

**Sinmag Equipment Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates of Sinmag Equipment Corporation as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements of parent and subsidiary companies prepared in conformity with International Financial Reporting Standard No. 10, "Consolidated Financial Statements." Information required to be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Thus, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

SINMAG EQUIPMENT CORPORATION

By:

HSIEH, SHUN-HO
Chairman

March 14, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Sinmag Equipment Corporation

Opinion

We have audited the accompanying consolidated financial statements of Sinmag Equipment Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to the Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Group's financial statements for the year ended December 31, 2018 is stated as follows:

Key Audit Matter - Recognition of Revenue from Main Customers

The consolidated operating revenue from the main customers of the Group accounted for approximately 21% of the total consolidated operating revenue. There is also a significant difference between the change in operating revenue growth (decline) of the main customers and the change in overall consolidated operating revenue growth (decline) of the Group, resulting in a significant impact on the financial performance of the Group. Therefore, we deemed the validity of occurrence of sales revenue from the main customers as a key audit matter. The revenue recognition accounting policy is disclosed in Note 4 (n) to the consolidated financial statements.

We performed the following audit procedures in response to the above-mentioned key audit matter:

1. We understood the design and implementation of the internal controls related to the recognition of sales revenue, and designed the appropriate audit procedures on internal controls related to the validity of occurrence of sales revenue, in order to confirm and evaluate the effectiveness of the Group's internal control over sales revenue.
2. We selected samples from sales transactions, and reviewed sales orders, invoices and receipts, in order to confirm validity of the occurrence of sales.
3. We compared the changes in sales revenue, gross profit margin, trade receivables turnover rate and credit conditions of the main customers between the current and previous year, and evaluated the reasonableness of the changes.

Other Matter

We did not audit the financial statements of LBC Bakery Equipment Inc., a subsidiary included in the consolidated financial statements of the Group, but such financial statements were prepared using a different financial reporting framework and audited by other auditors. We have applied audit procedures on the conversion adjustments to the financial statements of LBC Bakery Equipment Inc., which conform to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our opinion, insofar as it relates to the amounts included for LBC Bakery Equipment Inc. prior to these conversion adjustments, is based solely on the report of other auditors and additional audit procedures to meet the relevant requirements of the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. The total assets of LBC Bakery Equipment Inc. constituted 11% (NT\$356,975 thousand) and 11% (NT\$363,781 thousand), respectively, of consolidated total assets as of December 31, 2018 and 2017, and total revenues constituted 12% (NT\$501,596 thousand) and 12% (NT\$567,736 thousand), respectively, of consolidated total revenues for the years then ended.

We have also audited the parent company only financial statements of Sinmag Equipment Corporation Company as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with an other matter paragraph.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audit resulting in this independent auditors' report are Chiang-Hsun Chen and Chao-Mei Chen.

Chiang-Hsun Chen

Chao-Mei Chen

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 14, 2019

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

(In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 807,198	25	\$ 828,127	25
Notes receivable (Notes 4, 7 and 21)	53,816	2	49,410	2
Trade receivables (Notes 4, 7 and 21)	611,712	19	727,270	22
Trade receivables from related parties (Notes 4, 21 and 30)	368	-	1,685	-
Other receivables (Notes 4, 7 and 26)	19,892	-	45,023	1
Current tax assets (Notes 4 and 23)	10,616	-	9,786	-
Inventories (Notes 4 and 8)	669,144	21	703,672	21
Prepayments (Notes 14 and 31)	27,833	1	40,993	1
Other financial assets (Notes 4, 15 and 31)	9,237	-	20,077	1
Total current assets	<u>2,209,816</u>	<u>68</u>	<u>2,426,043</u>	<u>73</u>
NON-CURRENT ASSETS				
Property, plant and equipment (Notes 4, 11 and 31)	843,929	26	736,700	23
Other intangible assets (Notes 4 and 13)	2,947	-	3,752	-
Goodwill (Notes 4 and 12)	3,254	-	3,254	-
Deferred tax assets (Notes 4 and 23)	26,156	1	21,240	1
Other financial assets - non-current (Notes 4, 15 and 31)	64	-	63	-
Long-term prepayments for leases (Notes 14 and 31)	85,876	3	41,248	1
Other non-current assets (Notes 4 and 15)	59,925	2	72,631	2
Total non-current assets	<u>1,022,151</u>	<u>32</u>	<u>878,888</u>	<u>27</u>
TOTAL	<u>\$ 3,231,967</u>	<u>100</u>	<u>\$ 3,304,931</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 16 and 31)	\$ 150,000	5	\$ 209,314	7
Contract liabilities - current (Notes 3, 4 and 21)	82,284	2	-	-
Notes payable	27,566	1	37,114	1
Notes payable to related parties (Note 30)	973	-	893	-
Trade payables	257,649	8	297,382	9
Trade payables to related parties (Note 30)	9,579	-	10,760	-
Other payables (Note 17)	258,506	8	256,556	8
Current tax liabilities (Notes 4 and 23)	115,731	4	138,802	4
Provisions - current (Notes 4 and 18)	25,261	1	25,385	1
Advance receipts	-	-	73,187	2
Current portion of long-term borrowings and bonds payable (Notes 16 and 31)	6,121	-	5,968	-
Total current liabilities	<u>933,670</u>	<u>29</u>	<u>1,055,361</u>	<u>32</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 16 and 31)	89,615	3	93,659	3
Deferred tax liabilities (Notes 4 and 23)	87,298	2	91,240	3
Net defined benefit liabilities - non-current (Notes 4 and 19)	2,909	-	20,019	-
Total non-current liabilities	<u>179,822</u>	<u>5</u>	<u>204,918</u>	<u>6</u>
Total liabilities	<u>1,113,492</u>	<u>34</u>	<u>1,260,279</u>	<u>38</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 20)				
Share capital				
Ordinary shares	502,302	16	485,316	15
Capital surplus	75,738	2	74,943	2
Retained earnings				
Legal reserve	455,057	14	401,642	12
Special reserve	84,646	3	70,718	2
Unappropriated earnings	1,046,591	32	1,039,971	32
Total retained earnings	<u>1,586,294</u>	<u>49</u>	<u>1,512,331</u>	<u>46</u>
Other equity	(101,655)	(3)	(84,646)	(3)
Total equity attributable to owners of the Company	2,062,679	64	1,987,944	60
NON-CONTROLLING INTERESTS (Note 20)				
Total equity	<u>2,118,475</u>	<u>66</u>	<u>2,044,652</u>	<u>62</u>
TOTAL	<u>\$ 3,231,967</u>	<u>100</u>	<u>\$ 3,304,931</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 14, 2019)

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE				
Sales (Notes 4, 21 and 30)	\$ 4,290,585	100	\$ 4,587,324	99
Service revenue (Note 4)	<u>21,430</u>	<u>-</u>	<u>26,909</u>	<u>1</u>
Total operating revenue	<u>4,312,015</u>	<u>100</u>	<u>4,614,233</u>	<u>100</u>
OPERATING COSTS				
Cost of goods sold (Notes 8, 22 and 30)	(2,591,100)	(60)	(2,713,721)	(59)
Service cost	<u>(2,609)</u>	<u>-</u>	<u>(2,767)</u>	<u>-</u>
Total operating costs	<u>(2,593,709)</u>	<u>(60)</u>	<u>(2,716,488)</u>	<u>(59)</u>
GROSS PROFIT	<u>1,718,306</u>	<u>40</u>	<u>1,897,745</u>	<u>41</u>
OPERATING EXPENSES (Notes 22 and 30)				
Selling and marketing expenses	(626,705)	(15)	(616,612)	(13)
General and administrative expenses	(277,929)	(6)	(288,550)	(6)
Research and development expenses	(163,455)	(4)	(164,385)	(4)
Gain on reversal of expected credit loss (Notes 4 and 7)	<u>7,083</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>(1,061,006)</u>	<u>(25)</u>	<u>(1,069,547)</u>	<u>(23)</u>
PROFIT FROM OPERATIONS	<u>657,300</u>	<u>15</u>	<u>828,198</u>	<u>18</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 22)				
Other income	26,822	1	32,481	1
Other gains and losses	13,829	-	(47,107)	(1)
Finance costs	(8,690)	-	(6,795)	-
Share of profit or loss of associates and joint ventures (Note 10)	<u>-</u>	<u>-</u>	<u>(16,541)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>31,961</u>	<u>1</u>	<u>(37,962)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	689,261	16	790,236	17
INCOME TAX EXPENSE (Notes 4 and 23)	<u>(204,029)</u>	<u>(5)</u>	<u>(243,113)</u>	<u>(5)</u>
NET PROFIT FOR THE YEAR	<u>485,232</u>	<u>11</u>	<u>547,123</u>	<u>12</u>

(Continued)

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
(Notes 4, 19, 20 and 23)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ 6,120	-	\$ (2,471)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	(531)	-	420	-
	<u>5,589</u>	<u>-</u>	<u>(2,051)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(21,076)	-	(20,203)	(1)
Income tax relating to items that may be reclassified subsequently to profit or loss	5,324	-	2,854	-
	<u>(15,752)</u>	<u>-</u>	<u>(17,349)</u>	<u>(1)</u>
Other comprehensive loss for the year, net of income tax	<u>(10,163)</u>	<u>-</u>	<u>(19,400)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 475,069</u>	<u>11</u>	<u>\$ 527,723</u>	<u>11</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 473,613	11	\$ 534,153	12
Non-controlling interests	<u>11,619</u>	<u>-</u>	<u>12,970</u>	<u>-</u>
	<u>\$ 485,232</u>	<u>11</u>	<u>\$ 547,123</u>	<u>12</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 462,193	11	\$ 518,174	11
Non-controlling interests	<u>12,876</u>	<u>-</u>	<u>9,549</u>	<u>-</u>
	<u>\$ 475,069</u>	<u>11</u>	<u>\$ 527,723</u>	<u>11</u>
EARNINGS PER SHARE (Note 24)				
From continuing operations				
Basic	<u>\$ 9.43</u>		<u>\$ 11.01</u>	
Diluted	<u>\$ 9.39</u>		<u>\$ 10.96</u>	

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

(With Deloitte & Touche auditors' report dated March 14, 2019)

(Concluded)

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company							Non-controlling Interests	Total Equity	
	Share Capital	Capital Surplus	Retained Earnings			Unappropriated Earnings	Other Equity Exchange Differences on Translating the Financial Statements of Foreign Operations			Total
			Legal Reserve	Special Reserve	Legal Reserve					
BALANCE AT JANUARY 1, 2017	\$ 485,316	\$ 74,943	\$ 346,956	\$ 54,501	\$ 991,291	\$ (70,718)	\$ 1,882,289	\$ 53,694	\$ 1,935,983	
Appropriation of 2016 earnings (Note 20)	-	-	54,686	-	(54,686)	-	-	-	-	
Legal reserve	-	-	-	-	(16,217)	-	-	-	-	
Special reserve	-	-	-	16,217	(16,217)	-	-	-	-	
Cash dividends distributed by the Company	-	-	-	-	(412,519)	-	(412,519)	-	(412,519)	
Net profit for the year ended December 31, 2017	-	-	-	-	534,153	-	534,153	12,970	547,123	
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(2,051)	(13,928)	(15,979)	(3,421)	(19,400)	
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	532,102	(13,928)	518,174	9,549	527,723	
Cash dividends distributed by subsidiaries (Note 20)	-	-	-	-	-	-	-	(6,535)	(6,535)	
BALANCE AT DECEMBER 31, 2017	485,316	74,943	401,642	70,718	1,039,971	(84,646)	1,987,944	56,708	2,044,652	
Appropriation of 2017 earnings (Note 20)	-	-	53,415	-	(53,415)	-	-	-	-	
Legal reserve	-	-	-	-	(13,928)	-	-	-	-	
Special reserve	-	-	-	13,928	(388,253)	-	(388,253)	-	(388,253)	
Cash dividends distributed by the Company	-	-	-	-	(16,986)	-	-	-	-	
Share dividends distributed by the Company	16,986	-	-	-	-	-	-	-	-	
Difference between actual acquisition price and carrying amount on acquisition of interests in subsidiaries (Note 25)	-	795	-	-	-	-	795	(6,447)	(5,652)	
Net profit for the year ended December 31, 2018	-	-	-	-	473,613	-	473,613	11,619	485,232	
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	5,589	(17,009)	(11,420)	1,257	(10,163)	
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	479,202	(17,009)	462,193	12,876	475,069	
Cash dividends distributed by subsidiaries (Note 20)	-	-	-	-	-	-	-	(7,341)	(7,341)	
BALANCE AT DECEMBER 31, 2018	\$ 502,302	\$ 75,738	\$ 455,057	\$ 84,646	\$ 1,046,591	\$ (101,655)	\$ 2,062,679	\$ 55,796	\$ 2,118,475	

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

(With Deloitte & Touche auditors' report dated March 14, 2019)

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 689,261	\$ 790,236
Adjustments for:		
Impairment loss recognized on trade receivables	-	12,938
Gain on reversal of expected credit loss of trade receivables	(7,084)	-
Depreciation expenses	64,965	60,111
Amortization expenses	1,563	1,613
Share of loss of associates and joint ventures	-	16,541
Amortization of prepayments for leases	1,598	769
Loss on disposal of associates	-	19,605
Write-downs of inventories	8,427	3,999
Finance costs	8,690	6,795
Interest income	(16,172)	(16,329)
Loss on disposal of property, plant and equipment	1,698	1,774
Net (gain) loss on foreign currency exchange	(4,181)	13,907
Changes in operating assets and liabilities		
Notes receivable	(4,301)	(2,874)
Trade receivables	115,514	(51,990)
Trade receivables from related parties	1,307	(1,246)
Other receivables	(1,590)	(1,142)
Inventories	19,279	(92,174)
Prepayments	12,091	(11,466)
Notes payable	(9,548)	10,091
Notes payable from related parties	80	(141)
Trade payables	(34,861)	21,041
Trade payables from related parties	(1,034)	1,547
Other payables	6,017	(21,051)
Contract liabilities - current	10,898	-
Advance receipts	(306)	(3,112)
Net defined benefit liabilities	(10,990)	(2,862)
Cash generated from operations	851,321	756,580
Interest received	16,172	16,329
Income tax paid	(230,171)	(242,461)
Net cash generated from operating activities	<u>637,322</u>	<u>530,448</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of associates	-	(16,438)
Net cash inflow on disposal of associates	25,641	-
Payments for property, plant and equipment	(149,717)	(51,908)
Proceeds from disposal of property, plant and equipment	1,096	3,960
Payments for intangible assets	(810)	(1,489)
Increase in prepayments for leases	(48,918)	(20,443)
Increase in other financial assets	-	(5,344)

(Continued)

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
Decrease in other financial assets	\$ 10,111	\$ -
Increase in other non-current assets	<u>(19,360)</u>	<u>(42,432)</u>
Net cash used in investing activities	<u>(181,957)</u>	<u>(134,094)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	60,000	119,046
Repayments of short-term borrowings	(119,184)	(35,000)
Proceeds from long-term borrowings	-	39,547
Repayments of long-term borrowings	(6,013)	(1,599)
Dividends paid to owners of the Company	(388,253)	(412,519)
Interests paid	(9,334)	(6,099)
Dividends paid to non-controlling interests	(7,341)	(6,535)
Acquisition of subsidiaries	<u>(5,652)</u>	<u>-</u>
Net cash used in financing activities	<u>(475,777)</u>	<u>(303,159)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(517)</u>	<u>(20,685)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,929)	72,510
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>828,127</u>	<u>755,617</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 807,198</u>	<u>\$ 828,127</u>

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

(With Deloitte & Touche auditors' report dated March 14, 2019)

(Concluded)

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Sinmag Equipment Corporation (the “Company”) was incorporated in the Republic of China (“ROC”) in September 1983, and the paid-in capital was \$502,302 thousand as of December 31, 2018. The Company is primarily engaged in the following businesses:

- a. Wholesale of machinery;
- b. Retail sale of machinery and equipment;
- c. Machinery and equipment manufacturing;
- d. International trade; and
- e. All businesses that are not prohibited or restricted by law, except those that are subject to special approval.

The Company’s shares have been listed on the mainboard of the Taipei Exchange (“TPEX”) since December 2007.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 14, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Company and entities controlled by the Company (collectively, the Group) accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendments

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 828,127	\$ 828,127	*
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	822,648	822,648	*
Refundable deposits	Loans and receivables	Amortized cost	8,251	8,251	*
Other financial assets	Loans and receivables	Amortized cost	20,140	20,140	*

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>Amortized cost</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Add: Reclassification from loans and receivables (IAS 39)	-	<u>1,679,166</u>	-	<u>1,679,166</u>	-	-	*
	<u>\$ -</u>	<u>\$ 1,679,166</u>	<u>\$ -</u>	<u>\$ 1,679,166</u>	<u>\$ -</u>	<u>\$ -</u>	

* Cash and cash equivalents, notes receivable, trade receivables and other receivables (excluding tax refund receivables), refundable deposits and other financial assets that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for the related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables were recognized or deferred revenue was reduced when revenue was recognized for the relevant contracts under IAS 18.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of retrospectively applying IFRS 15 in retained earnings on January 1, 2018.

Impact on assets, liabilities and equity for the current year

	As Originally Stated	Adjustments Arising from Initial Application	Restated
Contract liabilities - advance receipts	\$ -	\$ 72,881	\$ 72,881
Advance receipts	72,881	<u>(72,881)</u>	-
Total effect on liabilities		<u>\$ -</u>	

Had the Group applied IAS 18 in the current year, the following adjustments should have been made to reflect the line items and balances under IFRS 15.

Impact on assets, liabilities and equity for the current year

	December 31, 2018
Increase in contract liabilities - advance receipts	\$ 82,284
Decrease in advance receipts	<u>(82,284)</u>
Total effect on liabilities	<u>\$ -</u>

- b. Amendments to the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within financing activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in Mainland China are recognized as prepayments for leases. The difference between the actual payments and the expenses, as adjusted for lease incentives, is recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

- 1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases - current	\$ 1,724	\$ (1,724)	\$ -
Prepayments for leases - non-current	85,876	(85,876)	-
Right-of-use assets	<u>-</u>	<u>109,004</u>	<u>109,004</u>
Total effect on assets	<u>\$ 87,600</u>	<u>\$ 21,404</u>	<u>\$ 109,004</u>
Lease liabilities - current	\$ -	\$ 1,563	\$ 1,563
Lease liabilities - non-current	<u>-</u>	<u>19,841</u>	<u>19,841</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 21,404</u>	<u>\$ 21,404</u>

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance and will disclose these other impacts when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries, including structured entities).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 9 and Tables 6 and 7 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting the consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials, work in progress, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost.

g. Investments in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of the equity of associates.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities.

When a group entity transacts with an associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property, plant and equipment is shorter than its useful life, it is depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to an acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement categories

2018

Financial assets are classified as financial assets at amortized cost.

- Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes receivable, trade receivables and other receivables (excluding tax refund receivables), other financial assets and refundable deposits, are measured at amortized cost, which equals the gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2017

Financial assets held by the Group are classified as loans and receivables.

Loans and receivables (including cash and cash equivalents, notes receivable, trade receivables and other receivables (excluding tax refund receivables), other financial assets and refundable deposits) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

2017

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets at amortized cost, such as trade receivables, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset measured at amortized cost, the amount of the impairment loss recognized is the difference between such an asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For a financial asset measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment does not exceed what the amortized cost would have been had the impairment not been recognized.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method except for situations where interest recognized for short-term payables is considered immaterial.

b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Warranties

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Group's obligations.

n. Revenue recognition

2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of bakery equipment. Sales of bakery equipment are recognized as revenue when the goods are delivered to the customer because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently. The transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from the maintenance services of equipment.

As the Group provides maintenance services, customers simultaneously receive and consume the benefits provided by the Group's performance. Consequently, the related revenue is recognized when services are rendered.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Revenue from the sale of goods

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

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group;
and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

2) Revenue from the rendering of services and interest income

Service income is recognized when services are provided.

3) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis with reference to the principal outstanding and at the applicable effective interest rate.

o. Leasing

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

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

3) Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

p. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax of 10% on unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	\$ 7,516	\$ 6,416
Checking accounts	92,681	65,944
Demand deposits	707,001	744,763
Cash equivalents		
Bank acceptances	-	1,810
Time deposits with original maturities of less than 3 months	-	9,194
	<u>\$ 807,198</u>	<u>\$ 828,127</u>

The market rate intervals of cash in the bank at the end of the reporting period were as follows:

	December 31	
	2018	2017
Bank balance (including time deposits)	0.001%-4.00%	0.001%-6.75%

7. NOTES RECEIVABLE, TRADE RECEIVABLES, OVERDUE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Notes receivable</u>		
At amortized cost	\$ 53,910	\$ 49,503
Less: Allowance for impairment loss	<u>(94)</u>	<u>(93)</u>
	<u>\$ 53,816</u>	<u>\$ 49,410</u>
<u>Trade receivables</u>		
At amortized cost	\$ 646,040	\$ 770,809
Less: Allowance for impairment loss	<u>(34,328)</u>	<u>(43,539)</u>
	<u>\$ 611,712</u>	<u>\$ 727,270</u>
<u>Overdue receivables</u>		
At amortized cost	\$ 5,112	\$ 4,738
Less: Allowance for impairment loss	<u>(5,112)</u>	<u>(4,738)</u>
	<u>\$ -</u>	<u>\$ -</u>
<u>Other receivables</u>		
Tax refund receivables	\$ 3,541	\$ 740
Receivables from disposal of investments (Note 26)	-	26,189
Others	<u>16,351</u>	<u>18,094</u>
	<u>\$ 19,892</u>	<u>\$ 45,023</u>

a. Notes receivable

In 2018

The average credit period for notes receivable is 60-120 days. In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated by reference to the past default experience of the debtor, the debtor's current financial position and the general economic conditions of the industry in which the debtors operate.

The following table details the loss allowance of notes receivable based on the Group's past default experience of the debtor:

December 31, 2018

	Total
Expected credit loss rate	0.17%
Gross carrying amount	\$ 53,910
Loss allowance (Lifetime ECL)	<u>(94)</u>
Amortized cost	<u>\$ 53,816</u>

The movements of the loss allowance of notes receivables were as follows:

	Total
Balance at January 1, 2018 per IAS 39	\$ 93
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	93
Add: Impairment losses recognized on receivables	-
Foreign exchange gains and losses	<u>1</u>
Balance at December 31, 2018	<u>\$ 94</u>

In 2017

The Group applied the same credit policy in 2018 and 2017. In determining the recoverability of a note receivable, the Group considered any change in the credit quality of the note receivable since the date credit was initially granted to the end of the reporting period. Historical experience show that all notes receivable were recoverable. Therefore, the allowance for impairment loss was recognized based on estimated irrecoverable amounts determined by reference to past default experience and current financial positions of customers.

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ -	\$ 91	\$ 91
Add: Impairment losses recognized on receivables	-	-	-
Foreign exchange translation gains and losses	<u>-</u>	<u>2</u>	<u>2</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 93</u>	<u>\$ 93</u>

b. Trade receivables

In 2018

The average credit period of sales of goods was 60-150 days. No interest was charged on trade receivables that were past due. In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due days from the invoice date status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

	Up to 60 Days	61 to 120 Days	121 to 180 Days	181 to 240 Days	241 to 300 Days	301 Days Above	Total
Expected credit loss rate	0.77%	2.17%	1.16%	9.51%	79.04%	100%	-
Gross carrying amount	\$ 369,946	\$ 171,147	\$ 57,847	\$ 20,385	\$ 7,380	\$ 19,335	\$ 646,040
Loss allowance (Lifetime ECL)	<u>(2,835)</u>	<u>(3,713)</u>	<u>(673)</u>	<u>(1,939)</u>	<u>(5,833)</u>	<u>(19,335)</u>	<u>(34,328)</u>
Amortized cost	<u>\$ 367,111</u>	<u>\$ 167,434</u>	<u>\$ 57,174</u>	<u>\$ 18,446</u>	<u>\$ 1,547</u>	<u>\$ -</u>	<u>\$ 611,712</u>

The movements of the loss allowance of trade receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	\$ 43,539
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	43,539
Less: Net remeasurement of loss allowance	(7,539)
Less: Amounts written off	(1,304)
Foreign exchange gains and losses	<u>(368)</u>
Balance at December 31, 2018	<u>\$ 34,328</u>

In 2017

The Group applied the same credit policy in 2018 and 2017. Historical experience show that most trade receivables were highly recoverable. Nonetheless, the Group recognized an allowance for impairment loss of 100% against all receivables aged over 300 days. Allowance for impairment loss was recognized against trade receivables within 300 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables was as follows:

	December 31, 2017
Up to 90 days	\$ 588,762
91-180 days	135,061
181-360 days	36,291
More than 361 days	<u>10,695</u>
	<u>\$ 770,809</u>

The above aging schedule was based on the number of past due days from the invoice date.

The movements of the allowance for doubtful trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ -	\$ 33,316	\$ 33,316
Add: Impairment losses recognized on receivables	-	10,952	10,952
Less: Amounts written off during the year as uncollectible	-	(467)	(467)
Foreign exchange translation gains and losses	<u>-</u>	<u>(262)</u>	<u>(262)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 43,539</u>	<u>\$ 43,539</u>

c. Overdue receivables

In 2018

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all overdue receivables. The expected credit losses on overdue receivables are estimated by reference to the past default experience of the debtor, the debtor's current financial position and the general economic conditions of the industry in which the debtors operate. As of December 31, 2018, the ratio of allowance for impairment loss of overdue receivables was 100%.

The movements of the loss allowance of overdue receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	\$ 4,738
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	<u>4,738</u>
Add: Net remeasurement of loss allowance	455
Foreign exchange gains and losses	<u>(81)</u>
Balance at December 31, 2018	<u>\$ 5,112</u>

In 2017

The movements of the allowance for overdue receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ 2,752	\$ -	\$ 2,752
Add: Impairment losses recognized on receivables	<u>1,986</u>	<u>-</u>	<u>1,986</u>
Balance at December 31, 2017	<u>\$ 4,738</u>	<u>\$ -</u>	<u>\$ 4,738</u>

d. Other receivables

In 2018

Other receivables consist of tax refund receivables and advances to employees. The Group adopted a policy of only dealing with entities that have good credit ratings and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The Group considers the current financial condition of debtors in order to assess whether there has been a significant increase in credit risk on other receivables since initial recognition and measures the expected credit loss. As of December 31, 2018, the ratio of allowance for impairment loss of other receivables was 100%.

In 2017

Other receivables consist of tax refund receivables and advances to employees. Historical experience show that all other receivable were recoverable, and after assessment, no allowance for impairment loss for other receivables was recognized.

8. INVENTORIES

	December 31	
	2018	2017
Merchandise	\$ 125,133	\$ 122,060
Finished goods	147,638	121,660
Work in progress	161,675	191,503
Raw materials	214,066	249,885
Inventory in transit	<u>20,632</u>	<u>18,564</u>
	<u>\$ 669,144</u>	<u>\$ 703,672</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$2,591,100 thousand and \$2,713,721 thousand, respectively. The cost of goods sold included inventory write-downs of \$8,427 thousand and \$3,999 thousand, respectively.

9. SUBSIDIARIES

Subsidiaries Included in the Consolidated Financial Statements

Investor	Investee	Nature of Activities	Proportion of Ownership (%)	
			2018	2017
Sinmag Equipment Corporation	Lucky Union Limited	Holding company	100.00	100.00
Lucky Union Limited	Sinmag Limited	Holding company	100.00	100.00
Sinmag Limited	Sinmag Equipment (China) Co., Ltd. (Note 1)	Manufacturing and selling of bakery equipment	100.00	100.00
	Wuxi New Order Control Co., Ltd.	Manufacturing and selling of control panel and electromechanical control system	50.00	50.00
	Sinmag Bakery Equipment Sdn. Bhd.	Selling of bakery equipment	100.00	100.00
	Lipang Mixing Equipment (Wuxi) Co., Ltd. (Note 2)	Manufacturing and selling of bakery equipment	-	-
	LBC Bakery Equipment Inc. (Note 3)	Selling of bakery equipment	82.82	80
	Sinmag Bakery Machine India Private Limited	Manufacturing and selling of bakery equipment	100.00	100.00
	Sinmag Equipment (Thailand) Co., Ltd.	Selling of bakery equipment	100.00	100.00

Note 1: The name was changed from Sinmag Equipment (Wuxi) Co., Ltd. to Sinmag Equipment (China) Co., Ltd. on January 10, 2018.

Note 2: Lipang Mixing Equipment (Wuxi) Co., Ltd. completed liquidation on December 15, 2017.

Note 3: On November 9, 2018, the board of directors of the Company resolved to purchase 30,000 outstanding shares of LBC Bakery Equipment Inc., and set December 5, 2019 as the record date for shares transfer. After the completion of the shares transfer, the Company's shareholding percentage of LBC Bakery Equipment Inc. increased from 80% to 82.82%. Refer to Note 25 for information on equity transactions with non-controlling interests.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

	December 31, 2017
Associates that are not individually material	
Societe Agro- Industrielle De Kinshasa (Saik)	\$ <u> </u> -

At each balance sheet date, the proportion of ownership and voting rights held by the Group were as follows:

Name of Associate	December 31, 2017
Saik	\$ <u> </u> -

In June 2017, the Group subscribed for the issuance of new shares of SAIK with \$16,438 thousand in cash. After the subscription, the Group's percentage of ownership in SAIK remained the same.

The Group disposed of 50% of its interest in SAIK in December 2017 and recognized a loss of \$15,977 thousand from the disposal.

The associates are accounted for using the equity method.

- Aggregate information of associates that are not individually material

	For the Year Ended December 31, 2017
The Group's share of:	
Loss from continuing operations	\$ (16,541)
Other comprehensive loss	<u> </u> -
Total comprehensive loss for the year	<u>\$ (16,541)</u>

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of the investments in associates were calculated based on financial statements which have not been audited. Management believes, however, that there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of the associates which have not been audited.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Transportation Equipment	Office Equipment	Other Equipment	Property under Construction	Total
Cost								
Balance at January 1, 2017	\$ 87,393	\$ 516,135	\$ 373,484	\$ 12,616	\$ 51,113	\$ 82,590	\$ -	\$ 1,123,331
Additions	13,200	6,915	23,763	459	4,995	2,576	-	51,908
Disposals	-	-	(17,124)	(12)	(2,508)	(3,329)	-	(22,973)
Effects of foreign currency exchange differences	(1,977)	(8,970)	(4,691)	(110)	(1,559)	(939)	-	(18,246)
Reclassification (Note)	-	73,495	941	-	54	599	-	75,089
Balance at December 31, 2017	<u>\$ 98,616</u>	<u>\$ 587,575</u>	<u>\$ 376,373</u>	<u>\$ 12,953</u>	<u>\$ 52,095</u>	<u>\$ 81,497</u>	<u>\$ -</u>	<u>\$ 1,209,109</u>
Accumulated depreciation and impairment								
Balance at January 1, 2017	\$ -	\$ 141,576	\$ 192,434	\$ 6,738	\$ 34,126	\$ 59,923	\$ -	\$ 434,797
Disposals	-	-	(12,339)	(11)	(2,188)	(2,701)	-	(17,239)
Depreciation expenses	-	19,134	28,631	1,606	5,788	4,952	-	60,111
Effect of foreign currency exchange differences	-	(1,440)	(2,173)	(46)	(981)	(660)	-	(5,260)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 159,310</u>	<u>\$ 206,553</u>	<u>\$ 8,287</u>	<u>\$ 36,745</u>	<u>\$ 61,514</u>	<u>\$ -</u>	<u>\$ 472,409</u>
Carrying amounts at December 31, 2017	<u>\$ 98,616</u>	<u>\$ 428,265</u>	<u>\$ 169,820</u>	<u>\$ 4,666</u>	<u>\$ 15,350</u>	<u>\$ 19,983</u>	<u>\$ -</u>	<u>\$ 736,700</u>
Cost								
Balance at January 1, 2018	\$ 98,616	\$ 587,575	\$ 376,373	\$ 12,953	\$ 52,095	\$ 81,497	\$ -	\$ 1,209,109
Additions	-	2,683	8,734	2,291	5,760	3,198	127,051	149,717
Disposals	-	-	(7,703)	(265)	(1,032)	(1,541)	-	(10,541)
Reclassification (Note)	-	21,605	7,754	-	-	3,429	-	32,788
Effects of foreign currency exchange differences	759	(5,443)	(6,850)	(213)	182	(1,795)	(2,452)	(15,812)
Balance at December 31, 2018	<u>99,375</u>	<u>606,420</u>	<u>378,308</u>	<u>14,766</u>	<u>57,005</u>	<u>84,788</u>	<u>124,599</u>	<u>1,365,261</u>
Accumulated depreciation and impairment								
Balance at January 1, 2018	\$ -	\$ 159,310	\$ 206,553	\$ 8,287	\$ 36,745	\$ 61,514	\$ -	\$ 472,409
Disposals	-	-	(5,266)	(239)	(923)	(1,319)	-	(7,747)
Depreciation expenses	-	20,874	31,258	1,728	6,292	4,813	-	64,965
Effect of foreign currency exchange differences	-	(2,747)	(4,118)	(137)	70	(1,363)	-	(8,295)
Balance at December 31, 2018	<u>-</u>	<u>177,437</u>	<u>228,427</u>	<u>9,639</u>	<u>42,184</u>	<u>63,645</u>	<u>-</u>	<u>521,332</u>
Carrying amounts at December 31, 2018	<u>\$ 99,375</u>	<u>\$ 428,983</u>	<u>\$ 149,881</u>	<u>\$ 5,127</u>	<u>\$ 14,821</u>	<u>\$ 21,143</u>	<u>\$ 124,599</u>	<u>\$ 843,929</u>

Note: Reclassified from other non-current assets - prepayments for equipment and inventories to property, plant and equipment.

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	3-50 years
Machinery and equipment	5-10 years
Transportation equipment	4-5 years
Office equipment	3-10 years
Other equipment	3-10 years

The significant part of the Group's buildings include main buildings, mechanical and electrical power equipment etc., and are depreciated over their estimated useful lives of 3 to 50 years, 5 to 10 years and 5 to 10 years, respectively.

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 31.

12. GOODWILL

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Cost</u>		
Balance at January 1	\$ 3,254	\$ 3,254
Additions (deductions)	<u>-</u>	<u>-</u>
Balance at December 31	<u>\$ 3,254</u>	<u>\$ 3,254</u>

13. OTHER INTANGIBLE ASSETS

	Computer Software
<u>Cost</u>	
Balance at January 1, 2017	\$ 13,942
Additions	1,489
Effect of foreign currency exchange differences	<u>(110)</u>
Balance at December 31, 2017	<u>\$ 15,321</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2017	\$ 10,036
Amortization expenses	1,613
Effect of foreign currency exchange differences	<u>(80)</u>
Balance at December 31, 2017	<u>\$ 11,569</u>
Carrying amount at December 31, 2017	<u>\$ 3,752</u>
<u>Cost</u>	
Balance at January 1, 2018	\$ 15,321
Additions	810
Disposals	(139)
Effect of foreign currency exchange differences	<u>(269)</u>
Balance at December 31, 2018	<u>\$ 15,723</u>
<u>Accumulated amortization and impairment</u>	
Balance at January 1, 2018	\$ 11,569
Amortization expenses	1,563
Disposals	(139)
Effect of foreign currency exchange differences	<u>(217)</u>
Balance at December 31, 2018	<u>\$ 12,776</u>
Carrying amount at December 31, 2018	<u>\$ 2,947</u>

Computer software was amortized on a straight-line basis over its estimated useful life of 3 to 5 years.

14. REPAYMENTS FOR LEASES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Current assets (included in prepayments)	\$ 1,724	\$ 785
Non-current assets	<u>85,876</u>	<u>41,248</u>
	<u>\$ 87,600</u>	<u>\$ 42,033</u>

- a. As of December 31, 2018 and 2017, prepaid lease payments consist of land use rights, which are for land located in mainland China and Malaysia with a period of 50 years to 99 years respectively.
- b. The land use rights pledged to financial institution as collateral for borrowings are set out in Note 31.

15. OTHER ASSETS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Current</u>		
Other financial assets (Note)		
Time deposits with original maturities within 3 months from the date of acquisition	\$ 8,944	\$ 19,814
Other financial assets	<u>293</u>	<u>263</u>
	<u>\$ 9,237</u>	<u>\$ 20,077</u>
<u>Non-current</u>		
Other financial assets (Note)	<u>\$ 64</u>	<u>\$ 63</u>
Other assets		
Refundable deposits (Note)	\$ 17,033	\$ 8,251
Prepayments for equipment	21,392	45,654
Prepayments - non-current	<u>21,500</u>	<u>18,726</u>
	<u>\$ 59,925</u>	<u>\$ 72,631</u>

Note: The Group only invests in debt instruments that are rated the equivalent of investment grade or higher and have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies. The Group's exposure and the external credit ratings are continuously monitored. The Group reviews changes in bond yields and other public information and makes an assessment whether there has been a significant increase in credit risk since the last period to the reporting date.

In order to minimize credit risk, the Group has tasked its credit management committee to develop and maintain a credit risk grading framework to categorize exposures according to degree of risk of default. The credit rating information may be obtained from independent rating agencies where available and, if not available, the credit management committee uses other publicly available financial information to rate the debtors.

The Group considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and industry forecast to estimate 12-month or lifetime expected credit losses.

Other financial assets of the Group pledged as collateral for contracts are set out in Note 31.

16. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2018	2017
<u>Secured borrowings (Note 31)</u>		
Bank loans	\$ 50,000	\$ -
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>100,000</u>	<u>209,314</u>
	<u>\$ 150,000</u>	<u>\$ 209,314</u>

- 1) The range of weighted average effective interest rates on bank secured loans was 1.19% per annum as of December 31, 2018.
- 2) The range of weighted average effective interest rates on bank line of credit borrowings was 1.15% and 1.15%-2.38% per annum as of December 31, 2018 and 2017, respectively.

b. Long-term borrowings

	<u>December 31</u>	
	2018	2017
<u>Secured borrowings (Note 31)</u>		
Bank loans - Banner Bank	\$ 60,022	\$ 59,605
Bank loans - UOB	35,418	39,547
Bank loans - Tisco Bank	296	475
Less: Current portions	<u>(6,121)</u>	<u>(5,968)</u>
Long-term borrowings	<u>\$ 89,615</u>	<u>\$ 93,659</u>

The long-term borrowings from Banner Bank in the amount of \$68,933 thousand (US\$2,100 thousand) are secured by the Group's freehold land and buildings (see Note 31) and will be repayable on September 1, 2025. As of December 31, 2018 and 2017, the Group used \$60,022 thousand (US\$1,954 thousand) and \$59,605 thousand (US\$2,003 thousand) of its long-term borrowing facilities, with an annual effective interest rate of 4.82%. On October 1, 2015, the Group started to pay interests and principal monthly, in a total of 120 installments, consisting of US\$12 thousand for each of the first 119 installments and the remaining US\$1,569 thousand for the 120th installment. The purpose of this bank borrowing facility was for the acquisition of land, plant and equipment.

The long-term borrowings from UOB in the amount of \$39,435 thousand (RM6,000 thousand) are secured by the Group's land use rights and buildings (see Note 31) and will be repayable on May 5, 2022. As of December 31, 2018 and 2017, the Group used \$35,418 thousand (RMB 4,980 thousand) and \$39,547 thousand (RM5,592 thousand) of its long-term borrowing facilities, with an interest rate equivalent to the bank's effective interest rate of 4.86%-5.12%. On June 5, 2017, the Group started to pay interests and principal monthly, in a total of 60 installments. The purpose of this bank borrowing facility was for the acquisition of land use rights and plants.

The long-term borrowings from Tisco in the amount of \$753 thousand (THB829 thousand) are secured by the Group's transportation equipment (see Note 31) and will be repayable on July 20, 2020. As of December 31, 2018 and 2017, the outstanding balance of the long-term borrowing facilities is \$296 thousand (THB311 thousand) and \$475 thousand (THB518 thousand), respectively, with an interest rate of 5.3%. On July 20, 2016, the Group started to pay interests and principal monthly in an amount of THB21 thousand, in a total of 48 installments. The purpose of this bank borrowing facility was for the acquisition of transportation equipment.

17. OTHER LIABILITIES

	<u>December 31</u>	
	2018	2017
<u>Current</u>		
Other payables		
Payables for salaries or bonuses	\$ 168,881	\$ 173,577
Payables for professional service fees	3,193	3,052
Payables for employee welfare fund	3,798	4,025
Accrued interest payable	77	721
Payables for business tax	27,779	18,966
Others	<u>54,778</u>	<u>56,215</u>
	<u>\$ 258,506</u>	<u>\$ 256,556</u>

18. PROVISIONS

	<u>December 31</u>	
	2018	2017
<u>Current</u>		
Warranties	<u>\$ 25,261</u>	<u>\$ 25,385</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties in sale of goods contracts. The estimate had been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company of the Group adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group’s subsidiaries in mainland China, Malaysia, U.S.A., India and Thailand are members of a state-managed retirement benefit plan operated by the local governments. The subsidiaries are required to contribute specified percentages of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plans adopted by the Company of the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group’s defined benefit plans were as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Present value of defined benefit obligation	\$ 56,195	\$ 60,024
Fair value of plan assets	<u>(53,286)</u>	<u>(40,005)</u>
Deficit (surplus)	2,909	20,019
Asset ceiling	<u>-</u>	<u>-</u>
Net defined benefit liabilities	<u>\$ 2,909</u>	<u>\$ 20,019</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2017	<u>\$ 57,764</u>	<u>\$ (37,354)</u>	<u>\$ 20,410</u>
Service cost			
Current service cost	452	-	452
Net interest expense (income)	<u>669</u>	<u>(433)</u>	<u>236</u>
Recognized in profit or loss	<u>1,121</u>	<u>(433)</u>	<u>688</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	74	74
Actuarial loss - changes in demographic assumptions	761	-	761
Actuarial loss - changes in financial assumptions	764	-	764
Actuarial loss - experience adjustments	<u>872</u>	<u>-</u>	<u>872</u>
Recognized in other comprehensive income	<u>2,397</u>	<u>74</u>	<u>2,471</u>
Contributions from the employer	<u>-</u>	<u>(3,550)</u>	<u>(3,550)</u>
Benefits paid	<u>(1,258)</u>	<u>1,258</u>	<u>-</u>
Balance at December 31, 2017	<u>60,024</u>	<u>(40,005)</u>	<u>20,019</u>
Balance at January 1, 2018	<u>60,024</u>	<u>(40,005)</u>	<u>20,019</u>
Service cost			
Current service cost	458	-	458
Net interest expense (income)	<u>594</u>	<u>(387)</u>	<u>207</u>
Recognized in profit or loss	<u>1,052</u>	<u>(387)</u>	<u>665</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,239)	(1,239)
Actuarial loss - changes in demographic assumptions	674	-	674
Actuarial loss - changes in financial assumptions	699	-	699
Actuarial (gain) - experience adjustments	<u>(6,254)</u>	<u>-</u>	<u>(6,254)</u>
Recognized in other comprehensive income	<u>(4,881)</u>	<u>(1,239)</u>	<u>(6,120)</u>
Contributions from the employer	<u>-</u>	<u>(11,655)</u>	<u>(11,655)</u>
Benefits paid	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 56,195</u>	<u>\$ (53,286)</u>	<u>\$ 2,909</u>

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2018	2017
Discount rate(s)	1.000%	1.125%
Expected rate(s) of salary increase	2.500%	2.500%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<u>December 31</u>	
	2018	2017
Discount rate(s)		
0.25% increase	<u>\$ (1,401)</u>	<u>\$ (1,533)</u>
0.25% decrease	<u>\$ 1,455</u>	<u>\$ 1,593</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 1,409</u>	<u>\$ 1,544</u>
0.25% decrease	<u>\$ (1,364)</u>	<u>\$ (1,494)</u>

The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2018	2017
Expected contributions to the plans for the next year	<u>\$ 3,000</u>	<u>\$ 3,245</u>
Average duration of the defined benefit obligation	10.1 years	10.3 years

20. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	2018	2017
Number of shares authorized (in thousands)	<u>60,000</u>	<u>60,000</u>
Shares authorized	<u>\$ 600,000</u>	<u>\$ 600,000</u>
Number of shares issued and fully paid (in thousands)	<u>50,230</u>	<u>48,532</u>
Shares issued	<u>\$ 502,302</u>	<u>\$ 485,316</u>

The Company reserved 2,100 thousand ordinary shares authorized for employee share options.

In the meeting on June 13, 2018, the Company's shareholders approved the transfer of retained earnings of \$16,986 thousand to 1,698,608 new shares with a par value of NT\$10. The transfer was approved by the FSC on June 22, 2018, and July 22, 2018 was set as the subscription base date. The new issuance was approved by the Ministry of Economic Affairs on August 6, 2018 under Business Negotiation Letter No. 10701094900.

b. Capital surplus

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*		
Arising from issuance of ordinary shares	\$ 74,811	\$ 74,811
Arising from the difference between consideration received and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	<u>927</u>	<u>132</u>
	<u>\$ 75,738</u>	<u>\$ 74,943</u>

* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders.

As the Company is in the growing stage, in determining the Company's dividend distribution policy, the Company's board of directors considers the current and future investment environment, capital needs for future expansions, domestic and international competition and capital budget, and also takes into account stockholder's benefits and the balance between dividend distributions and the Company's long-term financial plans. A dividend distribution plan is proposed annually by the board of directors and passed for resolution in the shareholders' meeting.

The Company shall, considering financial, operational and managerial factors, distribute no less than 20% of unappropriated earnings to stockholders as dividends and bonuses, in the form of cash or stock dividends, whilst cash dividends should not be lower than 20% of total bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 22(f).

Under Article 237 of the Company Law, an appropriation of 10% of net income to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and in the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs” should be appropriated to or reversed from a special reserve by the Company.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2017 and 2016 which were approved in the shareholders’ meetings on June 13, 2018 and June 19, 2017, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Legal reserve	\$ 53,415	\$ 54,686	\$ -	\$ -
Special reserve	13,928	16,217	-	-
Cash dividends	388,253	412,519	8.00	8.50
Share dividends	16,986	-	0.35	-

The appropriation of earnings for 2018 had been proposed by the Company’s board of directors on March 14, 2019. The appropriation and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 47,361	\$ -
Special reserve	17,009	-
Cash dividends	326,497	6.5

The appropriation of earnings for 2018 is subject to the resolution of the shareholders in the shareholders’ meeting to be held on June 14, 2019.

d. Special reserve

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Appropriation in respect of:		
First-time adoption of IFRSs	\$ 54,333	\$ 54,333
Debit to other equity items	<u>30,313</u>	<u>16,385</u>
	<u>\$ 84,646</u>	<u>\$ 70,718</u>

e. Other equity items

Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2018	2017
Balance at January 1	\$ (84,646)	\$ (70,718)
Effect of change in tax rate	858	-
Recognized for the year		
Exchange differences on translating the financial statements of foreign operations	(22,333)	(39,971)
Related income tax	4,466	6,795
Reclassification adjustment		
Disposal of foreign operations	-	23,189
Related income tax	-	(3,941)
Other comprehensive income recognized for the year	<u>(17,009)</u>	<u>(13,928)</u>
Balance at December 31	<u>\$ (101,655)</u>	<u>\$ (84,646)</u>

f. Non-controlling interests

	For the Year Ended December 31	
	2018	2017
Balance at January 1	\$ 56,708	\$ 53,694
Share in profit for the year	11,619	12,970
Other comprehensive income during the year		
Cash dividend	(7,341)	(6,535)
Exchange differences on translating the financial statements of foreign operations	(1,257)	(3,421)
Acquisition of non-controlling interests in subsidiaries (see Note 25)	<u>(6,447)</u>	<u>-</u>
Balance at December 31	<u>\$ 55,796</u>	<u>\$ 56,708</u>

21. REVENUE

	For the Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from the sale of goods	\$ 4,290,585	\$ 4,587,324
Revenue from the rendering of services	<u>21,430</u>	<u>26,909</u>
	<u>\$ 4,312,015</u>	<u>\$ 4,614,233</u>

a. Contract information

1) Revenue from the sale of goods

The main operating revenue of the Company was from sales of bakery equipment. Goods are sold at their respective fixed amounts as agreed in the contracts.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from providing the maintenance services of equipment.

b. Contract balances

	December 31, 2018
Notes receivable (Note 7)	\$ 53,816
Trade receivables (Note 7)	611,712
Trade receivables from related Parties (Note 30)	<u>368</u>
	<u>\$ 665,896</u>
Contract liabilities	
Sale of goods	<u>\$ 82,284</u>

Revenue of the current reporting period recognized from the contract liabilities at the beginning of the year was \$64,662 thousand.

c. Disaggregation of revenue

Refer to Note 35 for information about disaggregation of revenue.

22. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2018	2017
Rental income		
Operating lease rental income	\$ -	\$ 416
Interest income		
Bank deposits	16,172	16,329
Others	<u>10,650</u>	<u>15,736</u>
	<u>\$ 26,822</u>	<u>\$ 32,481</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Loss on disposal of property, plant and equipment	\$ (1,698)	\$ (1,774)
Loss on disposal of investment	-	(19,605)
Net foreign exchange gains (losses)	17,499	(24,741)
Others	<u>(1,972)</u>	<u>(987)</u>
	<u>\$ 13,829</u>	<u>\$ (47,107)</u>

c. Finance costs

For the Year Ended December 31

2018 **2017**

Interest on bank loans	<u>\$ 8,690</u>	<u>\$ 6,795</u>
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d. Depreciation and amortization

For the Year Ended December 31

2018 **2017**

An analysis of depreciation by function

Operating costs	\$ 39,917	\$ 37,972
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Operating expenses	<u>25,048</u>	<u>22,139</u>
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	<u>\$ 64,965</u>	<u>\$ 60,111</u>
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An analysis of amortization by function

Operating costs	\$ 182	\$ 282
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Selling and marketing expenses	276	273
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General and administrative expenses	659	763
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Research and development expenses	<u>446</u>	<u>295</u>
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	<u>\$ 1,563</u>	<u>\$ 1,613</u>
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e. Employee benefits expense

For the Year Ended December 31

2018 **2017**

Short-term benefits	<u>\$ 967,562</u>	<u>\$ 982,717</u>
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Post-employment benefits		
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Defined contribution plans	91,351	92,344
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Defined benefit plans (see Note 19)	<u>665</u>	<u>688</u>
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	<u>92,016</u>	<u>93,032</u>
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Total employee benefits expense	<u>\$ 1,059,578</u>	<u>\$ 1,075,749</u>
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An analysis of employee benefits expense by function

Operating costs	\$ 426,466	\$ 449,771
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Operating expenses	<u>633,112</u>	<u>625,978</u>
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	<u>\$ 1,059,578</u>	<u>\$ 1,075,749</u>
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f. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors and supervisors at rates of 2%-10% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2018 and 2017, which have been approved by the Company's board of directors on March 14, 2019 and March 16, 2018, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Employees' compensation	4.00%	3.90%
Remuneration of directors and supervisors	1.56%	1.53%

Amount

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
	<u>Cash</u>	<u>Cash</u>
Employees' compensation	\$ 21,847	\$ 23,780
Remuneration of directors and supervisors	8,539	9,312

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gains or losses on foreign currency exchange

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Foreign exchange gains	\$ 57,033	\$ 25,179
Foreign exchange losses	<u>(39,534)</u>	<u>(49,920)</u>
	<u>\$ (17,499)</u>	<u>\$ (24,741)</u>

23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of income tax expense were as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Current tax		
In respect of the current year	\$ 307,655	\$ 366,484
Income tax on unappropriated earnings	5,952	6,314
Adjustments for prior years	(6,530)	(2,508)
Withholding tax credits from overseas profits of the current year	(38,783)	(49,885)
Tax deduction	<u>(60,365)</u>	<u>(70,569)</u>
	207,929	249,836
Deferred tax		
In respect of the current year	(18,658)	(6,723)
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>14,758</u>	<u>-</u>
	<u>(3,900)</u>	<u>(6,723)</u>
Income tax expense recognized in profit or loss	<u>\$ 204,029</u>	<u>\$ 243,113</u>

A reconciliation of accounting profit and income tax expense is as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Profit before tax from continuing operations	<u>\$ 689,261</u>	<u>\$ 790,236</u>
Income tax expense calculated at the statutory rate	\$ 137,852	\$ 134,340
Unrecognized deductible temporary differences - share of (profit) loss of subsidiaries accounted for equity method	(41,981)	(13,557)
Nondeductible expenses in determining taxable income	60,303	69,299
Income tax on unappropriated earnings	5,952	6,314
Withholding tax credits from overseas profits	(38,783)	(49,885)
Effect of different tax rates of group entities operating in other jurisdictions	87,216	99,110
Adjustments for prior years' tax	<u>(6,530)</u>	<u>(2,508)</u>
Income tax expense recognized in profit or loss	<u>\$ 204,029</u>	<u>\$ 243,113</u>

In 2017, the applicable corporate income tax rate used by the group entities in the ROC was 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the tax rate for the 2018 unappropriated earnings was reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

Under the PRC corporate income tax law, Sinmag Equipment (China) Co., Ltd. had been qualified as a High Tech Enterprise from November 2018 to 2020, resulting in a 15% corporate income tax rate.

The applicable corporate income tax rate used by LBC Bakery Equipment Inc. in the U.S.A., resulted from the Tax Cuts and Jobs Act of 2018 which reduced the U.S. Federal corporate tax rate from 34% to 21%.

As the status of 2019 appropriations of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	<u>For the Year Ended December 31</u>	
	2018	2017
<u>Current tax</u>	\$ -	\$ -
<u>Deferred tax</u>		
Effect of change in tax rate	(1,550)	-
In respect of the current year		
Translation of foreign operations	(4,466)	(2,854)
Remeasurement of defined benefit plans	<u>1,223</u>	<u>(420)</u>
Total income tax recognized in other comprehensive income	<u>\$ (4,793)</u>	<u>\$ (3,274)</u>

c. Current tax assets and liabilities

	<u>December 31</u>	
	2018	2017
Current tax assets		
Tax refund receivable	<u>\$ 10,616</u>	<u>\$ 9,786</u>
Current tax liabilities		
Income tax payable	<u>\$ 115,731</u>	<u>\$ 138,802</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Allowance for impairment loss	\$ 2,804	\$ (1,334)	\$ -	\$ 8	\$ 1,478
Unrealized loss on inventories	3,352	1,236	-	34	4,622
Unrealized gain on transactions with subsidiaries, associates and joint ventures	2,209	77	-	-	2,286
Provisions	1,987	84	-	65	2,136
Defined benefit obligations	3,918	-	(531)	-	3,387
Exchange differences on translating the financial statements of foreign operations	4,870	-	5,324	-	10,194
Others	<u>2,100</u>	<u>(105)</u>	<u>-</u>	<u>58</u>	<u>2,053</u>
	<u>\$ 21,240</u>	<u>\$ (42)</u>	<u>\$ 4,793</u>	<u>\$ 165</u>	<u>\$ 26,156</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Share of profit or loss of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 89,470	\$(6,097)	\$ -	\$ -	\$ 83,373
Pensions	1,295	2,427	-	-	3,722
Others	<u>475</u>	<u>(272)</u>	<u>-</u>	<u>-</u>	<u>203</u>
	<u>\$ 91,240</u>	<u>\$ (3,942)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,298</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Allowance for impairment loss	\$ 1,038	\$ 1,796	\$ -	\$ (30)	\$ 2,804
Unrealized loss on inventories	3,760	(298)	-	(110)	3,352
Unrealized gain on transactions with subsidiaries, associates and joint ventures	2,221	(12)	-	-	2,209
Provisions	3,036	(837)	-	(212)	1,987
Defined benefit obligations	3,498	-	420	-	3,918
Exchange differences on translating the financial statements of foreign operations	2,016	-	2,854	-	4,870
Others	<u>4,347</u>	<u>(1,992)</u>	<u>-</u>	<u>(255)</u>	<u>2,100</u>
	<u>\$ 19,916</u>	<u>\$ (1,343)</u>	<u>\$ 3,274</u>	<u>\$ (607)</u>	<u>\$ 21,240</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Share of profit or loss of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 97,610	\$ (8,140)	\$ -	\$ -	\$ 89,470
Pensions	809	486	-	-	1,295
Others	<u>887</u>	<u>(412)</u>	<u>-</u>	<u>-</u>	<u>475</u>
	<u>\$ 99,306</u>	<u>\$ (8,066)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,240</u>

- e. The aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2018 and 2017, the taxable temporary differences associated with investments in subsidiaries and branches for which no deferred tax liabilities have been recognized were \$793,955 thousand and \$584,048 thousand, respectively.

- f. Income tax assessments

The tax returns through 2015 have been assessed by the tax authorities, and there is no unjudged lawsuit or claim regarding tax assessments against the Company.

24. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	2018	2017
Basic earnings per share		
From continuing operations	<u>\$ 9.43</u>	<u>\$ 10.63</u>
Diluted earnings per share		
From continuing operations	<u>\$ 9.39</u>	<u>\$ 10.60</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on July 22, 2018. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2017 are as follows:

Unit: NT\$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 11.01</u>	<u>\$ 10.63</u>
Diluted earnings per share	<u>\$ 10.96</u>	<u>\$ 10.60</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net profit for the year

	<u>For the Year Ended December 31</u>	
	2018	2017
Profit for the year attributable to owners of the Company	\$ 473,613	\$ 534,153
Effect of potentially dilutive ordinary shares		
Employees' compensation	-	-
Earnings used in the computation of diluted earnings per share	<u>\$ 473,613</u>	<u>\$ 534,153</u>

Weighted average number of ordinary shares outstanding (in thousands of shares):

	<u>For the Year Ended December 31</u>	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	50,230	50,230
Effect of potentially dilutive ordinary shares		
Employees' compensation	<u>225</u>	<u>183</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>50,455</u>	<u>50,413</u>

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

25. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The Group completed the liquidation of Lipang Mixing Equipment (Wuxi) Co., Ltd., on December 15, 2017. Lipang Mixing Equipment (Wuxi) Co., Ltd. is engaged in the manufacturing and selling of bakery equipment.

The Group acquired 30,000 outstanding shares of LBC Bakery Equipment Inc. on December 5, 2018. After the completion of equity transfer, the Company's shareholding percentage in LBC Bakery Equipment Inc. increased from 80% to 82.82%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

	LBC Bakery Equipment Inc.
Cash consideration paid	\$ 5,652
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>(6,447)</u>
Differences recognized from equity transactions	<u>\$ (795)</u>

26. CASH FLOW INFORMATION

a. Non-cash transactions

For the years ended December 31, 2018 and 2017, the Group entered into the following non-cash investing and financing activities which were not reflected in the consolidated statements of cash flows:

As of December 31, 2018 and 2017, proceeds in respect of the Group's disposal of investments amounting to \$0 thousand and \$26,189 thousand had not been received in cash, which were included in other receivables.

b. Changes in liabilities arising from financing activities

For the year ended December 31, 2018

	Balance at January 1, 2018	Cash Flows	Non-cash Changes Exchange Differences on Translating the Financial Statements	Balance at December 31, 2018
Short-term borrowings	\$ 209,314	\$ (59,184)	\$ (130)	\$ 150,000
Long-term borrowings	<u>99,627</u>	<u>(6,013)</u>	<u>2,122</u>	<u>95,736</u>
	<u>\$ 308,941</u>	<u>\$ (65,197)</u>	<u>\$ 1,992</u>	<u>\$ 245,736</u>

27. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

Operating leases relate to leases of commercial spaces, printers etc. with lease terms between 1 to 50 years. The Group does not have a bargain purchase option to acquire the leased subject matter at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 5,431	\$ 4,271
Later than 1 year and not later than 5 years	6,760	5,687
Later than 5 years	<u>17,483</u>	<u>18,171</u>
	<u>\$ 29,674</u>	<u>\$ 28,129</u>

The lease payments and sublease payments recognized in profit or loss for the current period were as follows:

	For the Year Ended December 31	
	2018	2017
Minimum lease payments	<u>\$ 19,236</u>	<u>\$ 19,607</u>

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings and other equity).

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, and the amount of new debt issued or existing debt redeemed.

29. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

The management of the Group considered that the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values.

b. Categories of financial instruments

	<u>December 31</u>	
	2018	2017
<u>Financial assets</u>		
Loans and receivables (1)	\$ -	\$ 1,679,166
Financial assets at amortized cost (2)	1,515,779	-
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (3)	599,551	715,078

1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables and other receivables (excluding tax refund receivables), other financial assets and refundable deposits

2) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables and other receivables (excluding tax refund receivables), other financial assets and refundable deposits.

3) The balances include financial liabilities measured at amortized cost, which comprise short-term loans, long-term loans and payables (excluding payables for salaries or bonuses, payables for employees' welfare fund and payables for business tax).

c. Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, receivables (excluding tax refund receivables), other financial assets, payables and short-term and long-term loans. Risks on the financial instruments include market risk (such as currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

The Group had foreign currency denominated sales and purchases, which exposed the Group to foreign currency risk. The Group assesses the net risk position of non-functional currency denominated sales and purchases periodically and adjusts its non-functional cash position on the basis of its assessment.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Group was mainly exposed to exchange fluctuations of the USD.

The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the relevant foreign currency. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated with the New Taiwan dollar weakening 1% against the relevant currency. For a 1% strengthening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity, and the balances below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2018	2017
Profit or loss	\$ 3,800	\$ 2,926

This was mainly attributable to the exposure outstanding on USD cash and cash equivalents, receivables, payables and short-term loans which were not hedged at the end of the reporting period.

The Group's sensitivity to the USD increased during the current year mainly due to the decrease in USD denominated payables and short-term loans.

b) Interest rate risk

The Group was exposed to interest rate risk because its deposits and bank loans are at both fixed and floating interest rates.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	<u>December 31</u>	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 9,199	\$ 20,061
Financial liabilities	210,318	269,394
Cash flow interest rate risk		
Financial assets	707,103	754,036
Financial liabilities	35,418	39,547

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis points increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would increase/decrease by \$1,679 thousand and \$1,786 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank deposits.

The Group's sensitivity to interest rates decreased during the current period mainly due to the decrease in floating interest rate financial assets.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to the failure of counterparties to discharge an obligation and financial guarantees provided by the Group, could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group rated its major customers based on the information supplied by independent rating agencies where available and, if not available, other publicly available financial information and its own trading records. The Group's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group continually evaluated its counterparties' financial status, and, if necessary, requested a guarantee deposit as a term of transaction to lower its exposure to the credit risk.

The Group's concentration of credit risk by geographical locations was mainly in mainland China, which accounted for 52% and 55% of the total trade receivables as of December 31, 2018 and 2017, respectively.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

For the Group, bank loans are an important resource of liquidity to the Group. Refer to section (c) below for more information about unused amounts of financing facilities at December 31, 2018 and 2017.

a) Liquidity and interest risk rate table for non-derivative financial liabilities

The following table shows the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2018

	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>				
Short-term borrowings	\$ 150,101	\$ -	\$ -	\$ -
Non-interest bearing liabilities	347,405	6,410	-	-
Long-term borrowings	<u>2,713</u>	<u>8,056</u>	<u>52,181</u>	<u>55,609</u>
	<u>\$ 500,219</u>	<u>\$ 14,466</u>	<u>\$ 52,181</u>	<u>\$ 55,609</u>

December 31, 2017

	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>				
Short-term borrowings	\$ 210,304	\$ -	\$ -	\$ -
Non-interest bearing liabilities	398,679	7,458	-	-
Long-term borrowings	<u>2,699</u>	<u>8,019</u>	<u>57,460</u>	<u>58,210</u>
	<u>\$ 611,682</u>	<u>\$ 15,477</u>	<u>\$ 57,460</u>	<u>\$ 58,210</u>

b) Financing facilities

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Unsecured bank loan facilities, reviewed annually and payable on demand:		
Amount used	\$ 100,000	\$ 209,314
Amount unused	<u>693,480</u>	<u>526,915</u>
	<u>\$ 793,480</u>	<u>\$ 736,229</u>
Secured bank loan facilities:		
Amount used	\$ 145,736	\$ 99,627
Amount unused	<u>101,330</u>	<u>342,923</u>
	<u>\$ 247,066</u>	<u>\$ 442,550</u>

30. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related party name and categories

<u>Related Party Name</u>	<u>Related Party Category</u>
Zeelandia Bakery Ingredients (Wuxi) Co., Ltd.	Associates
Tehmag Foods Corporation	Associates
San Neng Bake Ware (Wuxi) Co., Ltd.	Associates
San Neng Bakeware Corporation	Associates
New Order Enterprise Co., Ltd.	Associates
Wuxi Champs Food Co., Ltd.	Associates
Auto Control Co., Ltd.	Associates
Wuxi Temma Paper Cup Co., Ltd.	Associates
Sinmag Fitting Corporation	Associates
Tehmag Foods Corporation Sdn. Bhd.	Associates

b. Sales of goods

<u>Line Item</u>	<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
		<u>2018</u>	<u>2017</u>
Sales	Associates	\$ <u>1,158</u>	\$ <u>3,455</u>

The sales prices to related parties were negotiated case by case, and the collection terms to related parties were 60 days or 90 days within receiving the Bill of Lading. The sales prices to third parties were determined in accordance with mutual agreements, and the collection terms to third parties was 90 days.

c. Purchases of goods

Related Party Category/Name	For the Year Ended December 31	
	2018	2017
Associates	\$ 55,793	\$ 48,207

The purchases prices from related parties was determined based on their costs with a margin. The payment terms to related parties were 30 days to 120 days or 45 days within receiving the Bill of Lading. The prices and payment terms were determined in accordance with mutual agreements, and the payment terms to third parties was 90 days.

d. Receivables from related parties (excluding loans to related parties)

Line Item	Related Party Category/Name	December 31	
		2018	2017
Trade receivables	Associates	\$ 368	\$ 1,685

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss/bad debt expense was recognized for trade receivables from related parties.

e. Payables to related parties (excluding loans from related parties)

Line Item	Related Party Category/Name	December 31	
		2018	2017
Trade payables	Associates	\$ 973	\$ 893
Notes payable	Associates	\$ 9,579	\$ 10,760

The outstanding trade payables from related parties are unsecured.

f. Other transactions with related parties

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2018	2017
General and administrative expenses - other expenses	Associates	\$ 10	\$ 9

g. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 56,632	\$ 61,774
Post-employment benefits	1,023	1,161
	\$ 57,655	\$ 62,935

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and the tariffs of imported raw materials guarantees:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Other financial assets - current		
Pledged deposits	\$ 191	\$ 184
Taxpayer accounts	<u>102</u>	<u>79</u>
	<u>\$ 293</u>	<u>\$ 263</u>
Other financial assets - non-current		
Pledged deposits	<u>\$ 64</u>	<u>\$ 63</u>
Others		
Land use rights	20,933	41,727
Freehold land	82,145	85,416
Buildings, net	154,987	296,366
Transportation equipment, net	<u>296</u>	<u>475</u>
	<u>\$ 258,361</u>	<u>\$ 423,984</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Unrecognized commitments were as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Acquisition of property, plant and equipment	<u>\$ 258,660</u>	<u>\$ 11,782</u>

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2018

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Financial assets</u>			
Monetary items			
USD	\$ 7,535	30.72 (USD:NTD)	\$ 231,429
USD	11,085	6.87 (USD:RMB)	340,469
USD	47	4.32 (USD:MYR)	<u>1,454</u>
			<u>\$ 573,352</u>
<u>Financial liabilities</u>			
Monetary items			
USD	5,077	30.72 (USD:NTD)	\$ 155,928
USD	465	6.87 (USD:RMB)	14,286
USD	82	4.32 (USD:MYR)	2,508
USD	672	32.22 (USD:THB)	<u>20,648</u>
			<u>\$ 193,370</u>

December 31, 2017

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Financial assets</u>			
Monetary items			
USD	\$ 9,751	29.76 (USD:NTD)	\$ 290,195
USD	11,880	6.52 (USD:RMB)	353,547
USD	47	4.21 (USD:MYR)	<u>1,409</u>
			<u>\$ 645,151</u>
<u>Financial liabilities</u>			
Monetary items			
USD	6,291	29.76 (USD:NTD)	\$ 187,206
USD	4,766	6.52 (USD:RMB)	141,844
USD	298	4.21 (USD:MYR)	8,883
USD	492	32.43 (USD:THB)	<u>14,641</u>
			<u>\$ 352,574</u>

For the years ended December 31, 2018 and 2017, realized and unrealized net foreign exchange gains (losses) were \$17,499 thousand and \$(24,741) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

34. SEPARATELY DISCLOSED ITEMS

- a. Information about significant transactions and b. investees:
- 1) Financing provided to others (none)
 - 2) Endorsements/guarantees provided (Table 1)
 - 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (none)
 - 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (none)
 - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (Table 2)
 - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (none)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 3)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4)
 - 9) Trading in derivative instruments (none)
 - 10) Intercompany relationships and significant intercompany transactions (Table 5)
 - 11) Information on investees (Table 6)
- c. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 7)
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (Table 8):
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period

- c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds
 - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services
- d. When subsidiaries hold shares of the parent, the names of the subsidiaries and the shareholdings, amounts, and reasons shall be separately presented: None
- e. Disclosure of the affiliates
- 1) Disclosures on the notes appended to the consolidated financial statements of the affiliates are as follows:

No.	Items	Reference
1	The names of subordinate companies, a description of their relationship with the controlling company, the nature of their business, and the controlling company's shareholding or capital contribution ratio in each company.	Note 9, Tables 6 and 7
2	Increases, decreases, or changes in the subordinate companies included in the current consolidated financial statements of the affiliates.	Note 9
3	The names and shareholding or capital contribution ratios of subordinate companies not listed in the current consolidated financial statements for affiliates and the reasons why they are not included in the consolidated statements.	None
4	The adjustment method and treatment adopted if the opening and closing dates of the subordinate company's accounting year are different from those of the controlling company.	None
5	An explanation of any differences in accounting policies between the subordinate companies and the controlling company. The method and substance of adjustments adopted in the event of any non-conformity with the Generally Accepted Accounting Principles of the Republic of China.	None
6	Special operational risks of overseas subordinate companies, such as exchange rate fluctuations.	None
7	Statutory or contractual restrictions on distribution of earnings by the various affiliates.	Note
8	Amortization methods and period for consolidated borrowings (loans).	None
9	Other matters of significance or explanations that would contribute to the fair presentation of the consolidated financial statements of the affiliates.	Note 25

2) Disclosures on the notes for subordinate company affiliates are as follows:

No.	Items	Reference
1	Transactions that have been eliminated between the controlling company and subordinate companies or between subordinate companies.	Table 5
2	Information regarding financing, endorsements, and guarantees.	Table 1
3	Information regarding trading in derivative products.	None
4	Significant contingent matters.	None
5	Significant subsequent events.	None
6	Names of bills and securities held, and their quantities, cost, market value (or net par value if a bill or security does not have a market value), shareholding or capital contribution ratio, description of any pledges, and the highest amount of shareholding or capital contribution during the period.	Tables 6 and 7
7	Other matters of significance or explanations that would contribute to a fair presentation of the consolidated financial statements of the affiliates.	Note 25

Note: As set forth in the amended Articles, the Company shall allocate reserve funds, expansion funds and welfare funds for employees of Sinmag Equipment (China) Co., Ltd. after payment of taxes. The Company accrued the reserve funds at rates of no less than 10% of net profit before income tax. When the accumulated withdrawal amount reaches 50% of the registered capital, it can no longer be withdrawn. The proportion of allocation shall be decided by the board of directors.

35. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

Manufacturing and selling of bakery equipment segment

Manufacturing and selling of control panels and electromechanical control system segment

The manufacturing and selling of bakery equipment segment includes a number of direct sales operations in various cities, each of which is considered a separate operating segment by the chief operating decision maker. For financial statement presentation purposes, these individual operating segments have been aggregated into a single operating segment taking into account the following factors:

- The nature of the products and production processes are similar;
- The pricing strategy of the products are similar;

a. Segment revenue and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments:

	Segment Revenue		Segment Profit or Loss	
	For the Year Ended December 31 2018	2017	For the Year Ended December 31 2018	2017
Manufacturing and selling of bakery equipment segment	\$ 5,382,621	\$ 5,931,502	\$ 791,378	\$ 973,907
Manufacturing and selling of control panel and electromechanical control system segment	96,113	105,459	(76,423)	(82,774)
Eliminations	<u>(1,166,719)</u>	<u>(1,422,728)</u>	-	-
Continuing operations	<u>\$ 4,312,015</u>	<u>\$ 4,614,233</u>	714,955	891,133
Other income			26,822	32,481
Other gains and losses			13,829	(47,107)
Compensation of key management personnel			(57,655)	(62,935)
Finance costs			(8,690)	(6,795)
Share of profit or loss of associates and joint ventures			-	<u>(16,541)</u>
Profit before tax (continuing operations)			<u>\$ 689,261</u>	<u>\$ 790,236</u>

Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profit of associates, interest income, other gains and losses, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

	December 31	
	2018	2017
<u>Segment assets</u>		
Continuing operations		
Manufacturing and selling of bakery equipment segment	\$ 3,152,406	\$ 3,214,255
Manufacturing and selling of control panel and electromechanical control system segment	33,488	39,510
Unallocated	<u>46,073</u>	<u>51,166</u>
Consolidated total assets	<u>\$ 3,231,967</u>	<u>\$ 3,304,931</u>
<u>Segment liabilities</u>		
Continuing operations		
Manufacturing and selling of bakery equipment segment	\$ 654,181	\$ 711,380
Manufacturing and selling of control panel and electromechanical control system segment	10,546	9,916
Unallocated	<u>448,765</u>	<u>538,983</u>
Consolidated total liabilities	<u>\$ 1,113,492</u>	<u>\$ 1,260,279</u>

For the purpose of monitoring segment performance and allocating resources between segments:

- 1) All assets were allocated to reportable segments other than other financial assets, and current and deferred tax assets. Goodwill was allocated to reportable segments. Assets used jointly by reportable segments were allocated on the basis of the revenue earned by individual reportable segments; and
- 2) All liabilities were allocated to reportable segments other than borrowings, other financial liabilities, current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable were allocated in proportion to segment assets.

c. Other segment information

	Depreciation and amortization		Non-current Assets	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2018	2017	2018	2017
Manufacturing and selling of bakery equipment segment	\$ 66,263	\$ 61,417	\$ 105,266	\$ 53,111
Manufacturing and selling of control panel and electromechanical control system segment	<u>265</u>	<u>307</u>	<u>261</u>	<u>286</u>
	<u>\$ 66,528</u>	<u>\$ 61,724</u>	<u>\$ 105,527</u>	<u>\$ 53,397</u>

d. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	For the Year Ended December 31	
	2018	2017
Bakery equipment products	\$ 4,290,585	\$ 4,587,324
Services	<u>21,430</u>	<u>26,909</u>
	<u>\$ 4,312,015</u>	<u>\$ 4,614,233</u>

e. Geographical information

The Group operates in three principal geographical areas - Taiwan, China and the United States.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	For the Year Ended		December 31	
	2018	2017	2018	2017
Taiwan	\$ 615,245	\$ 748,715	\$ 119,929	\$ 124,576
China	2,980,431	3,111,891	683,065	546,268
United States	501,596	567,736	117,736	117,170
Others	<u>214,743</u>	<u>185,891</u>	<u>75,265</u>	<u>69,634</u>
	<u>\$ 4,312,015</u>	<u>\$ 4,614,233</u>	<u>\$ 995,995</u>	<u>\$ 857,648</u>

Non-current assets exclude deferred tax assets.

f. Information about major customers

No single customer contributed 10% or more to the Group's revenue for both 2018 and 2017.

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorser/Guaranteee		Limit on Endorsement/Guarantee Given on Behalf of Each Party (Note 2)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Amount Borrowed	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 1)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship (Note 5)										
0	Sinmag Equipment Corporation	Sinmag Bakery Equipment Sdn. Bhd.	(b)	Net value 50% \$ 1,031,340	\$ 42,672 (RM 6,000)	\$ 42,672 (RM 6,000)	\$ 35,418 (RM 4,980)	\$ -	2	Net value 50% \$ 1,031,340	Y	-	-

Note 1: The total amount of the guarantees provided by Sinmag Equipment Corporation to subsidiaries shall not exceed 100% of Sinmag Equipment Corporation's net worth based on its most recent audited financial statements.

Note 2: The total amount of the guarantees provided by Sinmag Equipment Corporation to individual subsidiaries shall not exceed 100% of Sinmag Equipment Corporation's net worth.

Note 3: Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation.

Note 4: The maximum amount endorsed/guaranteed during the period, limits on endorsement/guarantee given on behalf of each party and actual amount borrowed converted at the spot exchange rate as of December 31, 2018.

Note 5: Relationships between the endorser/guarantor and the party being endorsed/guaranteed are as follows:

- A company that the Company has business relationship with.
- The Company directly or indirectly holds over 50% ownership of the investee company.
- A company that directly or indirectly holds over 50% ownership of the Company.
- In between companies where over 90% of voting shares are directly or indirectly held by the Company.
- The Company is required to provide guarantees or endorsements for the construction project based on the construction contract.
- Shareholder of the investee provides endorsements/guarantees to the Company in proportion to their shareholding percentages.
- Collateral performance guarantees from companies in the same industry that entered into pre-construction home sales agreements in accordance with the Consumer Protection Act.

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty Relationship	Information on Previous Title Transfer: Property Owner	Relationship	Transfer Date	Amount	Pricing Reference	Purpose of Acquisition	Other Terms
Sinmag Equipment (China) Co., Ltd.	Building and land use rights	2018.06.28	\$ 433,729 (RMB 94,433 thousand)	As of December 31, 2018, \$252,833 thousand has not been paid	Note	No	-	-	\$ -	-	For operational use	-

Note: Counterparty is a non-related party.

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details			Abnormal Transactions			Notes/Accounts Receivable (Payable) Ending Balance	Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms		
Sinmag Equipment Corporation	Sinmag Equipment (China) Co., Ltd.	Subsidiary	Purchase	\$ 666,936	85	B/L 45 Day	Note 1	Note 2	\$ (155,324)	Note 3
Sinmag Equipment (China) Co., Ltd.	Sinmag Equipment Corporation	Parent company	(Sale)	(666,936)	(18)	B/L 45 Day	"	"	155,324	"
LBC Bakery Equipment Inc.	Sinmag Equipment Corporation	Parent company	Purchase	233,511	88	B/L 180 Day	"	"	(33,790)	"
Sinmag Equipment Corporation	LBC Bakery Equipment Inc.	Subsidiary	(Sale)	(233,511)	(25)	B/L 180 Day	"	"	33,790	"

Note 1: Unit prices for related parties were determined based on their costs with a margin, unit prices for non-related parties were determined in accordance with mutual agreements.

Note 2: Open account of 90 days for non-related parties.

Note 3: Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation.

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance (Note 2)	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note 1)	Allowance for Impairment Loss
					Amount	Actions Taken		
Sinmag Equipment (China) Co., Ltd.	Sinmag Equipment Corporation	Parent company	Trade receivables \$155,324	3.90	\$ -	-	\$ 94,938	\$ -

Note 1: The amount recovered from January 1, 2019 to February 19, 2019.

Note 2: Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation.

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Amounts in Thousands of New Taiwan Dollars)

No.	Investee Company	Counterparty	Relationship	Transaction Details			% of Total Sales or Assets (Note 2)
				Financial Statement Account	Amount (Note 1)	Payment Terms	
0	Sinnmag Equipment Corporation	Sinnmag Equipment (China) Co., Ltd. Sinnmag Bakery Equipment Sdn. Bhd. Lucky Union Limited LBC Bakery Equipment Inc.	From parent to subsidiary From parent to subsidiary From parent to subsidiary From parent to subsidiary	Sales	\$ 52,276	Cost with a margin, B/L 90 days	1
				Trade receivables	5,244	-	-
				Guarantees provided	46,292	Cost with a margin, B/L 60 days	1
				Capital increased by cash	42,672	-	-
1	Lucky Union Limited	Sinnmag Equipment Corporation Sinnmag Limited	From subsidiary to parent Between subsidiaries	Capital increased by cash	5,652	Capital increased by cash	1
				Trade receivables	233,511	Cost with a margin, B/L 180 days	5
2	Sinnmag Limited	Lucky Union Limited	Between subsidiaries	Surplus repatriation	376,987	-	12
				Capital increased by cash	5,652	-	-
3	Sinnmag Equipment (China) Co., Ltd.	Sinnmag Limited Sinnmag Equipment Corporation Sinnmag Equipment (Thailand) Co., Ltd.	Between subsidiaries Between subsidiaries Between subsidiaries	Surplus repatriation	376,987	-	12
				Sales	382,449	-	12
				Trade receivables	666,936	Cost with a margin, B/L 45 days	15
				Trade receivables	153,324	-	-
4	Wuxi New Order Control Co., Ltd.	Sinnmag Equipment (China) Co., Ltd. Sinnmag Limited	Between subsidiaries Between subsidiaries	Sales	51,858	Cost with a margin, monthly payment: 90 days	1
				Trade receivables	19,370	-	-
5	LBC Bakery Equipment Inc.	Sinnmag Equipment (China) Co., Ltd.	Between subsidiaries Between subsidiaries	Sales	96,113	Negotiated case by case, monthly payment: 30 days	2
				Trade receivables	10,817	-	-
			Between subsidiaries	Surplus repatriation	7,341	-	-
				Sales	19,606	Negotiated case by case, monthly payment: 60 days	-
				Trade receivables	8,400	-	-

Business relationships between parent and subsidiaries:

Sinnmag Equipment Corporation, Sinnmag Equipment (China) Co., Ltd., Sinnmag Bakery Equipment Sdn. Bhd., Wuxi New Order Control Co., Ltd., LBC Bakery Equipment Inc., Sinnmag Bakery Machine India Private Limited and Sinnmag Equipment (Thailand) Co., Ltd. are mainly engaged in the manufacturing and selling of bakery equipment, control panels and electromechanical control systems. Lucky Union Limited and Sinnmag Limited are holding companies.

Note 1: The above table discloses only one-way transaction information. Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation.

Note 2: The calculation of the percentage of the transaction accounts for total consolidated revenues or total assets. For the assets and liabilities, they are calculated by the ending balance divided by the consolidated total assets. For profit and loss, they are calculated by the accumulated amount at the end of period divided by the consolidated total revenue.

Note 3: The above table discloses only the amounts of important transactions that exceed NT\$5,000 thousand.

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

**INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018		Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017	Number of Shares	%			
Sinmag Equipment Corporation	Lucky Union Limited	Samoa	Holding Company	\$ 454,955	\$ 449,303	-	100.00	\$ 490,611	\$ 490,611	Notes 1, 2, 3 and 4
Lucky Union Limited	Sinmag Limited	Samoa	Holding Company	470,207	464,555	-	100.00	490,557	490,557	Notes 1, 2, 3 and 4
Sinmag Limited	Sinmag Bakery Equipment Sdn. Bhd.	Malaysia	Selling of bakery equipment.	12,340	12,340	300,000	100.00	3,265	3,265	Notes 1, 2, 3 and 4
	LBC Bakery Equipment Inc.	United States	Selling of bakery equipment.	17,241	11,589	882,000	82.82	28,039	22,467	Notes 1, 2, 3 and 4
	Sinmag Bakery Machine India Private Limited	India	Manufacturing and selling of bakery equipment.	54,748	54,748	-	100.00	(4,121)	(4,121)	Notes 1, 2, 3 and 4
	Sinmag Equipment (Thailand) Co., Ltd.	Thailand	Selling of bakery equipment.	18,199	18,199	-	100.00	9,276	9,276	Notes 1, 2, 3 and 4

Note 1: The share of profits (losses) of the investee includes the effect of unrealized gross profit on intercompany transactions.

Note 2: The share of profit (loss) was recognized according to the financial statements of the investees for the same year.

Note 3: Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation.

Note 4: The table above shows that the highest amount of shareholding or capital contribution ratio is equal to the shareholding or capital contribution ratio at the end of the year. No collateral was held on these investments.

Note 5: For information on investments in mainland China, refer to Table 7.

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	% Ownership of Direct or Indirect Investment	Net Income (Loss) of the Investee	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Sinmag Equipment (China) Co., Ltd. (Note 3)	Manufacturing and selling of bakery equipment	\$ 905,212 (US\$ 28,850)	b	\$ 349,938 (US\$ 10,594)	-	\$ -	\$ 349,938 (US\$ 10,594)	\$ 515,087	100	\$ 509,628 (Note 2 b.(2))	\$ 1,695,368	\$ 3,200,767 (US\$ 104,220)
Wuxi New Order Control Co., Ltd.	Manufacturing and selling of control panels and electromechanical control system	4,961 (US\$ 150)	b	3,348 (US\$ 104)	-	-	3,348 (US\$ 104)	12,083	50	6,509 (Note 2 b.(2))	13,710	42,462 (US\$ 1,385)

Upper Limit on the amount of investments in mainland China:

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note)
\$353,286 (Note 4)	\$1,021,153	\$1,271,085

Note 1: The three methods of investing in mainland China are as follows:

- Direct investments in mainland China.
- Investment in mainland China through an existing company established in a third region (Lucky Union Limited and Sinmag Limited)
- Others.

Note 2: In the column of investment gain (loss)

- If the investment is still in preparation and there is no investment gain (loss), it will be specified.
- The basis for recognizing investment gain (loss) is as follows:

- Based on financial statements audited by an international accounting firm that has a business relationship with an accounting firm in the ROC.
- Based on financial statements audited by the accounting firm of the parent company in Taiwan.
- The investees' financial statements have not been audited for the same year.

(Continued)

Note 3: Part of the amount reinvested in a third region.

Note 4: Repatriation of investments of \$3,243,229 thousand was not deducted from the amount.

Note 5: Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation.

Note 6: The table above shows that the highest amount of shareholding or capital contribution ratio is equal to the shareholding or capital contribution ratio at the end of the year. No collateral was held on these investments.

(Concluded)

SINMAG EQUIPMENT CORPORATION AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
2. The amount and percentage of sales and the balance and percentage of the related payables at the end of the period:

Investee Company	Transaction Type	Purchase/Sale		Price	Transaction Details		Notes/Accounts Receivable (Payable)		Unrealized (Gain) Loss	Note
		Amount	%		Payment Terms	Comparison with General Transactions	Ending Balance	%		
Sinmag Equipment (China) Co., Ltd.	Sales Purchase	\$ (52,276) 666,936	(6) 85	Cost with a margin Cost with a margin	Note 1 "	B/L 90 days B/L 45 days	\$ 5,244 (155,324)	2 (82)	\$ 4,215 22,381	Note 2 "

Note 1: The payment terms for non-related parties are negotiated on a case-by-case basis, which is 90 days from end of the month of sale or purchase of goods.

Note 2: Balances and transactions between the Company and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation.

3. The amount of property transactions and the amount of the resultant gains or losses: None.
4. The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
5. The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: None.
6. Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services: None.