Sinmag Equipment Corporation

Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Sinmag Equipment Corporation

Opinion

We have audited the accompanying financial statements of Sinmag Equipment Corporation (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (refer to the other matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China 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 based on our audits and the report of other auditors.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter of the Company’s financial statements for the year ended December 31, 2019 is stated as follows:

Occurrence of Sales Revenue

The Company has thousands of customers whose overall operating revenue (excluding related parties within the Group) accounted for 40% of the total operating revenue. Some major customers have higher average change in the growth volatility of operating revenue than the Company’s overall operating revenue, resulting in a significant impact on the financial performance of the Company. Therefore, we deemed the validity of occurrence of sales revenue from major customers with high volatility in operating revenue growth as a key audit matter. The accounting policies related to revenue recognition are referred to in Notes 4(l) and 19 to the financial statements.

The following audit procedures were performed 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 design and implementation of the Company’s internal controls.

2. We selected samples from sales transactions, and reviewed sales orders, bills of lading or signed documents, invoices and receipts, in order to confirm the validity of occurrence of sales revenue.

3. We compared the changes in sales revenue, gross profit margin, trade receivables turnover days and credit conditions of the abovementioned major 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 financial statements of the Company, but such financial statements were prepared using a different financial reporting framework and audited by other auditors in accordance with auditing standards generally accepted in the United States of America. 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. 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 investments accounted for using the equity method of LBC Bakery Equipment Inc. constituted 8% (NT$213,039 thousand) and 7% (NT$188,743 thousand), of the total assets as of December 31, 2019 and 2018, respectively, and share of profit or loss of subsidiaries constituted 6% (NT$29,929 thousand) and 4% (NT$22,467 thousand), of profit before income tax from continuing operations for the years then ended, respectively.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the 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 financial statements for the year ended December 31, 2019 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 Chao-Mei Chen and Chiang-Hsun Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2020

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.

SINMAG EQUIPMENT CORPORATION

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019		2018	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Notes 4 and 6)	$ 57,803	2	$ 56,184	2
Notes receivable (Notes 4, 7 and 19)	13,734	-	46,139	2
Trade receivables (Notes 4, 7 and 19)	125,571	5	126,717	5
Trade receivables from related parties (Notes 4, 19 and 27)	63,350	2	41,291	2
Other receivables (Notes 4 and 7)	474	-	1,441	-
Current tax assets (Notes 4 and 21)	2,460	-	10,616	-
Inventories (Notes 4 and 8)	68,494	3	100,457	4
Prepayments	1,731	-	1,728	-
Total current assets	333,617	12	384,573	15
NON-CURRENT ASSETS				
Investments accounted for using the equity method (Notes 4, 9 and 27)	2,207,286	82	2,030,490	79
Property, plant and equipment (Notes 4, 10 and 28)	111,894	4	118,988	5
Right-of-use assets (Notes 4 and 11)	567	-	-	-
Other intangible assets (Notes 4 and 12)	238	-	486	-
Deferred tax assets (Notes 4 and 21)	37,751	2	20,713	1
Other financial assets - non-current (Notes 4, 13 and 28)	64	-	64	-
Other non-current assets (Note 13)	181	-	391	-
Total non-current assets	2,357,981	88	2,171,132	85
TOTAL	$ 2,691,598	100	$ 2,555,705	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 14 and 28)	$ 113,391	4	$ 150,000	6
Contract liabilities - current (Notes 4 and 19)	4,540	-	8,893	1
Notes payable	20,878	1	27,566	1
Notes payable to related parties (Note 27)	339	-	973	-
Trade payables	6,327	-	5,217	-
Trade payables to related parties (Note 27)	221,833	9	155,543	6
Other payables (Note 15)	54,114	2	54,496	2
Provisions - current (Notes 4 and 16)	131	-	131	-
Lease liabilities - current (Notes 4 and 11)	378	-	-	-
Total current liabilities	421,931	16	402,819	16
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 21)	87,891	3	87,298	3
Lease liabilities - non-current (Notes 4 and 11)	191	-	-	-
Net defined benefit liabilities - non-current (Notes 4 and 17)	4,652	-	2,909	-
Total non-current liabilities	92,734	3	90,207	3
Total liabilities	514,665	19	493,026	19
EQUITY (Notes 4 and 18)				
Share capital				
Ordinary shares	502,302	19	502,302	20
Capital surplus	75,738	3	75,738	3
Retained earnings				
Legal reserve	502,418	18	455,057	18
Special reserve	101,655	4	84,646	3
Unappropriated earnings	1,155,573	43	1,046,591	41
Total retained earnings	1,759,646	65	1,586,294	62
Other equity	(160,753)	(6)	(101,655)	(4)
Total equity	2,176,933	81	2,062,679	81
TOTAL	$ 2,691,598	100	$ 2,555,705	100

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

(With Deloitte & Touche auditors’ report dated March 26, 2020)

SINMAG EQUIPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4, 19 and 27)				
Sales	$ 960,853	98	$ 925,896	98
Service revenue	20,249	2	21,430	2
Total operating revenue	981,102	100	947,326	100
OPERATING COSTS				
Cost of goods sold (Notes 8, 20 and 27)	(826,353)	(84)	(798,757)	(84)
Service cost	(2,692)	(1)	(2,609)	-
Total operating costs	(829,045)	(85)	(801,366)	(84)
GROSS PROFIT	152,057	15	145,960	16
UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Note 4)	(12,987)	(1)	(11,433)	(1)
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Note 4)	11,433	1	12,997	1
REALIZED GROSS PROFIT	150,503	15	147,524	16
OPERATING EXPENSES (Notes 4, 20 and 27)				
Selling and marketing expenses	(58,136)	(6)	(58,589)	(6)
General and administrative expenses	(73,328)	(7)	(71,275)	(8)
Research and development expenses	(8,081)	(1)	(9,094)	(1)
Expected credit gain (Note 7)	639	-	9,564	1
Total operating expenses	(138,906)	(14)	(129,394)	(14)
PROFIT FROM OPERATIONS	11,597	1	18,130	2
NON-OPERATING INCOME AND EXPENSES (Notes 4, 20 and 27)				
Other income	708	-	1,011	-
Other gains and losses	5,020	-	6,889	-
Finance costs	(1,409)	-	(940)	-
Share of profit or loss of subsidiaries, associates and joint ventures	527,468	54	490,610	52
Total non-operating income and expenses	531,787	54	497,570	52

(Continued)

SINMAG EQUIPMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	$ 543,384	55	$ 515,700	54
INCOME TAX EXPENSE (Notes 4 and 21)	(40,023)	(4)	(42,087)	(4)
NET PROFIT FOR THE YEAR	503,361	51	473,613	50
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 17, 18 and 21)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(4,390)	-	6,120	1
Income tax relating to items that will not be reclassified subsequently to profit or loss	878	-	(531)	-
	(3,512)	-	5,589	1
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(73,873)	(8)	(22,333)	(2)
Income tax relating to items that may be reclassified subsequently to profit or loss	14,775	2	5,324	-
	(59,098)	(6)	(17,009)	(2)
Other comprehensive loss for the year, net of income tax	(62,610)	(6)	(11,420)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 440,751	45	$ 462,193	49
EARNINGS PER SHARE (Note 22)				
From continuing operations				
Basic	$ 10.02		$ 9.43	
Diluted	$ 9.98		$ 9.39	

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

(With Deloitte & Touche auditors' report dated March 26, 2020) (Concluded)

SINMAG EQUIPMENT CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Other Equity	
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Total Equity
BALANCE AT JANUARY 1, 2018	$ 485,316	$ 74,943	$ 401,642	$ 70,718	$ 1,039,971	$ (84,646)	$ 1,987,944
Appropriation of 2017 earnings (Note 18)							
Legal reserve	-	-	53,415	-	(53,415)	-	-
Special reserve	-	-	-	13,928	(13,928)	-	-
Cash dividends distributed by the Company	-	-	-	-	(388,253)	-	(388,253)
Share dividends distributed by the Company	16,986	-	-	-	(16,986)	-	-
Difference between actual acquisition price and carrying amount on acquisition of interests in subsidiaries (Note 23)	-	795	-	-	-	-	795
Net profit for the year ended December 31, 2018	-	-	-	-	473,613	-	473,613
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	5,589	(17,009)	(11,420)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	479,202	(17,009)	462,193
BALANCE AT DECEMBER 31, 2018	502,302	75,738	455,057	84,646	1,046,591	(101,655)	2,062,679
Appropriation of 2018 earnings (Note 18)							
Legal reserve	-	-	47,361	-	(47,361)	-	-
Special reserve	-	-	-	17,009	(17,009)	-	-
Cash dividends distributed by the Company	-	-	-	-	(326,497)	-	(326,497)
Net profit for the year ended December 31, 2019	-	-	-	-	503,361	-	503,361
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	(3,512)	(59,098)	(62,610)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	499,849	(59,098)	440,751
BALANCE AT DECEMBER 31, 2019	$ 502,302	$ 75,738	$ 502,418	$ 101,655	$ 1,155,573	$ (160,753)	$ 2,176,933

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

(With Deloitte & Touche auditors' report dated March 26, 2020)

SINMAG EQUIPMENT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 543,384	$ 515,700
Adjustments for:		
Expected credit loss reversed on receivables	(639)	(9,564)
Depreciation expenses	3,766	6,508
Amortization expenses	248	360
Finance costs	1,409	940
Share of profit of subsidiaries, associates and joint ventures	(527,468)	(490,610)
Interest income	(253)	(178)
Write-downs of inventories	2,899	3,914
Loss on disposal of property, plant and equipment	(1,621)	-
Unrealized gain on the transactions with subsidiaries, associates and joint ventures	12,987	11,433
Realized gain on the transactions with subsidiaries associates and joint ventures	(11,433)	(12,997)
Net gain on foreign currency exchange	(1,880)	(2,051)
Changes in operating assets and liabilities		
Notes receivable	32,405	(6,155)
Trade receivables	(528)	14,525
Trade receivables from related parties	(22,939)	51,761
Other receivables	967	(58)
Inventories	28,944	(35,457)
Prepayments	(3)	10,477
Notes payable	(6,688)	(9,548)
Notes payable from related parties	(634)	80
Trade payables	1,113	(572)
Trade payables from related parties	72,116	(30,294)
Other payables	(390)	(503)
Contract liabilities - current	(4,353)	3,510
Advance receipts	-	(306)
Net defined benefit liabilities	(2,647)	(10,990)
Cash generated from operations	118,762	9,925
Interest received	253	178
Income tax paid	(32,659)	(62,147)
Net cash generated from (used in) operating activities	86,356	(52,044)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(532)	(2,579)
Proceeds from disposal of property, plant and equipment	5,822	-
Dividends received from subsidiaries	275,245	376,987
Increase in other financial assets	-	(1)
Decrease in other non-current assets	210	359
Net cash generated from investing activities	280,745	374,766

(Continued)

SINMAG EQUIPMENT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	$ 583,391	$ 410,000
Repayments of short-term borrowings	(620,000)	(350,000)
Repayment of the principal portion of lease liabilities	(219)	-
Dividends paid	(326,497)	(388,253)
Acquisition of additional interest in subsidiaries	-	(5,652)
Interest paid	(1,401)	(897)
Net cash used in financing activities	(364,726)	(334,802)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(756)	1,300
NET INCREASE (DECREASE) IN CASH	1,619	(10,780)
CASH AT THE BEGINNING OF THE YEAR	56,184	66,964
CASH AT THE END OF THE YEAR	$ 57,803	$ 56,184

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

(With Deloitte & Touche auditors' report dated March 26, 2020) (Concluded)

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, 2019. 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 mainboard of the Taipei Exchange ("TPEx") since December 2007.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's board of directors on March 12, 2020.

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), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

   Except for the following, 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 did not have any material impact on the Company's accounting policies:

   - IFRS 16 "Leases"

     IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Company elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Company presents 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 statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within financing activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the statements of cash flows.

The Company elected to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information was not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were 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 are measured at either an amount equal to the lease liabilities. The Company applies IAS 36 to all right-of-use assets.

The Company also applies the following practical expedients:

1) The Company applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Company accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Company uses hindsight, such as in determining lease terms, to measure lease liabilities.

b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: The Company 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 2: The Company shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

- Amendments to IAS 1 and IAS 8 "Definition of material"

  The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from "could influence" to "could reasonably be expected to influence".

  Except for the above impacts, as of the date the financial statements were authorized for issue, the Company assesses that the application of other standards and interpretations will not have any material impact on its financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note)
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 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company'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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

The 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.

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, associates and joint ventures and the related equity items, as appropriate, in these parent company only financial statements.

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 Company 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. Foreign currencies

In preparing the Company’s financial statements, transactions in currencies other than the Company’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 parent company only financial statements, the functional currencies of the Company (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, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; 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.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work in progress 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.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity (including a structured entity) that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company only financial statements and only to the extent of interests in the subsidiaries that are not related to the Company.

g. Property, plant and equipment

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

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If their respective lease terms are shorter than their useful lives, such assets are depreciated over their lease terms. 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.

h. 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.

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.

i. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also 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 on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

Financial assets and financial liabilities are recognized when the Company 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

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:

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

  ii. 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, receivable (including related parties and excluding tax refund receivables), other financial assets and refundable deposits), are measured at amortized cost, which equals the gross carrying amount determined using 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:

  i. 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

  ii. 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.

b) Impairment of financial assets

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

The Company always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables. For all other financial instruments, the Company 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 Company 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.

For internal credit risk management purposes, the Company determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Company):

i. Internal or external information show that the debtor is unlikely to pay its creditors.

ii. When a financial asset's aging is more than 210 days unless the Company has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts 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 the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

The Company 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.

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.

k. 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.

<u>Warranties</u>

Provisions for the expected cost of warranty obligations are recognized at 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 Company’s obligations.

l. Revenue recognition

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

m. Leasing

<u>2019</u>

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

<u>The Company as lessee</u>

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee’s incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the balance sheets.

2018

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.

The Company as lessee

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

n. Borrowing costs

All of borrowing costs are recognized in profit or loss in the period in which they are incurred.

o. 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 Company'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.

p. 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 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 Company 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 Company 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 Company’s accounting policies, management is required to make judgements, estimations 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.

The management evaluated that major accounting policies, estimates and basic assumptions applied by the Company had no significant uncertainty.

6. CASH

	December 31	
	2019	2018
Cash on hand	$ 152	$ 241
Checking accounts	7,749	13,939
Demand deposits	49,902	42,004
	$ 57,803	$ 56,184

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

	December 31	
	2019	2018
Bank balance	0.001%-0.6%	0.001%-0.48%

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

	December 31	
	2019	2018
Notes receivable		
At amortized cost		
Gross carrying amount	$ 13,734	$ 46,139
Less: Allowance for impairment loss	-	-
	$ 13,734	$ 46,139
Trade receivables		
At amortized cost		
Gross carrying amount	$ 132,623	$ 133,769
Less: Allowance for impairment loss	(7,052)	(7,052)
	$ 125,571	$ 126,717
Overdue receivables		
At amortized cost		
Gross carrying amount	$ 379	$ 1,018
Less: Allowance for impairment loss	(379)	(1,018)
	$ -	$ -
Other receivables		
Tax refund receivables	$ 137	$ -
Others	337	1,441
	$ 474	$ 1,441

a. Notes receivable

The average credit period for notes receivable was 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 Company 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 Company's credit risk was significantly reduced.

The Company measures the loss allowance for notes receivable at an amount equal to lifetime ECLs. The expected credit losses on notes receivable 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, 2019 and 2018, the rate of expected credit loss of notes receivable was 0%.

The overdue aging analysis of the Company's notes receivable is as follows:

	December 31	
	2019	**2018**
Not past due	$ 13,734	$ 46,139

b. Trade receivables

The average credit period of sales of goods was 90 days. No interest was charged on trade receivables that were past due. 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 Company 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 Company's credit risk was significantly reduced.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to 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 the Company'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 is not further distinguished according to the Company's different customer base.

The Company 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 Company 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 Company's provision matrix.

December 31, 2019

	Up to 60 Days	61 to 120 Days	121 to 180 Days	181 to 240 Days	Over 241 Days	Total
Expected credit loss rate	2.71%	3.74%	12.64%	43.57%	100%	
Gross carrying amount	$ 80,885	$ 44,258	$ 3,728	$ 1,804	$ 1,948	$ 132,623
Loss allowance (Lifetime ECLs)	(2,191)	(1,656)	(471)	(786)	(1,948)	(7,052)
Amortized cost	$ 78,694	$ 42,602	$ 3,257	$ 1,018	$ -	$ 125,571

December 31, 2018

	Up to 60 Days	61 to 120 Days	121 to 180 Days	181 to 240 Days	Total
Expected credit loss rate	3.31%	4.07%	9.04%	100%	
Gross carrying amount	$ 67,851	$ 57,183	$ 6,880	$ 1,855	$ 133,769
Loss allowance (Lifetime ECLs)	(2,246)	(2,329)	(622)	(1,855)	(7,052)
Amortized cost	$ 65,605	$ 54,854	$ 6,258	$ -	$ 126,717

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

	2019	2018
Balance at January 1	$ 7,052	$ 12,896
Less: Net remeasurement of loss allowance	-	(5,844)
Balance at December 31	$ 7,052	$ 7,052

c. Overdue receivables

The Company measures the loss allowance for overdue receivables at an amount equal to lifetime ECLs. The expected credit losses on overdue receivable 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, 2019 and 2018, the rate of expected credit loss of overdue receivables was 100%.

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

	2019	2018
Balance at January 1	$ 1,018	$ 4,738
Less: Net remeasurement of loss allowance	(639)	(3,720)
Balance at December 31	$ 379	$ 1,018

d. Other receivables

Other receivables consist of tax refund receivables, advances to employees, etc. The Company 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 Company's exposure and the credit ratings of its counterparties are continuously monitored.

The Company 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, 2019 and 2018, the rate of expected credit loss of other receivables was 0%.

8. INVENTORIES

	December 31	
	2019	**2018**
Merchandise	$ 6,743	$ 31,472
Finished goods	14,079	16,991
Work in progress	19,650	21,357
Raw materials	25,488	28,229
Inventory in transit	2,534	2,408
	$ 68,494	$ 100,457

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was $826,353 thousand and $798,757 thousand, respectively. The cost of goods sold included inventory write-downs of $2,899 thousand and $3,914 thousand, respectively.

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Subsidiaries

	December 31	
	2019	**2018**
Lucky Union Limited	$ 2,207,286	$ 2,030,490

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Subsidiary	**2019**	**2018**
Lucky Union Limited	100%	100%

Refer to Tables 4 and 5 for the details of the subsidiaries indirectly held by the Company.

The share of profit or loss and other comprehensive income of the investments in subsidiaries accounted for using the equity method for the years ended December 31, 2019 and 2018 was based on the subsidiaries' financial statements which have been audited for the same years.

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Transportation Equipment	Office Equipment	Total
Cost						
Balance at January 1, 2019	$ 74,985	$ 61,953	$ 20,982	$ 428	$ 6,081	$ 164,429
Additions	-	467	65	-	-	532
Disposals	(3,070)	(4,408)	(115)	-	(4,443)	(12,036)
Reclassification (Note)	-	-	120	-	-	120
Balance at December 31, 2019	$ 71,915	$ 58,012	$ 21,052	$ 428	$ 1,638	$ 153,045
Accumulated depreciation and impairment						
Balance at January 1, 2019	$ -	$ 24,816	$ 15,100	$ 129	$ 5,396	$ 45,441
Disposals	-	(3,362)	(37)	-	(4,436)	(7,835)
Depreciation expenses	-	1,769	1,487	85	204	3,545
Balance at December 31, 2019	$ -	$ 23,223	$ 16,550	$ 214	$ 1,164	$ 41,151
Carrying amounts at December 31, 2019	$ 71,915	$ 34,789	$ 4,502	$ 214	$ 474	$ 111,894
Cost						
Balance at January 1, 2018	$ 74,985	$ 60,407	$ 20,050	$ 428	$ 5,980	$ 161,850
Additions	-	1,546	932	-	101	2,579
Balance at December 31, 2018	$ 74,985	$ 61,953	$ 20,982	$ 428	$ 6,081	$ 164,429
Accumulated depreciation and impairment						
Balance at January 1, 2018	$ -	$ 22,525	$ 12,024	$ 43	$ 4,341	$ 38,933
Depreciation expenses	-	2,291	3,076	86	1,055	6,508
Balance at December 31, 2018	$ -	$ 24,816	$ 15,100	$ 129	$ 5,396	$ 45,441
Carrying amounts at December 31, 2018	$ 74,985	$ 37,137	$ 5,882	$ 299	$ 685	$ 118,988

The property, plant and equipment used by the Company is not leased under operating leases.

No impairment assessment was performed for the year ended December 31, 2019 as there was no indication of impairment.

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

Buildings	
Main buildings	3-50 years
Others	10-15 years
Machinery and equipment	5-8 years
Transportation equipment	5 years
Office equipment	5 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 28.

Note: Reclassified from inventory to property, plant and equipment.

11. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Buildings	$ 567

	For the Year Ended December 31, 2019
Additions to right-of-use assets	$ 788
Depreciation charge for right-of-use assets	
Buildings	$ 221

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	
Current	$ 378
Non-current	$ 191

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Buildings	1.15%

c. Material lease-in activities and terms

The Company leases buildings for the use of offices with lease term of 2 years. The Company does not have bargain purchase options to acquire the buildings at the end of the lease terms. In addition, the Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	$ 529
Expenses relating to low-value asset leases	$ 190
Total cash outflow for leases	$ (1,090)

The Company leases buildings which qualify as short-term leases and certain office equipment which qualify as low-value asset leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

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

	December 31, 2018
Not later than 1 year	$ 272
Later than 1 year and not later than 5 years	323
	$ 595

The lease payments and sublease payments recognized in profit or loss were as follows:

	For the Year Ended December 31, 2018
Minimum lease payments	$ 1,052

12. OTHER INTANGIBLE ASSETS

	Computer Software
Cost	
Balance at January 1, 2019	$ 2,706
Additions	-
Balance at December 31, 2019	$ 2,706
Accumulated amortization and impairment	
Balance at January 1, 2019	$ (2,220)
Amortization expenses	(248)
Balance at December 31, 2019	$ (2,468)
Carrying amount at December 31, 2019	$ 238
Cost	
Balance at January 1, 2018	$ 2,706
Additions	-
Balance at December 31, 2018	$ 2,706

(Continued)

	Computer Software
Accumulated amortization and impairment	
Balance at January 1, 2018	$ (1,860)
Amortization expenses	(360)
Balance at December 31, 2018	$ (2,220)
Carrying amount at December 31, 2018	$ 486

(Concluded)

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

13. OTHER ASSETS

	December 31	
	2019	2018
Non-current		
Other financial assets - pledged deposits (Note)(see Note 28)	$ 64	$ 64
Other assets		
Refundable deposits (Note)	$ 181	$ 324
Others	-	67
	$ 181	$ 391

Note: The Company 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 Company's exposure and the external credit ratings are continuously monitored. The Company 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 Company 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 Company 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. As of December 31, 2019 and 2018, the Company evaluated the expected credit loss rates of its debt instrument investments as 0%.

14. BORROWINGS

Short-term Borrowings

	December 31	
	2019	2018
Secured borrowings (see Note 28)		
Bank loans	$ -	$ 50,000
Unsecured borrowings		
Line of credit borrowings	113,391	100,000
	$ 113,391	$ 150,000

a. The range of weighted average effective interest rates on bank secured loans was 1.19% per annum as of December 31, 2018

b. The range of weighted average effective interest rates on bank line of credit borrowings was 1.15%-2.64% and 1.15% per annum as of December 31, 2019 and 2018, respectively.

15. OTHER LIABILITIES

	December 31	
	2019	2018
Current		
Other payables		
Payables for salaries or bonuses	$ 48,694	$ 48,120
Payables for professional service fees	559	915
Payables for interest	85	77
Payables for business tax	-	429
Others	4,776	4,955
	$ 54,114	$ 54,496

16. PROVISIONS

	December 31	
	2019	2018
Current		
Warranties	$ 131	$ 131

	2019	2018
Balance at January 1	$ 131	$ 131
Additional provisions recognized	247	276
Amount used	(247)	(276)
Balance at December 31	$ 131	$ 131

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 Company'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.

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company 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.

b. Defined benefit plans

The defined benefit plans adopted by the Company 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 6.57% 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 Company 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 Company 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 Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	$ 57,029	$ 56,195
Fair value of plan assets	(52,377)	(53,286)
Deficit (surplus)	4,652	2,909
Asset ceiling	-	-
Net defined benefit liabilities	$ 4,652	$ 2,909

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, 2018	$ 60,024	$ (40,005)	$ 20,019
Service cost			
Current service cost	458	-	458
Net interest expense (income)	594	(387)	207
Recognized in profit or loss	1,052	(387)	665
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	(6,254)	-	(6,254)
Recognized in other comprehensive income	(4,881)	(1,239)	(6,120)
Contributions from the employer	-	(11,655)	(11,655)
Balance at December 31, 2018	$ 56,195	$ (53,286)	$ 2,909
Balance at January 1, 2019	$ 56,195	$ (53,286)	$ 2,909
Service cost			
Current service cost	329		329
Net interest expense (income)	514	(500)	14
Recognized in profit or loss	843	(500)	343
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,774)	(1,774)
Actuarial loss - changes in demographic assumptions	500	-	500
Actuarial loss - changes in financial assumptions	1,414	-	1,414
Actuarial loss - experience adjustments	4,250	-	4,250
Recognized in other comprehensive income	6,164	(1,774)	4,390
Contributions from the employer	-	(2,990)	(2,990)
Benefits paid	(6,173)	6,173	-
Balance at December 31, 2019	$ 57,029	$ (52,377)	$ 4,652

Through the defined benefit plans under the Labor Standards Law, the Company 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:

	December 31	
	2019	**2018**
Discount rate(s)	0.750%	1.000%
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:

	December 31	
	2019	**2018**
Discount rate(s)		
0.25% increase	$ (1,421)	$ (1,401)
0.25% decrease	$ 1,475	$ 1,455
Expected rate(s) of salary increase		
0.25% increase	$ 1,426	$ 1,409
0.25% decrease	$ (1,381)	$ (1,364)

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.

	December 31	
	2019	**2018**
Expected contributions to the plans for the next year	$ 2,856	$ 3,000
Average duration of the defined benefit obligation	10 years	10.1 years

18. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2019	**2018**
Number of shares authorized (in thousands)	60,000	60,000
Shares authorized	$ 600,000	$ 600,000
Number of shares issued and fully paid (in thousands)	50,230	50,230
Shares issued	$ 502,302	$ 502,302

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 FSC on June 22, 2018, and July 22, 2018 was set as the subscription base date. The new issuance was approved by Ministry of Economic Affairs on August 6, 2018 under Business Negotiation Letter No. 10701094900.

b. Capital surplus

	December 31	
	2019	**2018**
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	927	927
	$ 75,738	$ 75,738

* 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 Articles, where the Company made a profit after considering taxes expenses in a fiscal year, the profit shall be first utilized for offsetting losses of previous years (including the adjustment of unappropriated profit), 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 beginning undistributed retained earnings (including the adjustment of unappropriated profit) 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, refer to employees' compensation and remuneration of directors in Note 20(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.

The appropriations of earnings for 2018 and 2017 which were approved in the shareholders' meetings on June 14, 2019 and June 13, 2018, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31	
	2018	2017
Legal reserve	$ 47,361	$ 53,415
Special reserve	17,009	13,928
Cash dividends	326,497	388,253
Share dividends	-	16,986
Cash dividends per share (NT$)	6.5	8.00
Share dividends per share (NT$)	-	0.35

As of the date the financial statements were authorized for issue, the appropriation of earnings for 2019 had not been resolved by the Company's board of directors.

d. Special reserve

	For the Year Ended December 31	
	2019	2018
Appropriation in respect of:		
Debit to other equity items	$ 47,322	$ 30,313
First-time adoption of IFRSs	54,333	54,333
	$ 101,655	$ 84,646

e. Other equity items

Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ (101,655)	$ (84,646)
Effect of change in tax rate	-	858
Recognized for the year		
Exchange differences on translating the financial statements of foreign operations	(73,873)	(22,333)
Related income tax	14,775	4,466
Other comprehensive income recognized for the year	(59,098)	(17,009)
Balance at December 31	$ (160,753)	$ (101,655)

19. REVENUE

	For the Year Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from the sale of goods	$ 960,853	$ 925,896
Revenue from the rendering of services	20,249	21,430
	$ 981,102	$ 947,326

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, 2019	December 31, 2018	January 1, 2018
Notes receivable (see Note 7)	$ 13,734	$ 46,139	$ 39,990
Trade receivables (see Note 7)	125,571	126,717	131,829
Trade receivables from related parties (see Note 27)	63,350	41,291	93,152
	$ 202,655	$ 214,147	$ 264,971
Contract liabilities - advance receipts			
Sale of goods	$ 4,540	$ 8,893	$ 5,383

Revenue recognized in the current year that was included in the contract liability balance at the beginning of the year is as follows:

	For the Year Ended December 31	
	2019	2018
From contract liabilities at the start of the year		
Sale of goods	$ 5,632	$ 4,996

c. Disaggregation of revenue

	For the Year Ended December 31	
	2019	2018
Type of goods or services		
Sale of goods	$ 960,853	$ 925,896
Rendering of services	20,249	21,430
	$ 981,102	$ 947,326

20. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income		
Bank deposits	$ 253	$ 178
Others	455	833
	$ 708	$ 1,011

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Gain on disposal of property, plant and equipment	$ 1,621	$ -
Net foreign exchange gains	3,449	6,897
Others	(50)	(8)
	$ 5,020	$ 6,889

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on bank loans	$ 1,405	$ 940
Interest on lease liabilities	4	-
	$ 1,409	$ 940

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
An analysis of depreciation by function		
Operating costs	$ 2,061	$ 4,019
Operating expenses	1,705	2,489
	$ 3,766	$ 6,508
An analysis of amortization by function		
Operating costs	$ 32	$ 145
General and administrative expenses	26	25
Research and development expenses	190	190
	$ 248	$ 360

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term benefits	$ 136,298	$ 133,102
Post-employment benefits		
Defined contribution plans	3,951	4,137
Defined benefit plans (see Note 17)	343	665
	4,294	4,802
Total employee benefits expense	$ 140,592	$ 137,904
An analysis of employee benefits expense by function		
Operating costs	$ 33,967	$ 33,566
Operating expenses	106,625	104,338
	$ 140,592	$ 137,904

f. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors at rates of 2%-10% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and the remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018, which have been approved by the Company's board of directors on March 12, 2020 and March 14, 2019, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2019	2018
Employees' compensation	3.00%	4.00%
Remuneration of directors	1.37%	1.56%

Amount

	For the Year Ended December 31	
	2019	2018
	Cash	Cash
Employees' compensation	$ 17,052	$ 21,847
Remuneration of directors	7,758	8,539

If there is a change in the amounts after the annual 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 paid and the amounts recognized in the financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors 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

	For the Year Ended December 31	
	2019	2018
Foreign exchange gains	$ 17,296	$ 21,362
Foreign exchange losses	(13,847)	(14,465)
Net foreign exchange gains	$ 3,449	$ 6,897

21. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	$ 64,088	$ 79,383
Income tax on unappropriated earnings	4,417	5,952
Adjustments for prior years	2,821	(972)
Withholding tax credits from overseas profits of the current year	(30,511)	(38,783)
	40,815	45,580
Deferred tax		
In respect of the current year	(792)	(18,251)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	14,758
	(792)	(3,493)
Income tax expense recognized in profit or loss	$ 40,023	$ 42,087

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

	For the Year Ended December 31	
	2019	**2018**
Profit before tax from continuing operations	$ 543,384	$ 515,700
Income tax expense calculated at the statutory rate	$ 108,677	$ 103,140
Unrecognized deductible temporary differences - share of (profit) loss of subsidiaries accounted for equity method	(45,243)	(41,981)
Effect of tax rate changes	-	14,758
Nondeductible expenses in determining taxable income	11	(27)
Tax-exempt income	(149)	-
Income tax on unappropriated earnings	4,417	5,952
Adjustments for prior years' tax	2,821	(972)
Withholding tax credits from overseas profits	(30,511)	(38,783)
Income tax expense recognized in profit or loss	$ 40,023	$ 42,087

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	**2018**
Current tax	$ -	$ -
Deferred tax		
Effect of change in tax rate	-	(1,550)
In respect of the current year		
Translation of foreign operations	(14,775)	(4,466)
Remeasurement of defined benefit plans	(878)	1,223
Total income tax recognized in other comprehensive income	$ (15,653)	$ (4,793)

c. Current tax assets and liabilities

	December 31	
	2019	**2018**
Current tax assets		
Tax refund receivable	$ 2,460	$ 10,616

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, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized loss on inventories	$ 3,543	$ 580	$ -	$ 4,123
Allowance for impairment loss	1,188	(103)	-	1,085
Unrealized gain on the transactions with subsidiaries	2,286	311	-	2,597
Exchange differences on translating the financial statements of foreign operations	10,194	-	14,775	24,969
Defined benefit obligations	3,387	-	878	4,265
Others	115	597	-	712
	$ 20,713	$ 1,385	$ 15,653	$ 37,715
Deferred tax liabilities				
Temporary differences				
Share of profit of subsidiaries accounted for using the equity method	$ 83,373	$ (900)	$ -	$ 82,473
Pensions	3,722	529	-	4,251
Others	203	964	-	1,167
	$ 87,298	$ 593	$ -	$ 87,891

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen-sive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized loss on inventories	$ 2,346	$ 1,197	$ -	$ 3,543
Allowance for impairment loss	2,533	(1,345)	-	1,188
Unrealized gain on the transactions with subsidiaries	2,209	77	-	2,286
Exchange differences on translating the financial statements of foreign operations	4,870	-	5,324	10,194
Defined benefit obligations	3,918	-	(531)	3,387
Others	489	(374)	-	115
	$ 16,365	$ (445)	$ 4,793	$ 20,713
Deferred tax liabilities				
Temporary differences				
Share of profit of subsidiaries accounted for using the equity method	$ 89,470	$ (6,097)	$ -	$ 83,373
Pensions	1,295	2,427	-	3,722
Others	471	(268)	-	203
	$ 91,236	$ (3,938)	$ -	$ 87,298

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

As of December 31, 2019 and 2018, the taxable temporary differences associated with investments in subsidiaries and branches for which no deferred tax liabilities have been recognized were $967,15 thousand and $793,955 thousand, respectively.

f. Income tax assessments

The tax returns through 2017 have been assessed by the tax authorities, and there is no litigation or claim regarding tax assessments against the Company.

22. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2019	**2018**
Basic earnings per share		
From continuing operations	$ 10.02	$ 9.43
Diluted earnings per share		
From continuing operations	$ 9.98	$ 9.39

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

	For the Year Ended December 31	
	2019	**2018**
Profit for the year attributable to owners of the Company	$ 503,361	$ 473,613
Effect of potentially dilutive ordinary shares		
Employees' compensation	-	-
Earnings used in the computation of diluted earnings per share	$ 503,361	$ 473,613

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

	For the Year Ended December 31	
	2019	**2018**
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	182	225
Weighted average number of ordinary shares used in the computation of diluted earnings per share	50,412	50,455

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company 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.

23. PARTIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES - WITHOUT LOSS OF CONTROL

In December 2018, the Company acquired outstanding shares of the Company's third-tier subsidiary, LBC Bakery Equipment Inc., increasing the Company's continuing interest from 80.00% to 82.82%. The above transactions were accounted for as equity transactions, since the Company did not cease to have control over these subsidiaries. For details about the partial acquisition of LBC Bakery Equipment Inc., refer to Note 25 to the Company's consolidated financial statements for the year ended December 31, 2019.

24. CASH FLOW INFORMATION

Changes in Liabilities Arising from Financing Activities

For the year ended December 31, 2019

			Non-cash Changes			
	Opening Balance	Cash Flows	New Leases	Finance Costs	Exchange Differences on Translating the Financial Statements	Closing Balance
Short-term borrowings	$ 150,000	$ (36,609)	$ -	$ -	$ -	$ 113,391
Lease liabilities	-	(223)	788	4	-	569
	$ 150,000	$ (36,832)	$ 788	$ 4	$ -	$ 113,960

For the year ended December 31, 2018

			Non-cash Changes		
	Opening Balance	Cash Flows	Finance Costs	Exchange Differences on Translating the Financial Statements	Closing Balance
Short-term borrowings	$ 90,000	$ 60,000	$ -	$ -	$ 150,000

25. CAPITAL MANAGEMENT

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

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

Key management personnel of the Company 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 Company may adjust the amount of dividends paid to shareholders, the number of new shares issued, and the amount of new debt issued or existing debt redeemed.

26. FINANCIAL INSTRUMENTS

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

The management of the Company 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

	December 31	
	2019	**2018**
Financial assets		
Amortized cost (1)	$ 261,040	$ 272,160
Financial liabilities		
Amortized cost (2)	368,188	345,246

1) The balances include financial assets at amortized cost, which comprise cash, notes receivable, trade receivables (including related parties) and other receivables (excluding tax refund receivables), other financial assets - pledged deposits and refundable deposits.

2) The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings and payables (including related parties, excluding payables for salaries or bonuses and payables for business tax).

c. Financial risk management objectives and policies

The Company's major financial instruments include cash, notes receivable, trade receivables (including related parties) and other receivables (excluding tax refund receivables), debt instruments, payables (including related parties, excluding payables for salaries or bonuses and payables for business tax), short-term borrowings and lease liabilities. 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 Company'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 Company had foreign currency denominated sales and purchases, which exposed the Company to foreign currency risk. The Company 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 Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 30.

Sensitivity analysis

The Company was mainly exposed to the exchange movements in the USD.

The following table details the Company's sensitivity to a 1% increase and decrease in 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 functional currency weakening 1% against the relevant currency. For a 1% strengthening of the functional currency against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2019	**2018**
Profit or loss	$ (196)	$ 682

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

The Company's sensitivity to the USD reversed during the current year mainly due to an increase in USD denominated short-term borrowings and payables.

b) Interest rate risk

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

	December 31	
	2019	**2018**
Fair value interest rate risk		
Financial assets	$ 64	$ 64
Financial liabilities	113,960	150,000
Cash flow interest rate risk		
Financial assets	49,902	42,004
Financial liabilities	-	-

<u>Sensitivity analysis</u>

The sensitivity analysis below was determined based on the Company'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 point 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 Company's pre-tax profit for the years ended December 31, 2019 and 2018 would increase/decrease by $125 thousand and $105 thousand, respectively, which was mainly attributable to the Company's exposure to interest rates on its variable-rate bank deposits.

The Company's sensitivity to interest rates increased during the current period mainly due to the increase 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 Company. As at the end of the reporting period, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to the failure of counterparties to discharge an obligation and financial guarantees provided by the Company, could arise from:

a) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and

b) The maximum amount of the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Company 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 Company 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 Company'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 Company's concentration of credit risk of 77% and 91% in total trade receivables as of December 31, 2019 and 2018, respectively, was related to the Company's ten largest customers.

3) Liquidity risk

The Company's current liabilities exceeded current assets by $88,314 thousand and $18,246 thousand on December 31, 2019 and 2018, respectively. However, in consideration of the Group's overall cash flow and financial investment operations, the consolidated current assets exceeded consolidated current liabilities by $1,150,330 thousand and $1,276,146 thousand on December 31, 2019 and 2018, respectively, so there was no liquidity risk from an overall perspective.

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company'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.

The Company relies on bank loans as a significant source of liquidity. As of December 31, 2019 and 2018, the Company had available unutilized short-term bank loan facilities set out in (b) below.

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

The following table details the Company'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 Company 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 this rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2019

	1-3 Months	3 Months to 1 Year	1-5 Years
Short-term borrowings	$ 113,397	$ -	$ -
Financial guarantee contracts	1,445	4,255	27,952
Non-interest bearing liabilities	186,072	68,725	-
Lease liabilities	96	287	191
	$ 301,010	$ 73,267	$ 28,143

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years
Lease liabilities	$ 383	$ 191

December 31, 2018

	1-3 Months	3 Months to 1 Year	1-5 Years
Short-term borrowings	$ 150,101	$ -	$ -
Financial guarantee contracts	1,536	4,524	34,185
Non-interest bearing liabilities	193,999	1,247	-
	$ 345,636	$ 5,771	$ 34,185

The amounts included above for financial guarantee contracts were the maximum amounts the Company could be required to settle under the arrangement if the full guaranteed amount is claimed by the counterparty. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement.

b) Financing facilities

	December 31	
	2019	2018
Unsecured bank loan facilities, reviewed annually and payable on demand:		
Amount used	$ 113,391	$ 100,000
Amount unused	151,559	90,000
	$ 264,950	$ 190,000
Secured bank loan facilities:		
Amount used	$ -	$ 50,000
Amount unused	140,000	34,250
	$ 140,000	$ 84,250

27. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party name and categories

Related Party Name	Related Party Category
Lucky Union Limited	Subsidiaries
Sinmag Equipment (China) Co., Ltd. (Note)	Subsidiaries
Wuxi New Order Control Co., Ltd.	Subsidiaries
LBC Bakery Equipment Inc.	Subsidiaries
Sinmag Bakery Equipment Sdn. Bhd.	Subsidiaries
Sinmag Equipment (Thailand) Co., Ltd.	Subsidiaries
Tehmag Foods Corporation	Associates
San Neng Bakeware Corporation	Associates
New Order Enterprise Co., Ltd.	Associates
Sinmag Fitting Corporation	Associates

Note: On January 10, 2018, the name was changed to Sinmag Equipment (China) Co., Ltd.

b. Sales of goods

		For the Year Ended December 31	
Line Item	Related Party Category/Name	2019	2018
Sales	Subsidiaries		
	LBC Bakery Equipment Inc.	$ 229,266	$ 233,511
	Others	152,067	98,568
		381,333	332,079
	Associates	950	2
		$ 382,283	$ 332,081

The sales prices to related parties were determined based on their costs with a margin, and the collection terms to related parties were 60 to 180 days within receiving the bills 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 2019	2018
Subsidiaries		
Sinmag Equipment (China) Co., Ltd.	$ 655,146	$ 666,936
Associates	2,663	3,187
	$ 657,809	$ 670,123

The cost of purchases 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 bills of lading. The cost of purchases from third parties were determined in accordance with mutual agreements, and the payment terms was 90 days.

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

Line Item	Related Party Category/Name	December 31 2019	2018
Trade receivables	Subsidiaries		
	LBC Bakery Equipment Inc.	$ 38,734	$ 33,790
	Others	24,615	7,499
		63,349	41,289
	Associates	1	2
		$ 63,350	$ 41,291

The outstanding trade receivables from related parties are unsecured. As of December 31, 2019 and 2018, all receivables from related parties were not past due. And for the years ended December 31, 2019 and 2018, no impairment losses were 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 2019	2018
Notes payable	Associates	$ 339	$ 973
Trade payables	Subsidiaries		
	Sinmag Equipment (China) Co., Ltd.	$ 221,649	$ 155,324
	Associates	184	219
		$ 221,833	$ 155,543

The outstanding trade payables from related parties are unsecured.

f. The Company participated in the cash capital increase of Lucky Union Limited in 2018, and increased its investment amount by $5,652 thousand, which did not affect the shareholding ratio.

g. The Company received cash dividends from Lucky Union Limited for the years ended 2019 and 2018, which amounted to $275,245 thousand and $376,987 thousand, respectively.

h. Endorsements and guarantees

Endorsements and guarantees provided by the Company

Related Party Category/Name	December 31 2019	December 31 2018
Subsidiaries		
Sinmag Bakery Equipment Sdn. Bhd.		
Amount endorsed	RM 6,000 thousand	RM 6,000 thousand
Amount utilized	RM 4,368 thousand	RM 4,980 thousand

i. Other transactions from related parties

Line Item	Related Party Category/Name	For the Year Ended December 31 2019	For the Year Ended December 31 2018
Selling and marketing expenses - other expenses	Associates	$ 7	$ -
General and administrative expenses - other expenses	Associates	$ 1	$ 10
Research and development expenses - other expenses	Associates	$ 6	$ -
Other income	Subsidiaries	$ 6	$ -

j. Compensation of key management personnel

	For the Year Ended December 31 2019	For the Year Ended December 31 2018
Short-term employee benefits	$ 24,606	$ 25,515

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

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2019	**2018**
Other financial assets - non-current		
Pledged time deposits	$ 64	$ 64
Others		
Freehold land	58,715	57,755
Building	31,646	28,386
	$ 90,425	$ 86,205

29. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus pneumonia in January 2020 caused the operation of subsidiary, Sinmag Equipment (China) Co., Ltd., to be temporarily suspended for compliance with local government's regulations. As of the date the financial statements were authorized for issue, Sinmag Equipment (China) Co., Ltd. had resumed its operation on February 11, 2020. Due to the inability to assess the outbreak control situation, the Company could not reasonably estimate the extent of the impact on its operation.

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company'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, 2019

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 7,200	29.98 (USD:NTD)	$ 215,856
Non-monetary items			
Investments accounted for using the equity method			
USD	73,625	29.98 (USD:NTD)	$ 2,207,286
Financial liabilities			
Monetary items			
USD	7,853	29.98 (USD:NTD)	$ 235,447

December 31, 2018

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 7,296	30.72 (USD:NTD)	$ 224,094
Non-monetary items			
Investments accounted for using the equity method			
USD	66,097	30.72 (USD:NTD)	$ 2,030,490
Financial liabilities			
Monetary items			
USD	5,077	30.72 (USD:NTD)	$ 155,928

The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2019		2018	
Foreign Currency	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains (Losses)
USD	30.912 (USD:NTD)	$ 3,639	30.149 (USD:NTD)	$ 6,934

31. 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 (none)

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 2)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 3)

9) Trading in derivative instruments (none)

10) Information on investees (Table 4)

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 5)

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 6):

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 ending 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

SINMAG EQUIPMENT CORPORATION

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee		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	Note
		Name	Relationship (Note 4)											
0	Sinmag Equipment Corporation	Sinmag Bakery Equipment Sdn. Bhd.	(b)	Net value 50% $ 1,088,467	$ 42,198 (RM 6,000)	$ 42,198 (RM 6,000)	$ 30,720 (RM 4,368)	$ -	2	Net value 50% $ 1,088,467	Y	-	-	-

Note 1: The total amount of the guarantees provided by Sinmag Equipment Corporation to subsidiaries shall not exceed 50% 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 50% of Sinmag Equipment Corporation’s net worth based on its most recent audited financial statements.

Note 3: 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, 2019.

Note 4: Relationships between the endorser/guarantor and the party being endorsed/guaranteed are as follows:

a. A company that the Company has business relationship with.
b. The Company directly or indirectly holds over 50% ownership of the investee company.
c. A Company that directly or indirectly holds over 50% ownership of the Company.
d. In between companies where over 90% of voting shares are directly or indirectly held by the Company.
e. The Company is required to provide guarantees or endorsements for the construction project based on the construction contract.
f. Shareholder of the investee provides endorsements/guarantees to the Company in proportion to their shareholding percentages.
g. 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

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, 2019
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transactions		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Sinmag Equipment Corporation	Sinmag Equipment (China) Co., Ltd.	Subsidiary	Purchase	$ 655,146	88	B/L 45 day	Note 1	Note 2	$ (221,649)	(89)	-
Sinmag Equipment (China) Co., Ltd.	Sinmag Equipment Corporation	Parent company	(Sale)	(655,146)	(19)	B/L 45 day	〃	〃	221,649	47	-
LBC Bakery Equipment Inc.	Sinmag Equipment Corporation	Parent company	Purchase	229,266	87	B/L 180 day	〃	〃	(38,734)	(93)	-
Sinmag Equipment Corporation	LBC Bakery Equipment Inc.	Subsidiary	(Sale)	(229,266)	(23)	B/L 180 day	〃	〃	38,734	19	-
Sinmag Equipment (China) Co., Ltd.	Wuxi New Order Control Co., Ltd.	Same ultimate parent company	Purchase	109,898	6	Monthly payment: 30 days	〃	〃	(18,890)	(7)	-
Wuxi New Order Control Co., Ltd.	Sinmag Equipment (China) Co., Ltd.	Same ultimate parent company	(Sale)	(109,898)	(100)	Monthly payment: 30 days	〃	〃	18,890	100	-

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.

TABLE 3

SINMAG EQUIPMENT CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Actions Taken		
Sinmag Equipment (China) Co., Ltd.	Sinmag Equipment Corporation	Parent company	Trade receivables $ 221,649	3.48	$ -	-	$ 108,552	$ -

Note: The amount recovered from January 1, 2020 to February 29, 2020.

SINMAG EQUIPMENT CORPORATION

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(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, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2019	December 31, 2018	Number of Shares	%	Carrying Amount			
Sinmag Equipment Corporation	Lucky Union Limited	Samoa	Holding Company	$ 429,314	$ 429,314	-	100.00	$ 2,207,286	$ 527,468	$ 527,468	Note 2
Lucky Union Limited	Sinmag Limited	Samoa	Holding Company	444,566	444,566	-	100.00	2,216,180	527,647	527,647	Note 2
Sinmag Limited	Sinmag Bakery Equipment Sdn. Bhd.	Malaysia	Selling of bakery equipment.	12,340	12,340	300,000	100.00	94,539	9,044	9,044	Notes 1 and 2
	LBC Bakery Equipment Inc.	United States	Selling of bakery equipment.	17,241	17,241	882,000	82.82	213,039	35,943	29,929	Notes 1 and 2
	Sinmag Bakery Machine India Private Limited	India	Manufacturing and selling of bakery equipment.	54,748	54,748	-	100.00	5,432	(3,631)	(3,631)	Note 2
	Sinmag Equipment (Thailand) Co., Ltd.	Thailand	Selling of bakery equipment.	18,199	18,199	-	100.00	37,893	5,096	5,096	Notes 1 and 2

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

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

Note 3: For information on investments in mainland China, refer to Table 5.

SINMAG EQUIPMENT CORPORATION

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(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, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outward	Inward							
Sinmag Equipment (China) Co., Ltd. (Note 3)	Manufacturing and selling of bakery equipment	$ 1,058,108 (US$ 33,850)	b	$ 349,938 (US$ 10,594)	$ -	$ -	$ 349,938 (US$ 10,594)	$ 517,927	100	$ 529,158 (Note 2 b.(2))	$ 1,841,267	$ 3,498,804 (US$ 113,753)	-
Wuxi New Order Control Co., Ltd.	Manufacturing and selling of control panel and electromechanical control system	4,961 (US$ 150)	b	3,348 (US$ 104)	-	-	3,348 (US$ 104)	11,931	50	5,712 (Note 2 b.(2))	11,099	50,298 (US$ 1,637)	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by the Investment Commission, MOEA
$353,286 (Note 4)	$1,174,049	$1,341,227

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

a. Direct investments in mainland China.
b. Investment in mainland China through an existing company established in a third region (LUCKY UNION LIMITED and SINMAG LIMITED)
c. Others.

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

a. If the investment is still in preparation and there is no investment gain (loss), it will be specified.

b. The basis for recognizing investment gain (loss) is as follows:

1) Based on financial statements audited by an international accounting firm that has a business relationship with an accounting firm in the ROC.
2) Based on financial statements audited by the accounting firm of the parent company in Taiwan.
3) Others.

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

Note 4: Repatriation of investments of $3,549,102 thousand was not deducted from the amount.

Note 5: The share of profits (losses) of the investee includes the effect of unrealized gross profit on intercompany transaction.

SINMAG EQUIPMENT CORPORATION

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, 2019
(In Thousands of New Taiwan Dollars)

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	$ (46,423)	(3)	Cost with a margin	B/L 90 days	Note	$ 8,711	2	$ 3,400	-
	Purchase	655,146	88	Cost with a margin	B/L 45 days	〃	(221,649)	(89)	18,301	-

Note: 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.

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

SINMAG EQUIPMENT CORPORATION

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

SINMAG EQUIPMENT CORPORATION

STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Item	Description	Amount
Cash		
Petty cash		$ 152
Cash in banks		
Checking accounts		7,749
Demand deposits		16,880
Foreign currency deposits	Including US$999 thousand @29.98, JPY11,217 thousand @0.28	33,022
		$ 57,803

SINMAG EQUIPMENT CORPORATION

STATEMENT OF NOTES RECEIVABLE
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Client Name	Description	Amount
Unrelated parties		
Ling Sheng Food Co., Ltd	Payments	$ 4,848
Yusheng Food Co., Ltd.	Payments	1,200
Haojiawei Co., Ltd.	Payments	1,156
Jin Chang Bakery Plant	Payments	730
Ding Hau Frozen Food Co., Ltd	Payments	728
Others (Note)	Payments	5,072
Less: Allowance for impairment loss		-
		$ 13,734

Note: The amount from each individual client included in others does not exceed 5% of the account balance.

SINMAG EQUIPMENT CORPORATION

STATEMENT OF TRADE RECEIVABLES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Client Name	Description	Amount
Related parties		
LBC Bakery Equipment Inc.	Payments	$ 38,734
Sinmag Equipment (Thiland) Co., Ltd.	Payments	8,911
Sinmag Equipment (China) Co., Ltd.	Payments	8,711
Sinmag Bakery Equipment Sdn. Bhd.	Payments	6,993
Tehmag Foods Corporation	Payments	1
		$ 63,350
Unrelated parties		
Macadams International (PTY) Ltd.	Payments	$ 22,731
PT. Sinar Himalaya	Payments	22,617
Europan S.A.De C.V.	Payments	20,822
American Baking Systems, INC	Payments	15,126
Sarl P.E.Center (Professional Equipment Center)	Payments	7,686
Comercio De Fornos E Maquinas Para Panificacao Europan Do Brasil Ltda	Payments	7,021
Others (Note)	Payments	36,620
		132,623
Less: Allowance for impairment loss		(7,052)
		$ 125,571

Note: The amount from each individual client included in others does not exceed 5% of the account balance.

SINMAG EQUIPMENT CORPORATION

STATEMENT OF OTHER RECEIVABLES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Unrelated parties		
Advances to employees	Advances to employees	$ 330
Tax refund	Business tax refund	137
Others		7
		$ 474

STATEMENT 5

SINMAG EQUIPMENT CORPORATION

STATEMENT OF INVENTORIES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

	Amount	
Item	**Cost**	**Net Realizable Value**
Raw materials	$ 39,830	$ 25,488
Work in progress	21,587	19,650
Finished goods	16,067	14,079
Merchandise	9,095	6,743
Inventory in transit	2,534	2,534
	$ 89,113	$ 68,494

Note: Allowance for loss on the decline in inventory value of supplies is recognized according to the extent of idleness and valuation at net realizable value.

SINMAG EQUIPMENT CORPORATION

STATEMENT OF PREPAYMENTS
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Prepayments	Exhibition booth fees	$ 492
	Maintenance expense	243
	Professional service expense	345
	Insurance expense	218
	Others	433
		$ 1,731

SINMAG EQUIPMENT CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investees	Balance, January 1, 2019		Additions in Investment		Decrease in Investment		Gain (Losses) on Investments Accounted for Using the Equity Method	Exchange Differences on Translating Foreign Operations	Balance, December 31, 2019			Market Value or Net Asset Value (Note 1)		Collateral
	Shares	Amount	Shares	Amount	Shares	Amount (Note 2)			Shares	%	Amount	Unit Price (NT$)	Total Amount	
Lucky Union Limited	-	$ 2,041,923	-	$ -	-	$ (275,245)	$ 527,468	$ (73,873)	-	100	$ 2,220,273	-	$ 2,220,273	
Less: Unrealized gain on transactions with subsidiaries		(11,433)		(12,987)		11,433	-	-			(12,987)		-	Nil
		$ 2,030,490		$ (12,987)		$ (263,812)	$ 527,468	$ (73,873)			$ 2,207,286		$ 2,220,273	

Note 1: Amount was calculated based on the audited financial statements for the year ended December 31, 2019.

Note 2: The decrease was due to cash dividends distributed by investees of $(275,245) thousand.

SINMAG EQUIPMENT CORPORATION

STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Balance, January 1, 2019 (Adjusted According to IFRS 16)	Additions	Decrease	Balance, December 31, 2019
Buildings	$ -	$ 788	$ -	$ 788

SINMAG EQUIPMENT CORPORATION

STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT OF RIGHT-OF-USE ASSETS
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Balance, January 1, 2019	Additions	Decrease	Balance, December 31, 2019
Buildings	$ -	$ 221	$ -	$ 221

STATEMENT 10

SINMAG EQUIPMENT CORPORATION

STATEMENT OF OTHER NON-CURRENT ASSETS
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Refundable deposits	Deposits for office rental, phone bills and security deposits on performance bonds	$ 181
Overdue receivables		379
Less: Allowance for impairment loss		(379)
		$ 181

SINMAG EQUIPMENT CORPORATION

STATEMENT OF SHORT-TERM LOANS
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Type	Balance, End of Year	Contract Period	Range of Interest Rates (%)	Loan Commitments	Collateral	Remark
Secured loans						
Chang Hwa Bank	$ -	2019.06.13-2020.06.30	1.19	$ 140,000	Note 28	The Company’s short-term borrowings limit (guarantee and credit) totaled $404,950 thousand. As of December 31, 2019, the Company’s unused balance of its short-term borrowings totaled $291,559 thousand.
Unsecured loans						
Chang Hwa Bank	13,391	2019.06.13-2020.06.30	2.64	134,970	Nil	
E.SUN Bank	100,000	2019.08.16-2020.08.16	1.15	100,000	Nil	
E.SUN Bank	-	2019.07.29-2020.07.29	-	29,980	Nil	
	$ 113,391			$ 404,950		

SINMAG EQUIPMENT CORPORATION

STATEMENT OF NOTES PAYABLE
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Vendor Name	Description	Amount
Related parties		
New Order Enterprise Co., Ltd.	Payments	$ 317
San Neng Bakeware Corporation	Payments	22
		$ 339
Unrelated parties		
Chao Sheng Elect & Mach. Co., Ltd.	Payments	$ 1,712
Jong Dah Special Steel Corp.	Payments	1,123
Shunlong Wooden Box	Payments	1,091
Others (Note)	Payments	16,952
		$ 20,878

Note: The amount of each individual vendor in others does not exceed 5% of the account balance.

STATEMENT 13

SINMAG EQUIPMENT CORPORATION

STATEMENT OF TRADE PAYABLES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Vendor Name	Description	Amount
Related parties		
Sinmag Equipment (China) Co., Ltd.	Payments	$ 221,649
New Order Enterprise Co., Ltd.	Payments	141
San Neng Bakeware Corporation	Payments	43
		$ 221,833
Unrelated parties		
Leader Baker Machinery Industry Company	Payments	$ 796
Ting An Food Machinery	Payments	753
Spar Food Machinery Mfg. Co., Ltd.	Payments	679
Chao Sheng Elect & Mach. Co., Ltd.	Payments	604
Others (Note)	Payments	3,495
		$ 6,327

Note: The amount of each individual vendor in others does not exceed 5% of the account balance.

STATEMENT 14

SINMAG EQUIPMENT CORPORATION

STATEMENT OF CONTRACT LIABILITIES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Contract liabilities	Advance receipts	$ 4,540

SINMAG EQUIPMENT CORPORATION

STATEMENT OF LEASE LIABILITIES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Description	Lease Term	Discount Rate	Balance, December 31, 2019
Buildings	For use as place of business operation	2019.06.20-2021.06.19	1.15%	$ 569
Less: Current portion of lease liabilities				(378)
				$ 191

SINMAG EQUIPMENT CORPORATION

STATEMENT OF NET REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Quantity (Pieces)	Amount
Sale of goods	843 thousand	$ 962,414
Sales returns		(1,460)
Sales allowances		(101)
		960,853
Rendering of services		20,249
		$ 981,102

STATEMENT 17

SINMAG EQUIPMENT CORPORATION

STATEMENT OF COST OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Amount
Raw materials, beginning of year	$ 40,722
Add: Raw material purchased	92,820
Transferred from work in progress	88,010
Transferred from finished goods	14,556
Transferred from merchandise	10,677
Gain from physical count	2
Less: Cost of raw materials sold	(34,022)
Transferred to expenses	(3,745)
Scrapped	(269)
Raw materials, end of year	(39,830)
Raw materials used	168,921
Direct labor	19,750
Manufacturing expenses	32,133
Manufacturing cost	220,804
Work in process, beginning of year	22,457
Add: Work in progress purchased	6,314
Less: Transferred to raw materials	(88,010)
Cost of work in progress sold	(1,903)
Work in progress, end of year	(21,587)
Cost of finished goods	138,075
Finished goods, beginning of year	18,820
Add: Transferred from research and development	483
Less: Transferred to raw materials	(14,556)
Transferred to merchandise	(15,624)
Finished goods, end of year	(16,067)
Cost of goods sold - finished goods	111,131
Merchandise (including inventory in transit), beginning of year	36,178
Add: Merchandise purchased	646,748
Transferred from finished goods	15,624
Less: Merchandise (including inventory in transit), end of year	(11,629)
Transferred to raw materials	(10,677)
Transferred to machinery and equipment	(120)
Loss from physical count	(1)
Transferred to expenses	(111)
Scrapped	(30)
Cost of merchandise sold	675,982

(Continued)

Item	Amount
Cost of raw of materials and work in progress sold	$ 35,925
Under-applied manufacturing overhead	188
Scrapped	299
Gain from physical count	(1)
Inventory write-downs	2,899
Revenue from sale of scraps	(70)
	39,240
Cost of goods sold	826,353
Service cost	2,692
Operating cost	$ 829,045

(Concluded)

SINMAG EQUIPMENT CORPORATION

STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Selling and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses	Gain on Reversal of Expected Credit Loss
Payroll and related expense	$ 34,195	$ 48,808	$ 6,271	$ -
Remuneration of directors	-	7,758	-	-
Shipping fees	4,219	-	-	-
Insurance expense	3,022	2,546	462	-
Professional service fees	283	7,171	58	-
Packaging fees	2,907	-	-	-
Gain on reversal of expected credit loss	-	-	-	(639)
Others (Note)	13,510	7,045	1,290	-
	$ 58,136	$ 73,328	$ 8,081	$ (639)

Note: The amount of each item in others does not exceed 5% of the account balance.

SINMAG EQUIPMENT CORPORATION

STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

Function / Nature	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Classified as Cost of Revenue	Classified as Operating Expenses	Total	Classified as Cost of Revenue	Classified as Operating Expenses	Total
Employee benefits expenses						
Salary and bonus	$ 28,896	$ 89,274	$ 118,170	$ 28,302	$ 84,875	$ 113,177
Labor and health insurance	2,534	5,472	8,006	2,504	5,585	8,089
Pension	1,496	2,798	4,294	1,637	3,165	4,802
Remuneration of directors	-	7,758	7,758	-	8,539	8,539
Others	1,041	1,323	2,364	1,123	2,174	3,297
	$ 33,967	$ 106,625	$ 140,592	$ 33,566	$ 104,338	$ 137,904
Depreciation	$ 2,061	$ 1,705	$ 3,766	$ 4,019	$ 2,489	$ 6,508
Amortization	$ 32	$ 216	$ 248	$ 145	$ 215	$ 360

Note:

1. For the years ended December 31, 2019 and 2018, the average numbers of Sinmag Equipment Corporation’s employees were 94 and 98, respectively, and the numbers of directors who were not employees were 6 in both years.

2. For the years ended December 31, 2019 and 2018, Sinmag Equipment Corporation’s average employee benefits were as follows:

   a. For the years ended December 31, 2019 and 2018, Sinmag Equipment Corporation’s average employee benefits were $1,509 thousand and $1,406 thousand, respectively.

   b. Sinmag Equipment Corporation’s average salaries were $1,343 thousand and $1,230 thousand, respectively.

   c. The percentage change in the average salary expenses was 9%.