<u>\$1,389,627</u>	<u>\$1,393,097</u>

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

C. 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 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.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total paid-in 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.

When the Company distributing distributable earnings, it shall set aside to special reserve, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements for the adoption of IFRS, 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 from the special reserve.



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Notes to Financial Statements (Continued)

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

The FSC on 31 March 2021 issued Order No. Jin-Guan-Zheng-Fa-1090150022, which sets out the following provisions for compliance:

On a public company's first-time adoption of the IFRS, 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 special reserve. For any subsequent use, disposal or reclassification of related assets, the Company can reverse the special reserve by the proportion of the special reserve first appropriated and distribute it.

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

Details of the 2021 and 2020 earnings distribution and dividends per share as approved and resolved by the board of directors' meeting and share-holders' meeting on 3 March 2022 and 20 July 2021, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NTD)	
	2021	2020	2021	2020
Special reserve	\$30,723	\$84,106		
Cash dividends-common stock	514,553	575,088	\$8.5	\$9.5

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) Operating Revenue

	For the years ended 31 December	
	2021	2020
Revenue from contracts with customers		
Sale of goods	\$6,765,249	\$6,162,733
Commission income	21,622	26,232
Premium income	11,404	8,171
Net sales	<u>\$6,798,275</u>	<u>\$6,197,136</u>

Analysis of revenue from contracts with customers during the years ended 31 December 2021 and 2020 are as follows:

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

A. Disaggregation of revenue

	For the years ended 31 December	
	2021	2020
	Taiwan	Taiwan
Sale of goods	\$6,765,249	\$6,162,733
Commissions	21,622	26,232
Premium income	11,404	8,171
Net sales	<u>\$6,798,275</u>	<u>\$6,197,136</u>

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	31 December	31 December
	2021	2020	2019
Sales of goods	<u>\$62,441</u>	<u>\$53,698</u>	<u>\$12,290</u>

During the year ended 31 December 2021 and 2020, contract liabilities decreased as performance obligations weren't satisfied.

The significant changes in the Company's balances of contract assets during the years ended 31 December 2021 and 2020 are as follows:

	For the years ended 31 December	
	2021	2020
The opening balance transferred to revenue	\$(53,698)	\$(12,290)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	62,441	53,698

C. Transaction price allocated to unsatisfied performance obligations

None.

D. Assets recognized from costs to fulfil a contract

None.

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Notes to Financial Statements (Continued)

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

(14) Expected credit losses / (gains)

	For the years ended 31 December	
	2021	2020
Operating expenses – Expected credit (gains) losses		
Trade receivables	<u>\$ (807)</u>	<u>\$ (307)</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 2021 and 2020 are as follows:

31 December 2021

	Not yet due (Note)	Overdue					Total
		<=30 days	31-60 days	61-90 days	91-360 days	>=361 days	
Gross carrying amount	\$1,057,696	\$62,970	\$74	\$250	\$1,075	\$4,233	\$1,126,298
Loss ratio	-	-	10%	20%	50%	100%	
Lifetime expected credit losses	-	-	(7)	(50)	(538)	(4,233)	(4,828)
Carrying amount	<u>\$1,057,696</u>	<u>\$62,970</u>	<u>\$67</u>	<u>\$200</u>	<u>\$537</u>	<u>\$-</u>	<u>\$1,121,470</u>

31 December 2020

	Not yet due (Note)	Overdue					Total
		<=30 days	31-60 days	61-90 days	91-360 days	>=361 days	
Gross carrying amount	\$1,334,361	\$58,647	\$3,238	\$1,289	\$771	\$4,668	\$1,402,974
Loss ratio	-	-	10%	20%	50%	100%	
Lifetime expected credit losses	-	-	(324)	(258)	(385)	(4,668)	(5,635)
Carrying amount	<u>\$1,334,361</u>	<u>\$58,647</u>	<u>\$2,914</u>	<u>\$1,031</u>	<u>\$386</u>	<u>\$-</u>	<u>\$1,397,339</u>

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 2021 and 2020 are as follows:

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Notes to Financial Statements (Continued)

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

	Note receivables	Trade receivables
Beginning balance at 1 January 2021	\$-	\$5,635
Reversal for the current period	-	(807)
Ending balance at 31 December 2021	\$-	\$4,828
Beginning balance at 1 January 2020	\$-	\$5,942
Reversal for the current period	-	(307)
Ending balance at 31 December 2020	\$-	\$5,635

(15) Lease

A. Company as a lessee

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 5 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 2021	31 December 2020
Buildings	\$79	\$1,024
Transportation equipment	-	844
Other equipment	570	733
Total	\$649	\$2,601

During the year ended 31 December 2021 and 2020, the Company's additions to right-of-use assets amounting to \$0 and \$815, respectively.

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Notes to Financial Statements (Continued)

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

b. Lease liabilities

	As of	
	31 December 2021	31 December 2020
Lease liabilities		
Current	\$242	\$1,981
Non-current	417	660
Total	<u>\$659</u>	<u>\$2,641</u>

Please refer to Note 6 (17)(c) for the interest on lease liabilities recognized during the ended 31 December 2021 and refer to Note 12 (5) Liquidity Risk Management for the maturity analysis for lease liabilities as at 31 December 2021.

(B) Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

	For the years ended 31 December	
	2021	2020
Buildings	\$945	\$945
Transportation equipment	844	1,509
Other equipment	163	82
Total	<u>\$1,952</u>	<u>\$2,536</u>

Income and costs relating to leasing activities

	For the years ended 31 December	
	2021	2020
The expenses relating to short-term leases	<u>\$1,575</u>	<u>\$2,082</u>

(C) Cash outflow relating to leasing activities

During the year ended 31 December 2021 and 2020, the Company's total cash outflows for leases amounted to \$1,982 and \$2,540, respectively.

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Notes to Financial Statements (Continued)

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

(16) Summary statement of employee benefits, depreciation and amortization expenses:

Function Nature	For the years ended 31 December					
	2021			2020		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$47,358	\$262,990	\$310,348	\$34,510	\$267,743	\$302,253
Labor and health insurance	4,308	21,790	26,098	2,908	19,375	22,283
Pension	2,095	21,543	23,638	1,496	11,197	12,693
Director's remuneration	-	5,085	5,085	-	5,151	5,151
Others	3,639	7,978	11,617	1,962	8,012	9,974
Depreciation	4,703	47,631	52,334	15,207	36,582	51,789
Amortization	-	17,113	17,113	88	19,037	19,125

Note: (1) The number of employees were 363 and 332 as of 31 December 2021 and 2020, respectively, the number of directors who do not concurrently serve as employees were 8 and 7 people.

(2) Average labor cost for the years ended 31 December 2021 and 2020 were \$1,047 and \$869, respectively; average salary and bonus for the years ended 31 December 2021 and 2020 were \$874 and \$930, respectively; the average salary and bonus decreased by 6.02% year over year.

(3) The supervisor's remuneration was \$983 and \$1,723 for the years ended 31 December 2021 and 2020, respectively. The Company has approved the establishment of an audit committee to replace the supervisor by the Shareholders' meeting on 20 July 2021.

The Company's policy for compensation of directors, managers and employees is as follows:

The Company set the policy for directors and employees' compensation in the Company's Articles of Incorporation and established the Remuneration Committee to evaluate and monitor the Company's remuneration system for its directors and executive officers. The Company shall assess the performance of directors and executive officers according to the Rules for Performance Assessment of the Board of Directors and the Performance Appraisal for employees of the Company, in order to determine their compensation. An adequate compensation scheme will be calculated by referencing the Company's operation results, future risks, corporate strategies, industry trends and also individual contribution.

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The Company developed a comprehensive employee welfare system in accordance with laws, government regulations and regional needs to provide employees with competitive salary and welfare conditions. Employees' compensation includes monthly salary, bonus based on operation performance, and the compensation based on the Company's earnings performance as provided in the Articles of Incorporation. The Company conducts a performance evaluation of all employees every year to understand their job performance and uses such information as a reference for promotions, training and compensation distribution.

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 2021 and 2020 are as follows:

	For the years ended 31 December	
	2021	2020
Employees' compensation	\$23,000	\$28,000
Remuneration to directors and supervisors	4,400	4,660

A resolution was passed at a board of directors meeting held on 10 March 2022 to distribute \$23,000 and \$4,400 in cash as the employee's compensation and remuneration to directors and supervisors of 2021, 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 2021.

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 2020.

(17) Non-operating income and expenses

A. Other income

	For the years ended 31 December	
	2021	2020
Interest income	\$2,951	\$11,732
Rental revenue	1,954	1,894
Others	14,473	19,586
Total	<u>\$19,378</u>	<u>\$33,212</u>

B. Other gains and losses

	For the years ended 31 December	
	2021	2020
Foreign exchange losses, net	\$(76,766)	\$(105,874)
Net losses on financial assets at fair value through loss or profit	(2,381)	(9,365)
Gains on disposal of property, plant and equipment	199	1,526
Others	(900)	(621)
Total	<u>\$(79,848)</u>	<u>\$(114,334)</u>

C. Financial costs

	For the years ended 31 December	
	2021	2020
Interest on loans from bank	\$5,570	\$4,308
Interest on lease liabilities	31	69
Total	<u>\$5,601</u>	<u>\$4,377</u>



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 2021

	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	\$11,757	\$-	\$11,757	\$(2,351)	\$9,406
Financial assets unrealized profit or loss measured at fair value through other comprehensive income	-	-	-	-	-
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(38,404)	-	(38,404)	7,681	(30,723)
Total of other comprehensive income	<u>\$(26,647)</u>	<u>\$-</u>	<u>\$(26,647)</u>	<u>\$5,330</u>	<u>\$(21,317)</u>

B. For the year ended 31 December 2020

	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	\$(3,631)	\$-	\$(3,631)	\$726	\$(2,905)
Financial assets unrealized profit or loss measured at fair value through other comprehensive income	-	-	-	-	-
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(99,085)	-	(99,085)	19,817	(79,268)
Total of other comprehensive income	<u>\$(102,716)</u>	<u>\$-</u>	<u>\$(102,716)</u>	<u>\$20,543</u>	<u>\$(82,173)</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(19) Income tax

The major components of income tax expense are as follows:

A. Income tax recorded in profit or loss

	For the years ended 31 December	
	2021	2020
Current income tax expense:		
Current income tax charge	\$143,950	\$168,613
Deferred income tax expense:		
Deferred income tax expense related to origination and reversal of temporary differences	(11,643)	36,034
Income tax expense recognized in profit or loss	<u>\$132,307</u>	<u>\$204,647</u>

B. Income tax relating to components of other comprehensive income

	For the years ended 31 December	
	2021	2020
Deferred income tax (benefit) expense:		
Remeasurements of defined benefit plans	\$2,351	\$(726)
Exchange differences on translation of foreign operations	(7,681)	(19,817)
Income tax relating to components of other comprehensive income	<u>\$(5,330)</u>	<u>\$(20,543)</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	
	2021	2020
Accounting profit before tax from continuing operations	<u>\$657,455</u>	<u>\$1,037,627</u>
The amount of tax at each statutory income tax rate	\$131,491	\$207,526
Tax effect of revenue exempt from taxation	(5,449)	(4,831)
Tax effect of expenses not deductible for tax purposes	916	2,259
Tax effect of deferred tax assets/liabilities	-	(307)
Corporate income surtax on undistributed retained earnings	5,349	-
Total income tax expenses recorded in profit or loss	<u>\$132,307</u>	<u>\$204,647</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:

(A) For the year ended 31 December 2021

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	\$4,568	\$(2,325)	\$-	\$2,243
Provision for allowance to reduce inventories to market value	1,222	1,143	-	2,365
Defined benefit Liability	9,055	(2,352)	(2,351)	4,352
Reserve for land appreciation tax	(87)	-	-	(87)
Investment income under equity method	(250,300)	12,049	-	(238,251)
Revaluations of financial assets at fair value through profit or loss	-	3,276	-	3,276
Gain recognized in bargain purchase transaction	-	(148)	-	(148)
Exchange differences on translation of foreign operations	86,686	-	7,681	94,367
Deferred income tax expense (benefit)		<u>\$11,643</u>	<u>\$5,330</u>	
Deferred income tax assets (liabilities)	<u>\$(148,856)</u>			<u>\$(131,883)</u>
The information presented in balance statement				
Deferred income tax assets	<u>\$106,353</u>			<u>\$19,411</u>
Deferred income tax liabilities	<u>\$(255,209)</u>			<u>\$(151,294)</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(B) For the year ended 31 December 2020

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	\$1,721	\$2,847	\$-	\$4,568
Provision for allowance to reduce inventories to market value	1,537	(315)	-	1,222
Allowance for losses	(307)	307	-	-
Defined benefit Liability	10,402	(2,073)	726	9,055
Reserve for land appreciation tax	(87)	-	-	(87)
Investment income under equity method	(213,500)	(36,800)	-	(250,300)
Exchange differences on translation of foreign operations	66,869	-	19,817	86,686
Deferred income tax expense (benefit)		<u>\$(36,034)</u>	<u>\$20,543</u>	
Deferred income tax assets (liabilities)	<u>\$(133,365)</u>			<u>\$(148,856)</u>
The information presented in balance statement				
Deferred income tax assets	<u>\$83,279</u>			<u>\$106,353</u>
Deferred income tax liabilities	<u>\$(216,644)</u>			<u>\$(255,209)</u>

(C) As of 31 December 2021 and 2020, deferred tax assets that have not been recognized as they may not be used to offset taxable profits as follows:

None.

(D) As of 31 December 2021 and 2020, 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 2019.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(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. Basic earnings per share

	For the years ended 31 December	
	2021	2020
Profit attributable to ordinary equity holders of the Company (in thousand NTD)	\$525,148	\$832,980
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	60,536	60,536
Basic earnings per share (NTD)	\$8.68	\$13.76

B. Diluted earnings per share

	For the years ended 31 December	
	2021	2020
Profit attributable to ordinary equity holders of the Company (in thousand NTD)	\$525,148	\$832,980
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	60,536	60,536
Effect of dilution:		
Employees' compensation – stock (in thousands)	158	199
Weighted average number of ordinary shares outstanding after dilution (in thousands)	60,694	60,735
Diluted earnings per share (NTD)	\$8.65	\$13.72

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.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

7. RELATED PARTY TRANSACTIONS

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

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

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

A. Sales

(A) Commission income

Transactions of materials and supplies sold to related parties for the years ended 31 December 2021 and 2020 are summarized as follows:

a. For the year ended 31 December 2021

Name of Related Parties	Price	Cost	Commission income
Zeng Hsing Industrial Co., Ltd. (VN)	\$668,984	\$653,274	\$15,710
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	142,003	136,662	5,341
Mitsumichi Industrial Co., Ltd.	7,675	9,982	(2,307)
Taiwan Cheer Champ Co., Ltd.	7,285	5,354	1,931
	<u>\$825,947</u>	<u>\$805,272</u>	<u>\$20,675</u>

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Notes to Financial Statements (Continued)

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

b. For the year ended 31 December 2020

Name of Related Parties	Price	Cost	Commission income
Zeng Hsing Industrial Co., Ltd. (VN)	\$733,166	\$710,572	\$22,594
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	65,897	64,988	909
Mitsumichi Industrial Co., Ltd.	1,834	2,665	(831)
Taiwan Cheer Champ Co., Ltd.	4,109	2,962	1,147
	<u>\$805,006</u>	<u>\$781,187</u>	<u>\$23,819</u>

Unrealized intercompany profit resulted from the abovementioned transactions amounted to \$2,440 and \$1,086 during 2021 and 2020, respectively. Sales prices and the terms between related parties are not significantly different from any third parties.

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for domestic sales to related parties was month-end 30 to 60 days, while the terms for overseas sales were 90 days from FOB shipping point. The collection period for third party domestic sales was month-end 30 to 60 days, while the terms for overseas sales were 60 to 120 days from FOB shipping point. The outstanding amounts at the end of the year were unsecured, interest-free and must be settled in cash. Accounts receivable from related parties did not have any guarantees.

B. Purchase

Name of Related Parties	For the years ended 31 December	
	2021	2020
Zeng Hsing Industrial Co., Ltd. (VN)	\$4,492,600	\$4,399,560
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	794,547	340,083
Mitsumichi Industrial Co., Ltd.	46,591	34,957
Zhangjiagang Zenghsing Trading Co., Ltd.	39,790	19,959
Total	<u>\$5,373,528</u>	<u>\$4,794,559</u>

For the years ended 31 December 2021 and 2020, the payment terms for related parties were same as general supplies, from one to three months.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

C. Accounts receivable

Name of Related Parties	As of	
	31 December 2021	31 December 2020
Zeng Hsing Industrial Co., Ltd. (VN)	\$180,741	\$215,258
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	57,200	43,812
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	16,269	9,105
Mitsumichi Industrial Co., Ltd.	5,742	339
Shinco Technologies Limited (VN)	49	-
Taiwan Cheer Champ Co., Ltd.	12	874
Total	<u>\$260,013</u>	<u>\$269,388</u>

D. Accounts payable

Name of Related Parties	As of	
	31 December 2021	31 December 2020
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	\$255,115	\$78,017
Zeng Hsing Industrial Co., Ltd. (VN)	215,215	425,378
Zhangjiagang Zenghsing Trading Co., Ltd.	10,175	4,114
Mitsumichi Industrial Co., Ltd.	3,852	11,480
Taiwan Cheer Champ Co., Ltd.	-	15
Total	<u>\$484,357</u>	<u>\$519,004</u>

E. Premium income

Name of Related Parties	For the years ended 31 December	
	2021	2020
Zhangjiagang Zenghsing Machinery & Electronics Co., Ltd.	<u>\$11,404</u>	<u>\$8,171</u>

F. Premium expenses (established as other selling expense)

	For the years ended 31 December	
	2021	2020
Mitsumichi Industrial Co., Ltd.	<u>\$977</u>	<u>\$1,640</u>



ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

G. Key management personnel compensation

	For the years ended 31 December	
	2021	2020
Short-term employee benefits	\$32,753	\$35,119
Post-employment Benefits	488	488
Total	<u>\$33,241</u>	<u>\$35,607</u>

8. ASSETS PLEDGED AS COLLATERAL

The following assets were pledged:

	As of		Secured liabilities
	31 December 2021	31 December 2020	
Property, Plant and Equipment-land	\$21,075	\$21,075	Bank loan
Property, Plant and Equipment-building	470,493	474,023	Bank loan
Financial assets measured at amortized cost, non-current	200	200	Customs import customs clearance deposit
Total	<u>\$491,768</u>	<u>\$495,298</u>	

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) The important contracts of construction in progress

A. As of 31 December 2021

None

B. As of 31 December 2020

Contracting parties	Subject matter	Total contract amount	Contract amount paid as of 31 December 2021
Company A	Property	\$37,938	\$10,463
Company B	Property	23,505	12,945

(2) The Company entered into the financial guarantees to related parties: refer to Note 13(1)(b).

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT SUBSEQUENT EVENTS

None.

12. OTHERS

(1) Categories of financial instruments

	As of	
	31 December 2021	31 December 2020
<u>Financial Assets</u>		
Financial assets at fair value through profit or loss:		
Designated at fair value through profit or loss at initial recognition	\$108,131	\$114,282
Financial assets measured at amortized cost:		
Cash and cash equivalents (excluding cash on hand)	1,917,306	1,753,823
Notes and accounts receivable (includes related party)	1,121,470	1,397,339
Other receivables	4,389	4,542
Financial assets measured at amortized cost, non-current	200	200
Total	<u>\$3,151,496</u>	<u>\$3,270,186</u>
<u>Financial Liabilities</u>		
Financial liabilities carried at amortized cost:		
Short-term loans	\$629,000	\$490,000
Short-term notes and bills payable	130,000	35,000
Notes and accounts payables (includes related party)	612,114	739,424
Other payables	156,212	163,378
Long-term loans (including long-term loans due within one year)	304,000	368,000
Lease liability	659	2,641
Subtotal	1,831,985	1,798,443
Financial liabilities at fair value through profit or loss:		
Held for trading	1,545	4,081
Total	<u>\$1,833,530</u>	<u>\$1,802,524</u>

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(2) Financial risk management objectives and policies

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

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

(3) Market risk

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 2021 and 2020 is increased by \$19,185 and \$19,734 respectively; and no impact on the equity.
- B. When NTD strengthens/weakens against VND by 1%, there is no impact on the profit for the years ended 31 December 2021 and 2020; and the equity is increased by \$16,119 and \$16,697, respectively.

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 Company manages its interest rate risk by having a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for it.

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 increase/decrease of \$304 and \$368 for the years ended 31 December 2021 and 2020, respectively.

Equity price risk

The fair value of the Group's listed and unlisted equity securities and conversion rights of the Euro-convertible bonds issued are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's listed and unlisted equity securities are classified under financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income, 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.

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Notes to Financial Statements (Continued)

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

(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 and notes 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.

As of 31 December 2021 and 2020, amounts receivables from top ten customers represented 70.59% and 76.01% 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.

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Notes to Financial Statements (Continued)

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

Non-derivative financial liabilities

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As of 31 December 2021					
Short-term loans	\$629,000	\$-	\$-	\$-	\$629,000
Short-term notes and bills payable	130,000	-	-	-	130,000
Payables	612,114	-	-	-	612,114
Long-term loans	66,052	51,656	51,091	148,005	316,804
Lease liability	252	343	86	-	681
As of 31 December 2020					
Short-term loans	\$490,000	\$-	\$-	\$-	\$490,000
Short-term notes and bills payable	35,000	-	-	-	35,000
Payables	739,424	-	-	-	739,424
Long-term loans	66,586	91,735	50,836	172,371	381,528
Lease liability	2,013	424	257	-	2,694

Derivative financial liabilities

	< 1 year	2 ~ 3 years	4 ~ 5 years	> 5 years	Total
As of 31 December 2021					
Inflow	\$-	\$-	\$-	\$-	\$-
Outflow	(1,545)	-	-	-	(1,545)
Net	<u>\$(1,545)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(1,545)</u>
As of 31 December 2020					
Inflow	\$-	\$-	\$-	\$-	\$-
Outflow	(4,081)	-	-	-	(4,081)
Net	<u>\$(4,081)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(4,081)</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 2021:

	Short-term loans	Short-term notes and bills payable	Long-term loans	Lease liability	Total liabilities from financing activities
As of 1 January 2021	\$490,000	\$35,000	\$368,000	\$2,641	\$895,641
Cash flow	139,000	95,000	(64,000)	(1,982)	168,018
As of 31 December 2021	<u>\$629,000</u>	<u>\$130,000</u>	<u>\$304,000</u>	<u>\$659</u>	<u>\$1,063,659</u>

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Notes to Financial Statements (Continued)

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

Reconciliation of liabilities for the year ended 31 December 2020:

	Short-term loans	Short-term notes and bills payable	Long-term loans	Lease liability	Total liabilities from financing activities
As of 1 January 2020	\$290,000	\$-	\$120,000	\$4,605	\$414,605
Non-cash change	-	-	-	576	576
Cash flow	200,000	35,000	248,000	(2,540)	480,460
As of 31 December 2020	<u>\$490,000</u>	<u>\$35,000</u>	<u>\$368,000</u>	<u>\$2,641</u>	<u>\$895,641</u>

(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:

- (A) 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.
- (B) 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.
- (C) 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).

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Notes to Financial Statements (Continued)

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

(D) 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.)

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

B. Fair value of financial instruments measured at amortized cost

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

C. Fair value measurement hierarchy for financial instruments

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

(8) Derivative financial instruments

The Company's derivative financial instruments include a foreign exchange swap and a cross currency swap. The related information for derivative instruments not qualified for hedge accounting and not yet settled as of 31 December 2021 and 2020 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:



ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

Contract	Contract amount	Maturity
As of 31 December 2021		
Foreign Exchange Swap	Sell USD 8,000 thousand	2021/08/09-2022/06/29
As of 31 December 2020		
Foreign Exchange Swap	Sell USD 8,000 thousand	2020/07/30-2021/05/04
Forward exchange agreement	Sell EUR 2,700 thousand	2020/08/06-2021/03/31

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

(9) Fair value measurement hierarchy

A. Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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

B. Fair value measurement hierarchy of the Company's assets and liabilities

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

As of 31 December 2021

	<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				
Fund	\$108,131	\$-	\$-	\$108,131
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Foreign exchange swap	-	1,545	-	1,545

As of 31 December 2020

	<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				
Fund	\$114,282	\$-	\$-	\$114,282
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Foreign exchange swap	-	3,409	-	3,409
Forward exchange agreement	-	672	-	672

Transfers between Level 1 and Level 2 during the period

During the years ended 31 December 2021 and 2020, 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 2021

	<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))	\$-	\$-	\$78,294	\$78,294

As of 31 December 2020

	<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))	\$-	\$-	\$78,294	\$78,294

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(10) Significant assets and liabilities denominated in foreign currencies

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

	Unit: Thousands					
	31 December 2021			31 December 2020		
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary item:</u>						
USD	\$104,731	27.690	\$2,900,001	\$104,686	28.508	\$2,984,388
<u>Investment using the equity method</u>						
VND	1,659,727,420	0.001214	2,014,909	1,690,019,713	0.001235	2,087,174
<u>Financial liabilities</u>						
<u>Monetary item:</u>						
USD	18,125	27.690	501,881	18,158	28.508	517,648

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 \$76,766 and \$105,874 for foreign exchange losses for the years ended 31 December 2021 and 2020, 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.

C. ADDITIONAL DISCLOSURES

(1) Information on significant transactions

A. Financing provided: none.

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

B. Endorsement/guarantee provided:

No. (Note 1)	Endorser/ Guarantor	Endorsee		Limit of guarantee/ endorsement amount to a single entity (Note 3)	Maximum guarantee balance for the period	Ending balance	Actual amount drawn	Amount of collateral guarantee/ endorsement backed by property	Ratio of accumulated amount of guarantee to net equity of the most recent financial statements	Maximum guarantee limit (Note 4)	Parent company to subsidiary	Subsidiary to parent company	To Mainland China
		Company name	Relationship (Note 2)										
0	Zeng Hsing Industrial CO., Ltd. LTD.	Zeng Hsing Industrial CO., Ltd. (VN)	(2)	\$1,472,432	\$1,024,530 (USD37,000,000)	\$955,305 (USD34,500,000)	\$315,824	\$-	19.47%	\$1,963,243	Yes	No	No
0	Zeng Hsing Industrial CO., Ltd. LTD.	Taiwan Cheer Champ Co., Ltd.	(2)	\$981,621	\$207,991 (USD7,511,412)	\$207,991 (USD7,511,412)	\$-	\$-	4.24%	\$1,963,243	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: The relationship between the endorser and endorsee is listed as follows:

(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.

(7) Joint and several guarantee for the performance of the pre-sale house sales contract between the industry and the consumer protection law

Note 3: The amount of guarantees/endorsements to a single overseas affiliate shall not exceed 30% of ZENG HSING INDUSTRIAL CO., LTD's net worth.

Note 4: The total guarantee/endorsement amount shall not exceed 40% of ZENG HSING INDUSTRIAL CO., LTD's net worth of the current period.

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

C. Securities held at the end of the period (excluding investment subsidiaries, affiliates and joint-venture controlling interests):

Company held	Securities type	Securities name	Relationship with the Securities issuer (Note1)	Financial Statement Account	31 December 2021			
					Shares/Units	Carrying Value	Ownership Percentage	Market Value or Net Asset Value
Zeng Hsing Industrial CO., LTD.	Fund	Capital Global Financial Bond Fund A	-	Financial assets at fair value through other comprehensive income	186,755.31	\$55,552	-%	\$55,552
Zeng Hsing Industrial CO., LTD.	Fund	Fuh Hwa 5-10 Year Investment Grade Bond Index Fund USD	-	Financial assets at fair value through other comprehensive income	188,752.30	52,579	-%	52,579
				Total		\$108,131		\$108,131

Note1: If the securities issuer is not a related party, the field is not required to be filled.

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

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

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

**ZENG HSING INDUSTRIAL CO., LTD.**

**Notes to Financial Statements (Continued)**

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

**G. Related party transactions for purchases and sales amounts exceeding the lower of \$100 million or 20% of capital stock:**

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]	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$794,547	11.68%	There is no difference with other clients	Regular	Regular	Account receivable \$255,115	22.75%	
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. [Zhangjiagang]	1	Purchases	\$794,547	11.68%	There is no difference with other clients	Regular	Regular	Account payable \$(255,115)	(22.75%)	
Zeng Hsing Industrial CO., Ltd.	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. [Zhangjiagang]	1	Sales (Note 2)	\$142,003	2.09%	There is no difference with other clients	Regular	Regular	Account receivable \$57,200	5.10%	
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. [Zhangjiagang]	Zeng Hsing Industrial CO., Ltd.	2	Purchases	\$142,003	2.09%	There is no difference with other clients	Regular	Regular	Account payable and other payable \$(57,200)	(5.10%)	
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Sales	\$4,492,600	66.08%	There is no difference with other clients	Regular	Regular	Account receivable \$215,215	19.19%	
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Purchases	\$4,492,600	66.08%	There is no difference with other clients	Regular	Regular	Account payable \$(215,215)	(19.19%)	
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	1	Sales (Note 3)	\$668,984	9.84%	There is no difference with other clients	Regular	Regular	Account receivable \$180,741	16.12%	
Zeng Hsing Industrial CO., Ltd. (VN)	Zeng Hsing Industrial CO., Ltd.	2	Purchases	\$668,984	9.84%	There is no difference with other clients	Regular	Regular	Account payable \$(180,741)	(16.12%)	

**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]	Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. [Cheau Hsing]	3	Sales	\$293,373	4.32%	There is no difference with other client	Regular	Regular	Account receivable \$35,084	3.13%	
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd. [Cheau Hsing]	Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd. [Zhangjiagang]	3	Purchases	\$293,373	4.32%	There is no difference with other client	Regular	Regular	Account payable \$(35,084)	(3.13%)	
Zhangjiagang Zenghsing Trading Co., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	3	Sales	\$293,699	4.32%	There is no difference with other clients	Regular	Regular	Account receivable \$18,737	1.67%	
Zeng Hsing Industrial CO., Ltd. (VN)	Zhangjiagang Zenghsing Trading Co., Ltd.	3	Purchases	\$293,699	4.32%	There is no difference with other clients	Regular	Regular	Account payable and other payable \$(18,737)	(1.67%)	

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 \$5,341 for the year ended 31 DECEMBER 2021.

Note 3: The Company reported the net sales of triangle trade and recognized commission of \$15,710 for the year ended 31 DECEMBER 2021.

**H. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital:**

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue receivables		Amounts Received in Subsequent Period	Loss allowance	Note
					Amount	Action Taken			
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	Subsidiary	\$180,741	3.38	\$-	-	\$78,679	\$-	accounts receivable-customers

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

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

J. Inter-company relationships and significant intercompany transactions: refer to Note 13 (1) G.

(2) Information on investees

A. Names, locations, and related information of investees on which the Group exercises significant influence:

Investor Company	Investee Company	Location	Main businesses and products	Original investment amount		Balance as at 31 December 2021			Net Income (Losses) of the Investee	Equity in Earnings (Losses)	Notes
				31 December 2021	31 December 2020	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	\$650,060 (USD 20,000,000)	\$650,060 (USD 20,000,000)	20,000	100%	\$776,971	\$(23,177)	\$(22,471)	Note 1
Zeng Hsing Industrial Co., Ltd. (BVI)	Arcoris Pte Ltd.	8 Cross Street #24-03/04 Pwc Building Singapore (048424)	Holding company	218,237 (USD 7,000,000)	218,237 (USD 7,000,000)	7,000,000	100%	172,424	(25,936)	(25,936)	
Arcoris Pte Ltd.	Zorca Worldwide Ltd.	Marcy Building, 2nd Floor, Purcell Estate P.O. Box 2416 Road Town British Virgin Islands	Holding company	191,933 (USD 6,470,000)	92,508 (USD 2,900,000)	64,700	100%	136,859	(21,563)	(21,563)	
Zorca Worldwide Ltd.	Taiwan Cheer Champ Co., Ltd.	New Taipei City, Taiwan	Selling household sewing machines	185,452 (USD 6,365,194)	86,062 (USD 2,790,000)	15,421,610	85.68%	134,118	(30,225)	(21,258)	
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 (USD 1,100,000)	33,239 (USD 1,100,000)	1,200,000	100%	27,523	(1,219)	(1,219)	
Jetsun Technology Co., Ltd (Seychelles)	Jetsun Technology Company Limited	Bing Dong, Vietnam	Research and design of filtration equipment	39,494 (USD 1,204,000)	39,494 (USD 1,204,000)	-	100%	27,523	VND (998,418,369)	(1,219)	



# 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 2021			Net Income (Losses) of the Investee	Equity in Earnings (Losses)	Notes
				31 December 2021	31 December 2020	Shares	Percentage of Ownership	Carrying Value			
Zeng Hsing Industrial CO., Ltd.	Zeng Hsing Industrial CO., Ltd. (VN)	Bing Dong, Vietnam	Manufacturing household sewing machines	1,049,554 (USD 35,000,000)	1,049,554 (USD 35,000,000)	-	100%	1,703,190	VND (46,251,022,433)	(56,474)	
Zeng Hsing Industrial CO., Ltd.	Shinco Technologies Limited (VN)	Bing Dong, Vietnam	Material die-casting of metal of aluminum, zinc and magnesium alloy.	347,158 (USD 11,173,331)	347,158 (USD 11,173,331)	-	100%	309,901	VND 15,958,729,542	19,486	
Zeng Hsing Industrial CO., Ltd.	Taiwan Carbon Technology CO., Ltd.	Taichung, Taiwan	Manufacturing carbon fiber, fire resistant fiber and related products.	20,566	20,566	2,500,000	19.53%	30,339	14,828	2,896	
Zeng Hsing Industrial CO., Ltd.	Mitsumichi industrial CO. Ltd	Taichung, Taiwan	Manufacturing household sewing machines	31,330	31,330	1,378,000	53.00%	52,495	25,876	13,714	
Zeng Hsing Industrial CO., Ltd	FOREMOST GULF INTERNATIONAL CO., LTD. (BVI)	Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands VG1110	Holding company	43,217 (USD 1,550,000)	-	15,000	30%	43,642	(693)	(75)	
FOREMOST GULF INTERNATIONAL CO., LTD. (BVI)	FOREMOST GULF INTERNATIONAL (Vietnam)	No.21 Vsip II, Street No.6, Vietnam-Singapore II Industrial Park, Hoa Phu Ward, Thu Dau Mot City, Binh Duong Province	Manufacturing Electronic component	55,614 (USD 2,000,000)	-	-	100%	64,462	VND 43,848,504	54	

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

B. Information about major transactions of investee companies with controlling power

(A) Financing provided: none.

(B) Endorsement/guarantee provided: none.

(C) Marketable securities held: none.

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

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

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

(G) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: refer to Note 13(1)G.

(H) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital:

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue receivables		Amounts Received in Subsequent Period	Loss allowance	Note
					Amount	Action Taken			
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Zeng Hsing Industrial CO., Ltd.	Subsidiary	\$255,115	4.77	\$-	-	\$111,894	\$-	accounts receivable-customers
Zeng Hsing Industrial CO., Ltd. (VN).	Zeng Hsing Industrial CO., Ltd.	Subsidiary	\$215,215	14.03	\$-	-	\$214,020	\$-	accounts receivable-customers

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

ZENG HSING INDUSTRIAL CO., LTD.

Notes to Financial Statements (Continued)

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

(3) Information on investment in Mainland China

A. 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:

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 2021	Investment Flows		Accumulated Outflow of Investment from Taiwan as of 31 December 2021	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as of 31 December 2021	Accumulated Inward Remittance of Earnings as of 31 December 2021
					Outflow	Inflow					
Zhangjiagang Zenghsing Machinery & Electronics CO., Ltd.	Manufacturing and selling household sewing machines, vacuum cleaners and spare parts	USD 13,000,000	Indirect investments through Zeng Hsing (BVI)	\$304,199 (USD 9,103,039)	\$-	\$-	\$304,199 (USD 9,103,039)	100%	\$4,398	\$562,963	\$518,695 (USD 12,603,654) (RMB 27,000,000)
Zhangjiagang Free Trade Zone Cheau Hsing Machinery & Electronics Co., Ltd.	Selling household sewing machines and spare parts.	USD 500,000	Indirect investments through Zeng Hsing (BVI)	14,931 (USD 500,000)	-	-	14,931 (USD 500,000)	100%	RMB 5,238,410	RMB 15,455,929	RMB 26,251,891
Zhangjiagang Zenghsing Trading Co., Ltd.	Selling household sewing machines and spare parts	RMB 1,000,000	Indirect investments through Zeng Hsing (BVI)	-	-	-	-	100%	RMB(1,665,746)	RMB (165,746)	RMB 9,197,561

ZENG HSING INDUSTRIAL CO., LTD.

Notes to 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 2021	Investment Flows		Accumulated Outflow of Investment from Taiwan as of 31 December 2021	Percentage of Ownership	Equity in Earnings (Losses) Note 1	Carrying Value as of 31 December 2021	Accumulated Inward Remittance of Earnings as of 31 December 2021
					Outflow	Inflow					
Shanghai Debra Trading Company Limited	Selling household sewing machines and spare parts	RMB 5,000,000	Indirect investments through Zeng Hsing (BVI)	-	-	-	-	100%	RMB (419,318)	RMB 1,224,137	-

Accumulated investment in Mainland China as of 31 December 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$319,130 (USD 9,603,039)	\$459,409(Note2) (USD 13,848,355)	\$2,944,864

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 exempted to be included in the upper limit on investment.

B. As of 31 December 2021, for information on significant transactions and prices, payments, etc. between the parent company and subsidiaries, please refer to Note 13(1)G.

(4) Information of major shareholders

The company has no shareholders with a shareholding ratio of more than 5% on 31 December 2021.