

**REXON INDUSTRIAL CORP., LTD. AND  
SUBSIDIARIES**

**Consolidated Financial Statements**

**With Independent Auditors' Report  
For the Years Ended December 31, 2018 and 2017**

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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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## **Representation Letter**

The entities that are required to be included in the combined financial statements of REXON INDUSTRIAL CORP., LTD. as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, REXON INDUSTRIAL CORP., LTD. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: REXON INDUSTRIAL CORP., LTD.

Chairman: Kun-Fu, Wang

Date: March 28, 2019



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## Independent Auditors' Report

To the Board of Directors of REXON INDUSTRIAL CORP., LTD.:

### Opinion

We have audited the consolidated financial statements of REXON INDUSTRIAL CORP., LTD. and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, the consolidated statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

#### 1. Valuation of Inventories

The accounting principle of inventory, refer to consolidated financial statements Note 4 (h)“inventory”, the assessment of accounting estimate and assumption uncertainty, refer to consolidated financial statements Note 5 (a); the explanation of inventory assessment refers to consolidated financial statements Note 6 (h).

Description of key audit matter:

Due to the introduction of new products such as machine tools or fitness machines may cause significant changes in consumer demand, the original product outdated may no longer meet the market demand, or by the electric tool market recession and competitors' low-cost strategy and other factors so that the sale of related products may be volatile, it easily leads to the cost of inventory may exceed its net realizable value of the risk; therefore, inventory valuation is considered as one of a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, includes the allowance for uncollectible inventory valuation losses of REXON Industrial Corp., Ltd. and the rationale of calculation method, implementation of the sampling procedures to check the inventory and the net realized value to compare with the past period situation and analyze whether the loss of the value of the deposit in the current period is disclosure appropriately.

## 2. Revenue Recognition

The accounting principle of revenue recognition, refer to consolidated financial statements Note 4 (q); The accounting estimation and assumption uncertainty of allowance for sales returns and discounts, refer to consolidated financial statements Note 5 (b); the explanation about allowance for sales returns and discounts, refer to consolidated financial statements Note 6 (q).

Description of key audit matter:

Revenue is based on contractual agreements or business practices. When a product defect occurs and a discount is required for the customer, the group's management's estimated series of the foregoing matters is a deduction of income. Therefore, the test for recognition of revenue is considered as one of a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures includes testing the Company's internal controls surrounding revenue recognition; assessing whether appropriate revenue recognition policies are applied through comparison with accounting standards and testing the Company's main revenue types, its related sales agreements, and sales terms; on a sample basis, inspecting contracts with customers or customers' orders and assessing whether the accounting treatment of the related contracts (including sales terms) is applied appropriately; performing a test of details of sales revenue and understanding the rationale for any identified significant sales fluctuations and any significant reversals of revenue through sales discounts and sales returns ; and evaluating the adequacy of the Company's disclosures of its revenue recognition policy and other related disclosures.

### **Other Matter**

REXON INDUSTRIAL CORP., LTD. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

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

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

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

Those charged with governance (including the supervisors) are responsible for overseeing the Group's financial reporting process.

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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 Shyh-Huar, Kuo and Chiun-Mang, Chen.

KPMG

Taipei, Taiwan (Republic of China)  
March 28, 2019

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017		
	Amount	%	Amount	%	Amount	%	Amount	%	
<b>Assets</b>									
<b>Current assets:</b>									
1100 Cash and cash equivalents(Note6(a))	\$ 1,396,507	20	936,121	15	2100 Short-term borrowings(Note6(n) and 8)	\$ 804,960	12	1,000,911	16
1110 Current financial assets at fair value through profit or loss(Note6(b))	366,748	5	608,279	10	2130 Current contract liabilities(Note6(v))	16,355	-	-	-
1120 Current financial assets at fair value through other comprehensive income(Note6(c))	41,005	1	-	-	2150 Notes payable	266,974	4	265,640	4
1125 Current available-for-sale financial assets, net(Note6(d))	-	-	58,070	1	2160 Notes payable to related parties(Note7)	350	-	467	-
1150 Notes receivable, net(Note6(f))	276	-	1,811	-	2170 Accounts payable	1,711,746	24	1,184,245	19
1160 Notes receivable due from related parties, net(Note6(f) and 7)	8,504	-	17,286	-	2200 Other payables	410,692	6	435,150	7
1170 Accounts receivable, net(Note6(f))	1,649,762	23	1,373,238	21	2220 Other payables to related parties(Note7)	95	-	173	-
1180 Accounts receivable due from related parties, net(Note6(f) and 7)	20,047	-	18,096	-	2230 Current tax liabilities	97,595	2	16,467	-
1200 Other receivables, net(Note6(g))	884	-	1,310	-	2250 Current provisions(Note6(q))	41,327	1	52,834	1
130x Inventories(Note6(h))	737,301	11	692,699	11	(Note6(i) and 12)	4,478	-	-	-
1460 Non-current assets classified as held for sale(Note6(i) and 12)	109,854	2	-	-	2320 Long-term liabilities, current portion(Note6(p) and 8)	244,680	3	327,536	5
1479 Other current assets, others(Note6(m))	139,275	2	124,381	2	2399 Other current liabilities, others(note6(i) and (o))	498,703	7	85,198	1
	<u>4,470,163</u>	<u>.64</u>	<u>3,831,291</u>	<u>.60</u>		<u>4,097,955</u>	<u>.59</u>	<u>3,368,621</u>	<u>.53</u>
<b>Non-current assets:</b>					<b>Non-Current liabilities:</b>				
1517 Non-current financial assets at fair value through other comprehensive income(Note6(c))	147,130	2	-	-	Long-term borrowings(Note6(p) and 8)	252,932	3	494,192	8
1523 Non-current available-for-sale financial assets, net(Note6(d))	-	-	144,442	2	Deferred tax liabilities(Note6(s))	-	-	3,737	-
1543 Non-current financial assets at cost, net(Note6(e))	-	-	5,839	-	Net defined benefit liability, non-current(Note6(r))	129,653	2	53,627	1
1550 Investments accounted for using equity method, net(Note6(j))	16,977	-	16,570	-		<u>362,585</u>	<u>5</u>	<u>551,556</u>	<u>9</u>
1600 Property, plant and equipment(Note6(k) and (8))	2,182,088	31	2,177,887	35		<u>4,460,540</u>	<u>.64</u>	<u>3,920,177</u>	<u>.62</u>
1780 Intangible assets(Note6(l))	56,503	1	79,582	1	<b>Equity attributable to owners of parent:(Note6(t))</b>				
1840 Deferred tax assets(Note6(s))	31,874	-	25,075	-	Capital stock	1,814,735	26	1,814,735	28
1920 Refundable deposits	353	-	198	-	Capital surplus	433	-	433	-
1985 Long-term prepaid rents	60,158	1	71,333	1	Retained earnings	694,728	10	632,695	10
1990 Other non-current assets, others(Note6(m))	44,852	1	34,752	1	Other equity interest	18,926	-	(1,376)	-
	<u>2,539,935</u>	<u>.36</u>	<u>2,555,678</u>	<u>.40</u>	<b>Total equity attributable to owners of parent:</b>	<u>2,528,822</u>	<u>.36</u>	<u>2,446,487</u>	<u>.38</u>
<b>Total assets</b>	<u>\$ 7,010,098</u>	<u>100</u>	<u>6,386,969</u>	<u>100</u>	Non-controlling interests	20,736	-	20,305	-
					<b>Total equity</b>	<u>2,549,558</u>	<u>.36</u>	<u>2,466,792</u>	<u>.38</u>
					<b>Total liabilities and equity</b>	<u>\$ 7,010,098</u>	<u>100</u>	<u>6,386,969</u>	<u>100</u>

See accompanying notes to consolidated financial statements.



**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2018 and 2017**  
**(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)**

	2018		2017	
	Amount	%	Amount	%
4000 Operating revenue, net(Note6(v) 、(w) and 7)	\$ 6,185,512	100	5,315,350	100
5000 Operating costs(Note6(f) 、(l) 、(r) and (x))	<u>4,951,438</u>	<u>80</u>	<u>4,126,435</u>	<u>78</u>
<b>Gross profit from operations, net</b>	<u>1,234,074</u>	<u>20</u>	<u>1,188,915</u>	<u>22</u>
6000 <b>Operating expenses(Note6(l) 、(r) and (x)):</b>				
6100 Selling expenses	360,617	6	440,799	8
6200 Administrative expenses	183,421	3	182,083	3
6300 Research and development expenses	<u>146,452</u>	<u>2</u>	<u>148,961</u>	<u>3</u>
<b>Total operating expenses</b>	<u>690,490</u>	<u>11</u>	<u>771,843</u>	<u>14</u>
<b>Net operating income</b>	<u>543,584</u>	<u>9</u>	<u>417,072</u>	<u>8</u>
7000 <b>Non-operating income and expenses:</b>				
7010 Other income(Note6(y))	74,271	1	41,621	1
7020 Other gains and losses(Note6(y))	(4,980)	-	(39,263)	(1)
7050 Finance costs(Note6(y))	(38,151)	(1)	(41,754)	(1)
7060 Share of profit of associates accounted for using equity method(Note6(j))	<u>407</u>	<u>-</u>	<u>497</u>	<u>-</u>
	<u>31,547</u>	<u>-</u>	<u>(38,899)</u>	<u>(1)</u>
7900 <b>Profit before income tax</b>	575,131	9	378,173	7
7950 Income tax expense(Note6(s))	<u>113,927</u>	<u>2</u>	<u>42,312</u>	<u>1</u>
8000 Profit (loss) from continuing operations	<u>461,204</u>	<u>7</u>	<u>335,861</u>	<u>6</u>
8100 <b>Discontinued operation income:</b>				
8101 Profit (loss) from discontinued operations, net of tax(Note12(b))	<u>(62,227)</u>	<u>(1)</u>	<u>(65,322)</u>	<u>(1)</u>
<b>Profit</b>	<u>398,977</u>	<u>6</u>	<u>270,539</u>	<u>5</u>
8300 <b>Other comprehensive income:</b>				
8310 <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>				
8311 Remeasurements of defined benefit obligation(Note6(r))	(132,673)	(2)	(44,092)	(1)
8316 Unrealized gains on investments in equity instruments measured at fair value through other comprehensive income	<u>28,935</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(103,738)</u>	<u>(2)</u>	<u>(44,092)</u>	<u>(1)</u>
8360 <b>Components of other comprehensive income that will be reclassified to profit or loss</b>				
8361 Exchange differences on translation of foreign financial statement	(100,842)	(2)	(35,621)	(1)
8362 Unrealized gains on valuation of available-for-sale financial assets	-	-	33,998	1
8365 Equity related to non-current assets (or disposal groups) reclassified as held for sale(Note6(i))	90,815	2	-	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss(Note6(s))	<u>1,763</u>	<u>-</u>	<u>5,974</u>	<u>-</u>
	<u>(8,264)</u>	<u>-</u>	<u>4,351</u>	<u>-</u>
8300 <b>Other comprehensive loss for the period, net of tax</b>	<u>(112,002)</u>	<u>(2)</u>	<u>(39,741)</u>	<u>(1)</u>
8500 <b>Total comprehensive income for the period</b>	<u>\$ 286,975</u>	<u>4</u>	<u>\$ 230,798</u>	<u>4</u>
<b>Profit, attributable to:</b>				
8610 Owners of parent	\$ 398,728	6	270,298	5
8620 Non-controlling interests	<u>249</u>	<u>-</u>	<u>241</u>	<u>-</u>
	<u>\$ 398,977</u>	<u>6</u>	<u>\$ 270,539</u>	<u>5</u>
<b>Comprehensive income attributable to:</b>				
8710 Owners of parent	\$ 286,544	4	231,031	4
8720 Non-controlling interests	<u>431</u>	<u>-</u>	<u>(233)</u>	<u>-</u>
	<u>\$ 286,975</u>	<u>4</u>	<u>\$ 230,798</u>	<u>4</u>
<b>Earnings per share(NT dollars)(Note6(u))</b>				
9750 <b>Basic earnings per share</b>				
Basic earnings per share from continuing operations	\$ 2.54		1.49	
Basic loss per share from discontinued operations	(0.34)		-	
<b>Total basic earnings per share</b>	<u>\$ 2.20</u>		<u>1.49</u>	
9850 <b>Diluted earnings per share</b>				
Diluted earnings per share from continuing operations	\$ 2.53		1.49	
Diluted loss per share from discontinued operations	(0.34)		-	
<b>Total diluted earnings per share</b>	<u>\$ 2.19</u>		<u>1.49</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2018 and 2017**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent											Total equity		
	Retained earnings					Total other equity interest					Non-controlling interests			
	Share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Equity related to non-current assets (or disposal groups) classified as held for sale			Total equity attributable to owners of parent	
<b>Balance at January 1, 2017</b>	\$ 1,814,735	433	54,527	-	442,699	497,226	(22,279)	-	16,078	-	(6,201)	2,306,193	20,538	2,326,731
Appropriation and distribution of retained earnings:	-	-	-	-	(10,604)	-	-	-	-	-	-	-	-	-
Legal reserve appropriated	-	-	10,604	-	(10,604)	-	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	6,201	(6,201)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(90,737)	(90,737)	-	-	-	-	-	(90,737)	-	(90,737)
Profit	-	-	10,604	6,201	(107,542)	(90,737)	-	-	-	-	-	270,298	241	270,539
Other comprehensive income	-	-	-	-	(44,092)	(44,092)	(29,173)	-	33,998	-	4,825	(39,267)	(474)	(39,741)
Comprehensive income	-	-	-	-	226,206	226,206	(29,173)	-	33,998	-	4,825	231,031	(233)	230,798
<b>Balance at December 31, 2017</b>	\$ 1,814,735	433	65,131	6,201	561,363	632,695	(51,452)	-	50,076	-	(1,376)	2,446,487	20,305	2,466,792
<b>Balance at January 1, 2018</b>	\$ 1,814,735	-	65,131	6,201	561,363	632,695	(51,452)	50,076	50,076	-	(1,376)	2,446,487	20,305	2,466,792
Effects of retrospective application	-	-	-	-	13,559	13,559	-	50,076	(50,076)	-	-	13,559	-	13,559
Balance on January 1, 2018 after adjustments	\$ 1,814,735	433	65,131	6,201	574,922	646,254	(51,452)	50,076	(50,076)	-	(1,376)	2,460,046	20,305	2,480,351
Profit (loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation and distribution of retained earnings:	-	-	-	-	(27,030)	-	-	-	-	-	-	-	-	-
Legal reserve appropriated	-	-	27,030	-	(27,030)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(217,768)	(217,768)	-	-	-	-	-	(217,768)	-	(217,768)
Reversion of special reserve appropriation	-	-	-	(4,825)	4,825	-	-	-	-	-	-	-	-	-
Profit	-	-	27,030	(4,825)	(239,973)	(217,768)	-	-	-	-	-	(217,768)	-	(217,768)
Other comprehensive income	-	-	-	-	398,728	398,728	(99,261)	28,935	90,815	-	20,489	398,728	249	398,977
Comprehensive income	-	-	-	-	(132,673)	(132,673)	(99,261)	28,935	90,815	-	20,489	(112,184)	182	(112,002)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	266,055	266,055	(99,261)	28,935	90,815	-	20,489	286,544	431	286,975
<b>Balance at December 31, 2018</b>	\$ 1,814,735	433	92,161	1,376	601,191	694,728	(150,713)	78,824	90,815	-	(187)	2,528,822	20,736	2,549,558

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**  
**(Expressed in Thousands of New Taiwan Dollars)**

	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 575,131	378,173
Loss from discontinued operations before tax	(62,227)	(17,667)
Profit before tax	512,904	360,506
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	122,431	108,628
Amortization expense	8,535	14,654
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	1,040	(15,353)
Interest expense	38,151	43,139
Interest income	(3,555)	(2,687)
Dividend income	(9,182)	(5,886)
Share of profit of associates and joint ventures accounted for using equity method	(407)	(497)
Loss on disposal of property, plant and equipment	41,189	7,919
<b>Total adjustments to reconcile profit (loss)</b>	198,202	149,917
<b>Changes in operating assets and liabilities:</b>		
Decrease in financial assets held for trading	-	51,180
Decrease in financial assets mandatorily measured at FVTPL	259,889	-
Decrease in notes receivable	1,535	1,608
Decrease in notes receivable due from related parties	8,782	5,815
Increase in accounts receivable	(276,524)	(463,923)
(Increase) decrease in accounts receivable due from related parties	(1,951)	16,038
Increase in other receivable	(469)	(488)
Increase in inventories	(65,787)	(115,861)
Increase in other current assets	(18,138)	(39,756)
Decrease in other operating assets	1,961	1,199
<b>Total changes in operating assets</b>	(90,702)	(544,188)
Increase in contract liabilities	6,198	-
Increase in notes payable	1,334	206,298
(Decrease) increase in notes payable to related parties	(117)	439
Increase in accounts payable	527,501	573,044
(Decrease) increase in other payable	(13,518)	93,596
(Decrease) increase in other payable to related parties	(78)	170
Increase in other current liabilities	3,628	656
Decrease in net defined benefit liability	(56,647)	(70,750)
<b>Total changes in operating liabilities</b>	468,301	803,453
<b>Total changes in operating assets and liabilities</b>	377,599	259,265
<b>Total adjustments</b>	575,801	409,182
Cash inflow generated from operations	1,088,705	769,688
Interest received	3,555	2,687
Dividends received	9,182	5,886
Interest paid	(38,468)	(43,137)
Income taxes paid	(41,572)	(60,794)
<b>Net cash flows from (used in) operating activities</b>	1,021,402	674,330
<b>Cash flows from (used in) investing activities:</b>		
Proceeds from disposal of financial assets at fair value through other comprehensive income	43,312	-
Acquisition of property, plant and equipment	(193,556)	(93,109)
Proceeds from disposal of property, plant and equipment	2,374	1,375
Increase in refundable deposits	(155)	-
Acquisition of intangible assets	(9,918)	(8,574)
Increase in prepayments for business facilities	(51,589)	(43,479)
Dividends received	-	800
Other investing activities	408,649	-
<b>Net cash flows from (used in) investing activities</b>	199,117	(142,987)
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	286,364	91,986
Decrease in short-term loans	(489,061)	(309,168)
Proceeds from long-term debt	170,000	522,000
Repayments of long-term debt	(506,161)	(273,653)
Cash dividends paid	(217,768)	(90,737)
<b>Net cash flows from (used in) financing activities</b>	(756,626)	(59,572)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	1,338	(45,062)
<b>Net increase (decrease) in cash and cash equivalents</b>	465,231	426,709
<b>Cash and cash equivalents at beginning of period</b>	936,121	509,412
<b>Cash and cash equivalents at end of period</b>	<u>\$ 1,401,352</u>	<u>936,121</u>
<b>Components of cash and cash equivalents</b>		
Cash and cash equivalents reported in the statement of financial position	\$ 1,396,507	936,121
Reclassification to (non-current) assets (or disposal groups) held for sale	4,845	-
<b>Cash and cash equivalents at end of period</b>	<u>\$ 1,401,352</u>	<u>936,121</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

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

**(1) Company history**

REXON INDUSTRIAL CORP., LTD. (the “Company”) was incorporated on April 30, 1973 and registered under the Ministry of Economic Affairs, R.O.C. The address of the group’s registered office is No.261, Renhua Rd., Dali Dist., Taichung City 412, and Taiwan (R.O.C.). The Company's common shares were listed on the Taiwan Stock Exchange (TWSE) on February 4, 1995. The group and its subsidiaries (the ‘Group’) is in the business of manufacturing and selling drills, woodworking tools and fitness equipment, which were described in Note 14.

**(2) Approval date and procedures of the consolidated financial statements**

The consolidated financial statement was authorized for issuance by the Board of Directors on March 28, 2019.

**(3) New standards, amendments and interpretations adopted**

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue was recognized when the goods were delivered to the customers’ premises, which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognized at this point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing management involvement with the goods. Under IFRS 15, revenue is currently recognized when a customer obtains control of the goods.

For certain contracts that permit a customer to return an item, revenue was recognized when a reasonable estimate of the returns could be made, provided that all other criteria for revenue recognition were met. Otherwise, a revenue recognition was deferred until the return period lapses or a reasonable estimate of returns could be made. Under IFRS 15, revenue are recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the statement of financial position.

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Group’ s consolidated financial statements:

	December 31, 2018			January 1, 2018		
	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15	Balances prior to the adoption of IFRS 15	Impact of changes in accounting policies	Balance upon adoption of IFRS 15
<b>Impacted line items on the consolidated balance sheet</b>						
Current contract liabilities	\$ -	16,355	16,355	-	10,157	10,157
Deferred revenue	16,355	(16,355)	-	10,157	(10,157)	-
<b>Impact on liabilities</b>	<b>\$ 16,355</b>	<b>-</b>	<b>16,355</b>	<b>10,157</b>	<b>-</b>	<b>10,157</b>

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4 (7).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4 (g).

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.

4) Classification of financial assets on the date of initial application of IFRS 9

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

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
Cash and cash equivalents	Loans and receivables	936,121	Amortized cost	936,121
Equity investment	Held-for-trading (note 1)	16,379	Mandatorily at FVTPL	16,379
Debt securities	Held-for-trading (note 2)	591,900	Mandatorily at FVTPL	591,900
Equity instruments	Available-for-sale (note 3)	202,512	FVOCI	202,512
Equity instruments	Measured at cost (note 4)	5,839	Mandatorily at FVTPL	19,398
Trade and notes receivable	Loans and receivables (note 5)	1,410,431	Amortized cost	1,410,431
Other receivables	Loans and receivables (note 5)	1,310	Amortized cost	1,310
Refundable deposits	Loans and receivables	198	Amortized cost	198

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Note1: Under IAS 39, these equity securities were designated as held-for-trading because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as FVTPL under IFRS 9.

Note2: The corporate debt securities categorized as held-for-trading under IAS 39 which may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by selling securities. These assets have been classified as FVTPL under IFRS 9.

Note 3: These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI.

Note 4: Under IAS 39, these equity securities were designated as at measured at cost. Because they are managed on a fair value basis and their performance is monitored on this basis, these assets have been classified as at FVTPL under IFRS 9, resulting in an increase of 13,559 thousand in those assets and in retained earnings on January 1, 2018.

Note 5: Trade, lease and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 608,279	-	-	-	-	-
Additions – equity instruments:						
From available for sale	-	5,839	13,559	-	13,559	-
Total	<u>\$ 608,279</u>	<u>5,839</u>	<u>13,559</u>	<u>627,677</u>	<u>13,559</u>	<u>-</u>
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 208,351	-	-	-	-	-
Subtractions – equity instruments:						
To FVTPL – required reclassification based on classification criteria	-	(5,839)	-	-	-	-
Total	<u>\$ 208,351</u>	<u>(5,839)</u>	<u>-</u>	<u>202,512</u>	<u>-</u>	<u>-</u>
Amortized cost						
Beginning balance of cash and cash equivalents, bond investment without an active market, trade and other receivables, and other financial assets)	<u>\$ 2,348,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(iii) Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group present a reconciliation between the  
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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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opening and closing balances for liabilities with changes arising from financing activities as note 6 (ac).

(iv) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Loss”

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group has retrospectively applied the amendments. It estimated that the application of the amendments will not have any material impact on its consolidated financial statements for the year ended in.

In addition, if the Group had applied its previous accounting policy, there would have been no material impact on its consolidated financial statements for the year ended December 31, 2018.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of its land access in China. The Group estimated that the right-of-use assets to increase by \$60,158 thousand, as well as the prepaid rent to decrease by \$60,158 thousand on January 1, 2019. There is no impact on retained earnings. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Group is not required to make any adjustments for leases where the Group is the intermediate lessor in a sublease.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Group estimated the application of the amendments will not have any impact on the recognition of deferred tax liabilities on January 1, 2019.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

**(4) Summary of significant accounting policies**

The accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations” ) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Commission, ROC.

**(b) Basis of preparation**

**(i) Basis of measurement**

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value;
- 2) Fair value through other Comprehensive income (Available-for-sale financial assets) are measured at fair value.
- 3) The defined benefit liability (asset) is recognized as plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less the present value of the defined benefit obligation.

**(ii) Functional and presentation currency**

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The Company’s consolidated financial statements are presented in New Taiwan Dollar, which is the Company’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(c) **Basis of consolidation**

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprised of the Company and its subsidiaries. The Group accounted an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that the control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra- group transactions, are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding	
			December 31, 2018	December 31, 2017
The Company	Power Tool Specialists Inc. (P.T.S.)	Merchandise trading	96%	96%
"	Gold Item Group Ltd.(Gold Item)	Investing and holding	100%	100%
"	Rexon Technology Corp., Ltd. (Rexon Tech)	Manufacture and sale of electric components	80.09%	80.09%
"	Hangzhou Kanji Trading Co., Ltd.( Hangzhou Kanji)	Merchandise trading	100%	100%
Gold Item	Motomax Hong Kong	Investing and holding	100%	100%
Gold Item	Gold Tech Group Ltd.	Investing and holding	100%	100%
Motomax Hong Kong	Hangzhou Liwu Machinery & Electric Co., Ltd.(Hangzhou Liwu)	Manufacture of drills and woodworking tools	100%	100%
Gold Tech Group Ltd.	Tongxiang Rexon Industrial Co., Ltd.(Tongxiang Rexon)	Manufacture of drills, woodworking tools and fitness equipment	100%	100%
Rexon Tech.	Rexon Technology Ltd.(Brunei)	Rexon Technology Ltd. (Brunei)	100%	100%
Rexon Technology Ltd. (Brunei)	Rexon Technology Ltd. (Shanghai)	Manufacture and sale of radio communication equipment	100%	100%

(iii) Subsidiaries excluded from consolidation: None.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(d) **Foreign currency**

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation:

- Fair value through other comprehensive income (Available-for-sale) equity investment;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- Qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

**(e) Classification of current and non-current assets and liabilities**

An asset is classified as current under one of the following criteria, and all other assets are classified as noncurrent.

- (i) It is expected to be realized, or intended to be sold or consumed, in its normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period ; or
- (iv) The asset is cash or a cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**(f) Cash and cash equivalents**

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents. If they do not meet the above definition, time deposits should be recognized as other current and non-current financial assets.

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(g) Financial instruments**

**(i) Financial assets (policy applicable from January 1, 2018)**

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

**1) Financial assets measured at amortized cost**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL :

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

**2) Fair value through other comprehensive income (FVOCI )**

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL :

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

(Continued)



**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the exdividend date. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable, and guarantee deposit paid), debt investments measured at FVOCI, accounts receivable measured at FVOCI and contract assets.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL :

- debt securities that are determined to have low credit risk at the reporting date ; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 180 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data :

- significant financial difficulty of the borrower or issuer ;
- a breach of contract such as a default or being more than 180 days past due ;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Financial assets (policy applicable before January 1, 2018)

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held for trading or is designated as such on initial recognition.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than those classified as held for trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- Performance of the financial asset is evaluated on a fair value basis;
- A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and included in non-operating income and expense. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at amortized cost, and included in financial assets measured at cost.

2) Available-for sale financial assets

Available-for-sale financial assets are nonderivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and included in non-operating income and expense. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at amortized cost, and included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in non-operating income and expense.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expense.

4) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than the those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Bad debt expenses and reversal of allowance for doubtful debts for trade receivables are recognized in general and administrative expenses while impairment losses and reversal of impairment for financial assets other than receivables are recognized under non-operating income and expenses.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the assets are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on available-for-sale financial assets" in profit or loss is included in non-operating income and expenses.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Financial liabilities and equity instrument

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

Interest related to the financial liability is recognized in profit or loss, and included in non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capitalized cost is recognized in profit or loss, and included in non-operating income and expense.

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and included in non-operating income or expenses.

4) Offsetting of financial assets and liabilities

The Group presents its financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(h) **Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) **Non-current assets held for sale & Discontinued operations**

(i) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale or distribution rather than through continuing use, are reclassified as held for sale or held for distribution to owners. Immediately before classification as held for sale or held for distribution to owners, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group will first be allocated to goodwill, and then to remaining assets and liabilities will be apportioned on a *pro rata* basis, except that no loss is allocated to assets not within the scope of IAS 36 – Impairment of Assets. Such assets will continue to be measured in accordance with the Group's accounting policies.

Impairment losses on assets initially classified as held for sale or held for distribution to owners and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

When the assets classified as held for sale or held for distribution to owners are intangible assets or property, plant and equipment, they are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(ii) Discontinued operations

An operation will be classified as a discontinued operation upon disposal or when the operation meets the criteria to be classified as held for sale or held for distribution to owners, whichever comes first. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the beginning of the comparative year.

(j) **Investment in associates**

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. The Group recognizes any changes, proportionately with the shareholding ratio under additional paid-in capital, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual controlling power.

(Continued)



**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interests in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the associate.

**(k) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately unless the useful life and depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses.

**(ii) Subsequent cost**

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

**(iii) Depreciation**

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

Land has an unlimited useful life and therefore is not depreciated.

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- |    |   |              |
|----|---|--------------|
| 1) | Buildings   | 2 ~ 60 years |
| 2) | Machinery and equipment   | 2 ~ 10 years |
| 3) | Tooling equipment   | 2 ~ 10 years |
| 4) | Office equipment and other facilities   | 2 ~ 10 years |
| 5) | The significant portion of building consists of its main building and miscellaneous parts, which are estimated over their useful life within 2~60 years.              |              |
| 6) | The significant portion of machinery and equipment consists of welding machines, conveyers, and others, which are estimated over their useful life within 5~10 years. |              |

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as changes in accounting estimate.

**(l) Leases**

**(i) Lessor**

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into an operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

**(ii) Lessee**

Leases of the group are operating leases and are not recognized in the Group's balance sheets. Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Incentives granted by lessor to enter into an operating lease are spread over the lease term on a straight-line basis so that the lease expense is reduced accordingly.

**(m) Intangible assets**

**(i) Goodwill**

**1) Initial recognition**

Goodwill acquired in a business combination is included in intangible assets.

**2) Subsequent measurement**

Goodwill is measured at cost, less, accumulated impairment losses. Impairment loss on equity investment in investees accounted for under the equity method is not allocated to any asset, including goodwill that forms part of the carrying amount of such investment.

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- 2) The intention to complete the intangible asset and use or sell it.
- 3) The ability to use or sell the intangible asset.
- 4) How the intangible asset will generate probable future economic benefits.
- 5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- 6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost, less, accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization

The amortizable amount is the cost of an asset, less, its residual value. Except for goodwill and intangible assets with indefinite useful lives, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- |                           |            |
|---------------------------|------------|
| 1) Patents                | 3 years    |
| 2) Computer software cost | 1~10 years |

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The residual value, amortization period and the amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as a change in accounting estimate.

**(n) Impairment of non-financial assets**

The Group assesses non-derivative financial assets for impairment (except for inventories, assets arising from construction contracts, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount; and that reduction will be accounted as an impairment loss, which shall be recognized immediately in profit or loss.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, or the groups of cash-generating units, irrespective of whether other assets or liabilities of the acquire are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of goodwill allocated to every unit and then the carrying amount of each asset in the unit. Proportionately Reversal of an impairment loss for goodwill is prohibited.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

**(o) Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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**(p) Treasury stock**

Repurchased shares are recognized under treasury shares (a contra-equity account) based on their chase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares should be recognized under Capital Reserve – Treasury Shares Transactions; Losses on disposal of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury shares should be calculated using the weighted average of different types of repurchase.

During the cancellation of treasury shares, Capital Reserve– Share Premiums and Share Capital should be debited proportionately. Gains on cancellation of treasury shares should be recognized under existing capital reserves arising from similar types of treasury shares; Losses on cancellation of treasury shares should be offset against existing capital reserves arising from similar types of treasury shares. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings.

**(q) Revenue**

**(i) Revenue from contracts with customers (policy applicable from January 1, 2018)**

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group’s main types of revenue are explained below.

**1) Sale of goods**

The Group manufactures and sells woodworking tools and fitness equipment to retail stores, fitness club, and fitness equipment specialty chain stores around the world. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer’s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group’s obligation to provide a refund for faulty drilling machine under the standard warranty terms is recognized as a provision for warranty; please refer to note 6(q).

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

**2) Financing components**

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Revenue (policy applicable before January 1, 2018)

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For international shipments, transfer occurs upon loading the goods onto the relevant carrier at the client's designated location. Generally for such products, the customer has no right of return. For domestic sales, risks and rewards of ownership are usually transferred to customers when goods are sent to their warehouses and accepted.

(iii) Revenue from contracts with customers (policy applicable from January 1, 2018)

1) Incremental costs of obtaining a contract

The Group recognizes as an asset the incremental costs of obtaining a contract with a customer if the Group expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained

The Group applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

2) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Group recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which the Group cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Group recognizes these costs as expenses when incurred.

**(r) Employee benefits**

**(i) Contract costs (policy applicable from January 1, 2018)**

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

**(ii) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, based on the discounted present value of the said defined benefit obligation. Any unrecognized past service costs and the fair value of any plan assets are deducted for purposes of determining the Group's net defined benefit obligation. The discount rate used in calculating the present value is the market yield at the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. If the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In calculating the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to service by employees, is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group recognizes remeasurements of defined benefit liability (asset) in retained earnings.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment arises from any change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost which had not previously been recognized.

(iii) **Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when related services are provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(s) **Income taxes**

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations, or those recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate; they also include tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) Assets and liabilities that are initially recognized but not related to the business combination, and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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- 1) levied by the same taxing authority; or
- 2) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that the future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

**(t) Earnings per share**

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. Diluted earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as employee bonus.

**(u) Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

**(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:**

The preparation of the consolidated financial statements in conformity with IFRSs endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(h) for further description of the valuation of inventories.

(b) Recognition of revenue

The company estimates sales returns and discounts that may occur based on historical experience, market and economic conditions, and other known reasons. Company regularly reviews the reasonableness of the estimates. However, due to factors such as market price competition and the development of product technology, it may cause significant adjustments in the estimated amount.

The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- a. Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- b. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- c. Level 3: inputs for the assets or liability that are not based on observable market data.

**(6) Explanation of significant accounts:**

(a) **Cash and cash equivalents**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Petty cash and cash on hand	\$ 1,440	1,535
Checking and demand deposits	<u>1,395,067</u>	<u>934,586</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u><b>\$ 1,396,507</b></u>	<u><b>936,121</b></u>

Please refer to note 6(z) for the exchange rate risk, interest rate risk, and sensitivity analysis of the financial assets and liabilities of the Group.

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(b) **Financial assets at fair value through profit or loss**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>Mandatorily measured at fair value through profit or loss:</b>		
Non-derivative financial assets		
Beneficiary certificate	\$ 357,357	
Stocks listed on domestic markets	9,295	
Stocks unlisted on domestic markets	96	
<b>Financial assets held-for-trading</b>		
Non-derivative financial assets		
Beneficiary certificate		591,900
Stocks listed on domestic markets		16,379
<b>Total</b>	<b>\$ 366,748</b>	<b>608,279</b>

- (i) For the gain or loss arising from the revaluation to market value, please refer to Note 6(y).
- (ii) As of December 31, 2018 and 2017, the financial assets at fair value through profit or loss of the Group were not pledged as collateral.

(c) **Financial assets at fair value through other comprehensive income**

	<b>December 31, 2018</b>
<b>Equity investments at fair value through other comprehensive income</b>	
Domestic Company - FALCON MACHINE TOOLS CO.,LTD	\$ 41,005
Domestic Company - ASIX Electronics Corporation	147,130
<b>Total</b>	<b>\$ 188,135</b>

- (i) Equity investments at fair value through other comprehensive income

The Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017.

- (ii) During the period from June to September in 2018, the Group has sold its shares held in FALCON MACHINE TOOLS CO.,LTD for strategic purposes. The shares sold had a fair value of \$43,312 thousand and the Group realized a gain of \$187 thousand, which has been transferred from other equity to retained earnings.
- (iii) For credit risk and market risk, please refer to Note 6(z).

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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- (iv) As of December 31, 2018 and 2017, the financial assets at fair value through other comprehensive income were not pledged as collateral.

**(d) Available-for-sale financial assets**

	<b>December 31, 2017</b>
Stocks listed on domestic markets-FALCON MACHINE TOOLS CO.,LTD	\$ 58,070
Stocks listed on domestic markets—ASIX	144,442
Total	<b>\$ 202,512</b>

- (i) These investments are classified as financial assets at fair value through other comprehensive income on December 31, 2018. Please refer to note 6(c).
- (ii) For credit risk and market risk, please refer to Note 6(z).
- (iii) As of December 31, 2017, the available-for-sale financial assets were not pledged as collateral.

**(e) Financial assets measured at cost**

	<b>December 31, 2017</b>
Financial assets measured at cost	
Stocks unlisted on domestic markets	<b>\$ 5,839</b>

- (i) The aforementioned investments held by the Group are measured at amortized cost at year end, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined. therefore, the Group management had determined that the fair value cannot be measured reliably. These investments were classified as financial asset at fair value through profit and loss on December 31, 2018. Please refer to note 6(b).
- (ii) For credit risk and market risk please refer to Note 6(z)

As of December 31, 2018 and 2017, the financial assets measured at cost were not pledged as collateral.

**(f) Notes and accounts receivable and other receivables (include related party)**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Notes receivable from operating activities	\$ 276	1,811
Notes receivable from operating activities-related parties	8,504	17,286
Less: Allowance for impairment loss	-	-
Total	<b>\$ 8,780</b>	<b>19,097</b>

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	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable-measured at amortized cost	\$ 1,651,365	1,374,841
Accounts receivable from related parties-measured at amortized cost	20,047	18,096
Less: Allowance for impairment loss	<u>(1,603)</u>	<u>(1,603)</u>
Total	<u>\$ 1,669,809</u>	<u>1,391,334</u>

- (i) The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information. The loss allowance provision in Taiwan as of December 31, 2018 was determined as follows:

	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 1,640,644	0.01%	164
1 to 90 days past due	38,837	3.05%	1,184
91 to 180 days past due	<u>711</u>	35.91%	<u>255</u>
Total	<u>\$ 1,680,192</u>		<u>1,603</u>

- (ii) As of December 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and trade receivable, and the aging analysis of notes and trade receivable, which were past due but not impaired, was as follows:

	<u>December 31, 2017</u>
Overdue 1 to 90 days	<u>\$ 181,068</u>

- (iii) The movement in the allowance for notes and trade receivable was as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u> <u>Individually assessed impairment</u>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 1,603	1,603
Adjustment on initial application of IFRS 9	<u>-</u>	
Balance on January 1, 2018 per IFRS 9	<u>1,603</u>	
Balance on December 31, 2018 and 2017	<u>\$ 1,603</u>	<u>1,603</u>

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The Group applied the incurred loss model to consider the allowance of its notes and trade receivables as of December 31, 2017. The allowance for doubtful receivables were assessed by using the reference to collectability of notes and trade receivables. The Group considered any changes in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 180 days due to historical experience showing that such receivables are uncollectible. Allowance for impairment loss was recognized against trade receivables between 1 days and 180 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

Impairment loss recognized for individually assessed impairment is the difference between the carrying amount and the amount expected to be collected. As of December 31, 2017 The Group does not hold any collateral for the collectible amounts.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of notes and accounts receivable not past due; 82 percent of the balance, which includes the amount owed by the Group's most significant customers, relates to customers that have good payment records with the Group.

(iv) None of the receivables was pledged as collateral as of December 31, 2018 and 2017.

(g) **Other receivables**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Other accounts receivable	\$ 12,131	12,890
Less: Loss allowance	<u>(11,247)</u>	<u>(11,580)</u>
	<b><u>\$ 884</u></b>	<b><u>1,310</u></b>

(i) As of December 31, 2018 and 2017, there are no other receivables which are past due but not impaired.

(ii) The movement in the allowance for other receivables was as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 11,580	<u>11,247</u>
Adjustment on initial application of IFRS 9	<u>-</u>	
Balance on January 1, 2018 per IFRS 9	11,580	
Foreign exchange gains/(loss)	<u>(333)</u>	<u>333</u>
Balance on December 31, 2018 and 2017	<b><u>\$ 11,247</u></b>	<b><u>11,580</u></b>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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(h) **Inventories**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Finished goods	\$ 207,473	183,404
Work in progress	114,130	93,083
Materials	63,455	58,439
Parts	316,400	327,423
Merchandise	<u>35,843</u>	<u>30,350</u>
	<b><u>\$ 737,301</u></b>	<b><u>692,699</u></b>

Details of inventory related losses (profit) were as follows:

	<b>2018</b>	<b>2017</b>
Inventory scrap loss	\$ 24,793	17,894
Inventory surplus and shortage	381	25
Revenue from sale of scraps	(8,308)	(6,920)
Loss for market price decline and obsolete and slow-moving inventories	<u>21,475</u>	<u>12,804</u>
Operating costs	<b><u>\$ 38,341</u></b>	<b><u>23,803</u></b>

As of December 31, 2018 and 2017, inventories were not pledged as collateral.

(i) **Non-current assets held for sale**

On November 8, 2018, the board of directors passed the resolution of selling the shares of Motomax Hong Kong and its indirect investment in Hangzhou Liwu Machinery & Electric Co., Ltd, through the Company's subsidiary- Gold Item Group Ltd, and finished signing the stock-transfer contract on December 17, 2018. The consideration for the contract is \$816,103 thousands (USD\$26,566 thousands). The company has begun with the relevant procedure and the stock-transfer procedure is expected to be finished by March 31, 2019. As of December 31, 2018, the consideration for the disposal received is \$408,649 thousands (USD \$13,282) and is recognized in other current liability. Based on that, the related assets and liabilities are reported in "non-current assets held for sale" (or disposal group). As of December 31, 2018, the disposal group comprised the following assets and liabilities amounted to \$109,854 thousands and \$4,478 thousands were as follows:

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	<b>December 31, 2018</b>
Cash and cash equivalents	\$ 4,845
Inventories	21,185
Other receivables	895
Other current assets	<u>3,244</u>
Total current assets	<u>30,169</u>
Property, plant and equipment	47,052
Intangible assets	24,387
Long-term prepaid rents	<u>8,246</u>
Total non-current assets	<u>79,685</u>
Total non-current assets classified as held for sale (or disposal group)	<u><u>\$ 109,854</u></u>
	<b>December 31, 2018</b>
Other payables	\$ 4,356
Other current liabilities	<u>122</u>
Liabilities relating to the non-current assets classified as held for sale	<u><u>\$ 4,478</u></u>
Equity relating to the non-current assets classified as held for sale	<u><u>\$ 90,815</u></u>

- (i) The non-current assets are measured at the lower of carrying amount and fair value less costs to sell. There is no impairment as of December 31, 2018.
- (ii) The Group doesn't apply retrospective approach to the reporting of the non-current assets classified as held for sale, so the comparative financial statement isn't re-presented. Please refer to note 12(b) for the management and cash flow for the discontinued operation.
- (j) **Investments accounted for using equity method**

A summary of the Group's financial information for investments accounted for using equity method at the reporting date is as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Associates	<u><u>\$ 16,977</u></u>	<u><u>16,570</u></u>

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## (i) Associates

Affiliated company's information:

<u>Company Name</u>	<u>Intercompany Relations</u>	<u>State of Operation/ Registration</u>	<u>Percentage of ownership and Voting share</u>	
			<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fine Clear Corp., Ltd.	Sale of pneumatic nail gun and accessories, which is the Group's investment	Taiwan	16%	16%

The Group's financial information for investments accounted for using the equity method that are individually insignificant was as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Carrying amount of individually insignificant associates' equity	<u>\$ 16,977</u>	<u>16,570</u>
	<u>2018</u>	<u>2017</u>
Attributable to the Group:		
Profit from continuing operations	<u>\$ 407</u>	<u>497</u>
Comprehensive income	<u>\$ 407</u>	<u>497</u>

## (ii) Disclosure on pledges

As of December 31, 2018 and 2017, for its loans the Group did not provide any investment accounted for using equity method as collaterals.

## (k) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group in 2018 and 2017 are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Tooling equipment</u>	<u>Office equipment and other facilities</u>	<u>Construc tion in Progress</u>	<u>Total</u>
<b>Cost or deemed cost:</b>							
Balance on January 1, 2018	\$ 355,975	2,103,725	574,047	827,940	183,956	-	4,045,643
Additions	92,165	39,376	21,452	22,348	11,948	-	187,289
Disposal	-	-	(78,260)	(63,053)	(48,236)	-	(189,549)
Reclassification	-	12,692	21,443	8,322	-	-	42,457
Transfer to non-current assets held for sale (or disposal group)	-	(199,561)	-	-	-	-	(199,561)
Effect of movements in exchange rates	91	(14,976)	(1,065)	(953)	36	-	(16,867)
Balance on December 31, 2018	<u>\$ 448,231</u>	<u>1,941,256</u>	<u>537,617</u>	<u>794,604</u>	<u>147,704</u>	<u>-</u>	<u>3,869,412</u>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Tooling equipment</u>	<u>Office equipment and other facilities</u>	<u>Construc tion in Progress</u>	<u>Total</u>
Balance on January 1, 2017	\$ 356,212	2,096,385	518,082	827,611	203,194	-	4,001,484
Additions	-	24,238	41,221	27,447	5,839	-	98,745
Disposal	-	-	(14,863)	(31,706)	(15,504)	-	(62,073)
Reclassification	-	5,519	32,942	5,747	(7,234)	-	36,974
Effect of movements in exchange rates	(237)	(22,417)	(3,335)	(1,159)	(2,339)	-	(29,487)
Balance on December 31, 2017	<u>\$ 355,975</u>	<u>2,103,725</u>	<u>574,047</u>	<u>827,940</u>	<u>183,956</u>	<u>-</u>	<u>4,045,643</u>
<b>Depreciation and impairment loss:</b>							
Balance on January 1, 2018	\$ -	723,788	375,896	619,556	148,516	-	1,867,756
Depreciation	-	67,990	22,428	24,302	7,711	-	122,431
Disposal	-	-	(69,678)	(33,453)	(42,855)	-	(145,986)
Transfer to non-current assets held for sale (or disposal group)	-	(152,509)	-	-	-	-	(152,509)
Effect of movements in exchange rates	-	(3,916)	(380)	(290)	218	-	(4,368)
Balance on December 31, 2018	<u>\$ -</u>	<u>635,353</u>	<u>328,266</u>	<u>610,115</u>	<u>113,590</u>	<u>-</u>	<u>1,687,324</u>
Balance on January 1, 2017	\$ -	663,600	373,859	623,263	157,650	-	1,818,372
Depreciation	-	63,729	16,825	21,022	7,052	-	108,628
Disposal	-	-	(13,524)	(24,803)	(14,452)	-	(52,779)
Effect of movements in exchange rates	-	(3,541)	(1,264)	74	(1,734)	-	(6,465)
Balance on December 31, 2017	<u>\$ -</u>	<u>723,788</u>	<u>375,896</u>	<u>619,556</u>	<u>148,516</u>	<u>-</u>	<u>1,867,756</u>
<b>Carrying amounts:</b>							
Balance on December 31, 2018	<u>\$ 448,231</u>	<u>1,305,903</u>	<u>209,351</u>	<u>184,489</u>	<u>34,114</u>	<u>-</u>	<u>2,182,088</u>
Balance on January 1, 2017	<u>\$ 356,212</u>	<u>1,432,785</u>	<u>144,223</u>	<u>204,348</u>	<u>45,544</u>	<u>-</u>	<u>2,183,112</u>
Balance on December 31, 2017	<u>\$ 355,975</u>	<u>1,379,937</u>	<u>198,151</u>	<u>208,384</u>	<u>35,440</u>	<u>-</u>	<u>2,177,887</u>

## (i) Disclosure on pledges

As of December 31, 2018 and 2017, property, plant and equipment of the Group had been pledged as collateral for bank loans; please refer to note 8.

## (ii) Land not registered in the name of the Group

In response to the need for expansion in the future, the Group bought the farmland next to its factory, costing \$96,998 thousands, but the ownership of the land is temporarily not allowed to be transferred to the Group because the farmland is legally for agricultural purpose. Therefore, the farmland now is registered in the name of a shareholder who has the identity of yeoman. Now the farmland has been pledged to the Group who is striving to apply for the change of the land category, and the ownership will be transferred to the Group after the request is approved.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(l) **Intangible assets**

The costs, amortization and impairment loss of the intangible assets of Group in 2018 and 2017 are as follows:

	<u>Good will</u>	<u>Trademark</u>	<u>Computer Software</u>	<u>Total</u>
<b>Costs:</b>				
Balance at January 1, 2018	\$ 67,470	6,974	94,543	168,987
Additions	-	-	9,918	9,918
Transfer to non-current assets held for sale (or disposal group)	(24,177)	-	(4,126)	(28,303)
Effect of movement in exchange rates	-	-	(177)	(177)
Balance at December 31, 2018	<u>\$ 43,293</u>	<u>6,974</u>	<u>100,158</u>	<u>150,425</u>
Balance at January 1, 2017	\$ 67,470	6,974	86,117	160,561
Additions	-	-	8,574	8,574
Effect of movement in exchange rates	-	-	(148)	(148)
Balance at December 31, 2017	<u>\$ 67,470</u>	<u>6,974</u>	<u>94,543</u>	<u>168,987</u>
<b>Amortization and impairment Loss:</b>				
Balance at January 1, 2018	\$ -	6,974	82,431	89,405
Amortization for the year	-	-	8,535	8,535
Transfer to non-current assets held for sale (or disposal group)	-	-	(3,916)	(3,916)
Effect of movement in exchange rates	-	-	(102)	(102)
Balance at December 31, 2018	<u>\$ -</u>	<u>6,974</u>	<u>86,948</u>	<u>93,922</u>
Balance at January 1, 2017	\$ -	6,974	67,863	74,837
Amortization for the year	-	-	14,654	14,654
Effect of movement in exchange rates	-	-	(86)	(86)
Balance at December 31, 2017	<u>\$ -</u>	<u>6,974</u>	<u>82,431</u>	<u>89,405</u>
<b>Carrying value:</b>				
Balance at December 31, 2018	<u>\$ 43,293</u>	<u>-</u>	<u>13,210</u>	<u>56,503</u>
Balance at January 1, 2017	<u>\$ 67,470</u>	<u>-</u>	<u>18,254</u>	<u>85,724</u>
Balance at December 31, 2017	<u>\$ 67,470</u>	<u>-</u>	<u>12,112</u>	<u>79,582</u>

(i) **Amortization**

The amortizations of intangible assets are included in the statement of comprehensive income:

	<u>2018</u>	<u>2017</u>
Operating cost	\$ 377	251
Operating expense	8,085	14,284
Discontinued operating expense	73	119
	<u>\$ 8,535</u>	<u>14,654</u>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ii) Disclosure on pledges

As of December 31, 2018 and 2017, the intangible assets of the Group were not pledged as collateral.

(m) **Other current assets and other non-current assets**

The details of other current assets and other non-current assets are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other current assets, others:		
Prepayments:	\$ 58,321	57,644
Tax refund receivable	68,791	49,171
Prepayment and Payment on behalf of others	<u>12,163</u>	<u>17,566</u>
	<u>\$ 139,275</u>	<u>124,381</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other non-current assets:		
Prepayment for equipment	\$ 43,030	33,898
Other	<u>1,822</u>	<u>854</u>
	<u>\$ 44,852</u>	<u>34,752</u>

(n) **Short-term borrowings**

The details of short-term borrowings are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured bank loans	\$ 408,960	604,000
Secured bank loans	<u>396,000</u>	<u>396,911</u>
Total	<u>\$ 804,960</u>	<u>1,000,911</u>
Unused credit lines	<u>\$ 1,048,952</u>	<u>726,000</u>
Range of interest rate	<u>1.25%~4.75%</u>	<u>1.76%~4.35%</u>

For the collateral for short-term borrowings, please refer to note 8.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

## (o) Other current liabilities

The details of other current liabilities are summarized as follows.

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Advance receipts-stock selling	\$ 408,649	-
Advance receipts-other	6,364	10,661
Temporary receipt	79,819	71,188
Other	3,871	3,349
	<u>\$ 498,703</u>	<u>85,198</u>

## (p) Long-term borrowings

The details of long-term borrowings are as follows:

<b>December 31, 2018</b>				
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Unsecured bank loans	NTD	1.50%~2.35%	2019~2021	\$ 195,112
Secured bank loans	NTD	1.87%~2.385%	2020~2023	282,500
				477,612
Less: current portion				(244,680)
Total				<u>\$ 232,932</u>
Unused credit lines				<u>\$ -</u>

  

<b>December 31, 2017</b>				
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Unsecured bank loans	NTD	1.52%~4.4946%	2018~2020	\$ 472,006
Secured bank loans	NTD	1.94%~2.385%	2018~2020	349,722
				821,728
Less: current portion				(327,536)
Total				<u>\$ 494,192</u>
Unused credit lines				<u>\$ 100,000</u>

For the collateral for long-term borrowings, please refer to note 8.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(q) **Provisions**

		<u>Warranties</u>
Balance at January 1, 2018	\$	52,834
Provisions made during the year		47,451
Provisions reversed during the year		<u>(58,958)</u>
Balance at December 31, 2018	\$	<u><u>41,327</u></u>
Balance at January 1, 2017	\$	69,212
Provisions made during the year		61,146
Provisions reversed during the year		<u>(77,524)</u>
Balance at December 31, 2017	\$	<u><u>52,834</u></u>

The provision for warranties relates mainly to automatic facilities sold for the years ended December 31, 2018 and 2017. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the liability over the next two quarters.

(r) **Employee benefits**(i) **Defined benefit plans**

Reconciliation of the defined benefit obligations at present value and plan asset at fair value are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of the defined benefit obligations	\$ 448,074	339,994
Fair value of plan assets	<u>(318,421)</u>	<u>(286,367)</u>
Net defined benefit liability	<u><u>\$ 129,653</u></u>	<u><u>53,627</u></u>

The Group's employee benefit liabilities are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Vacation liability	<u><u>\$ 15,985</u></u>	<u><u>14,492</u></u>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of the Labor Funds, Ministry of Labor. With regards to the utilization of the funds, minimum shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$318,421 thousands at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Group were as follows:

	<u>2018</u>	<u>2017</u>
Defined benefit obligation at January 1	\$ 339,994	303,116
Current service costs and interest	7,345	6,273
Remeasurements of the net defined benefit liability (asset)		
— Due to experience adjustments of actuarial (losses) gains	27,352	4,616
— Due to changes in financial assumption of actuarial (losses) gains	111,859	39,097
Benefits paid by the plan	<u>(38,476)</u>	<u>(13,108)</u>
Defined benefit obligation at December 31	<u>\$ 448,074</u>	<u>339,994</u>

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group were as follows:

	<u>2018</u>	<u>2017</u>
Fair value of plan assets at January 1	\$ 286,367	222,831
Interest income	4,067	2,657
Remeasurement of the net defined benefit liability (asset)		
— Return on plan assets (excluding interest income)	6,538	(379)
Benefits paid from the plan	59,080	74,366
Expected return on plan assets	<u>(37,631)</u>	<u>(13,108)</u>
Fair value of plan assets at December 31	<u>\$ 318,421</u>	<u>286,367</u>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- 4) The expenses recognized in profit or loss

The expenses recognized in profits or losses for the Group were as follows:

	<u>2018</u>	<u>2017</u>
Current service costs	\$ 3,051	3,131
Net interest of the net defined benefit liability (asset)	<u>227</u>	<u>485</u>
	<u>\$ 3,278</u>	<u>3,616</u>
Operating Cost	\$ 1,717	1,898
Selling expenses	254	240
Administration expenses	895	974
Research and development expenses	<u>412</u>	<u>504</u>
	<u>\$ 3,278</u>	<u>3,616</u>

- 5) Remeasurement in net defined benefit liability (asset) recognized in other comprehensive income

The Group's remeasurement in the net defined benefit liability (asset) recognized in other comprehensive income for the years 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Cumulative amount at January 1	\$ (66,431)	(22,339)
Recognized during the period	<u>(132,673)</u>	<u>(44,092)</u>
Accumulated amount at December 31	<u>\$ (199,104)</u>	<u>(66,431)</u>

- 6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Discount rate	1.125 %	1.375 %
Future salary increases rate	5.00 %	2.00 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one year period after the reporting date is \$2,041 thousands.

The weighted average duration of the defined benefit obligation is 11.55 years.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	<b>Influences of defined benefit obligation</b>	
	<b>Increase0.25%</b>	<b>DDecrease0.25%</b>
December 31, 2018		
Discount rate	\$ (10,957)	11,394
Future salary increases	10,676	(10,333)
December 31, 2017		
Discount rate	\$ (7,071)	7,336
Future salary increases	7,067	(6,848)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

(ii) Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contributions to the Bureau of the Labor Insurance amounted to \$14,340 thousands and \$12,974 thousands for the years ended December 31, 2018 and 2017, respectively.

Except for the group and Rexion Technology Corp., Ltd., other subsidiaries(except for discontinued operation) adopted the defined contribution method under their local law, and accordingly, the pension costs were \$7,139 thousands and \$8,243 thousands, include discontinued operation's pension costs were \$94 thousands and \$131 thousands for the years ended December 31, 2018 and 2017, respectively.

(s) **Income taxes**

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable commencing 2018.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Income tax expense

The components of income tax in the years 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Current income tax expense		
Current period	\$ 108,319	19,008
Adjustment for prior periods	14,381	-
	<u>\$ 122,700</u>	<u>19,008</u>
Deferred tax expense		
Origination and reversal of temporary differences	(4,729)	23,304
Adjustment in tax rate	(4,044)	-
	<u>(8,773)</u>	<u>23,304</u>
Income tax expense (excluding tax expense arising from profit of selling the discontinued operation)	<u>\$ 113,927</u>	<u>42,312</u>
Tax expense from continuing operations	\$ 113,927	42,312
Income tax expense (excluding tax expense arising from profit of selling the discontinued operation)	-	47,655
Tax expense arising from profit of selling the discontinued operation	-	-
	<u>\$ 113,927</u>	<u>89,967</u>

The amounts of income tax recognized directly in other comprehensive income for the 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Item that may be reclassified subsequently to profit or loss		
Exchange differences on translation	<u>\$ (1,763)</u>	<u>(5,974)</u>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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Reconciliation of income tax expense and profit before tax for 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Profit excluding income tax	\$ 575,131	378,173
Income tax using the Company's domestic tax rate	102,764	55,401
Adjustment in tax rate	(4,044)	-
Other tax effect generated from adjustment of tax rule	(10,675)	(6,240)
Tax effect of investment loss generated from investment accounted for using equity method	8,961	9,730
Recognition of previously unrecognized tax losses	-	(17,013)
Changes on unrecognized temporary difference	-	434
Underestimation in prior periods	<u>16,921</u>	<u>-</u>
Tax expense (excluding tax expense arising from profit of selling the discontinued operation)	<u>\$ 113,927</u>	<u>42,312</u>

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

As of December 31, 2018 and 2017, deferred tax assets have not been recognized in respect of the deductible temporary differences arising from the investment in subsidiaries, because it is not probable that the future taxable profit will be available against which the subsidiaries can utilize the benefits therefrom. Details are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Aggregate amount of temporary differences related to investments in subsidiaries	<u>\$ 286,564</u>	<u>240,468</u>
Unrecognized deferred tax assets	<u>\$ 57,313</u>	<u>40,880</u>

Deferred tax assets have not been recognized in respect of the following items:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Tax effect of deductible temporary differences	<u>\$ 5,111</u>	<u>4,345</u>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

2) Recognized deferred tax assets and liabilities

The movement for the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

	Unrealized inventory valuation loss	Defined benefit	Allowance for impairment loss	Warranty provision	Fair value loss	Exchange on translation of foreign financial statement	Other	Total
<b>Deferred tax assets:</b>								
Balance at January 1, 2018	\$ 11,622	-	-	8,982	-	-	4,471	25,075
Recognized in profit or loss	7,146	-	-	(716)	2,646	-	(2,460)	6,616
Recognized in other comprehensive income	-	-	-	-	-	183	-	183
<b>Balance at December 31, 2018</b>	<b>\$ 18,768</b>	<b>-</b>	<b>-</b>	<b>8,266</b>	<b>2,646</b>	<b>183</b>	<b>2,011</b>	<b>31,874</b>
Balance at January 1, 2017	\$ 9,446	7,390	3,113	11,766	3,010	-	11,497	46,222
Recognized in profit or loss	2,176	(7,390)	(3,113)	(2,784)	(3,010)	-	(7,026)	(21,147)
<b>Balance at December 31, 2017</b>	<b>\$ 11,622</b>	<b>-</b>	<b>-</b>	<b>8,982</b>	<b>-</b>	<b>-</b>	<b>4,471</b>	<b>25,075</b>

	Exchange differences on translation of foreign financial statements	Fair value gains	Total
<b>Deferred tax liabilities:</b>			
Balance at January 1, 2018	\$ 1,580	2,157	3,737
Recognized in profit or loss	-	(2,157)	(2,157)
Recognized in other comprehensive income	(1,580)	-	(1,580)
<b>Balance at December 31, 2018</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>
Balance at January 1, 2017	\$ 7,554	-	7,554
Recognized in profit or loss	-	2,157	2,157
Recognized in other comprehensive income	(5,974)	-	(5,974)
<b>Balance at December 31, 2017</b>	<b>\$ 1,580</b>	<b>2,157</b>	<b>3,737</b>

3) Examination and approval

The income tax returns of the group and Rexon Tech. have been examined by the tax authorities through for the year 2016.

(t) **Capital and other equity**

As of December 31, 2018 and 2017, the authorized capital totaled \$3,800,000 thousands, and the total paid-in capital amounted to \$1,814,735 thousands; with a par value of NT\$10 per share on common stock.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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Reconciliation of shares outstanding for the years ended December 31, 2018 and 2017 were as follows:

	<b>Ordinary shares</b>	
(In thousands of shares)	<b>2018</b>	<b>2017</b>
Balance at January 1 (equals to balance at December 31)	<b>\$ 181,473</b>	<b>181,473</b>

(i) Capital Surplus

Balance of capital surplus was as following:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Treasury share transactions	<b>\$ 433</b>	<b>433</b>

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

(ii) Retained earnings

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

For the distribution of dividends, the Group shall first take cash dividends into consideration, and stock dividends is available to be paid as well. After the appropriations, current and prior-period earnings that remain undistributed will be proposed for distribution by the board of directors, and a meeting of shareholders will be held to decide on this matter. Only the stock dividends shall not be more than 50% of total dividends.

1) Legal reserve

According to the amendment of the ROC Company Act, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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2) Special reserve

In accordance with Permit No. 1010012865 as issued by the Financial Supervisory Commission on April 6, 2012, a portion of current period earnings and undistributed prior period earnings shall be reclassified as a special earnings reserve during earnings distribution. A portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualify for earnings distribution) to account for the cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions, the special reserve were \$1,376 thousands and \$6,201 thousands for the years ended December 31, 2018 and 2017, respectively.

3) Earnings distribution

The earnings distribution for 2017 and 2016 was decided by the general meeting of shareholders held on May 24, 2018, and June 13, 2017 as follows:

	2017		2016	
	Amount per share	Total amount	Amount per share	Total amount
Dividends distributed to common shareholders:				
Cash	\$ 1.2	217,768	0.5	90,737

4) Treasury shares

In accordance with the requirements of the Securities and Exchange Act, the Shares of parent Company held by subsidiary should be taken as treasury stock. If the market price of the Company's shares are lower than the carrying amount, the Company's should calculate the valuation loss based on the percentage of shareholding, and recognizes it in special reserve, which can't be allocated. The Company could reverse the special reserve based on the percentage of shareholding if there is a subsequent recovery of the fair value.

The aforementioned recognition and reversal to special reserve and other non-treasury-stock deduction to equity should be together dealt with.

The shares of treasury stock sold by Rexion Tech in July 2012 amounted to \$2,010 thousands with a disposal gain amounting to \$541 thousands. The group recognized the capital reserve amounting to \$433 thousands in 2012.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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5) OCI accumulated in reserves, net of tax

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available- for-sale financial assets	Equity related to non-current assets classified as held for sale	Total
Balance at January 1, 2018	\$ (51,452)	-	50,076	-	(1,376)
Effects of retrospective application	-	50,076	(50,076)	-	-
Balance at January 1, 2018 after adjustment	(51,452)	50,076	-	-	(1,376)
Exchange differences on foreign operations	(99,261)	-	-	90,815	(8,446)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	(187)	-	-	(187)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	-	28,935	-	-	28,935
<b>Balance at December 31, 2018</b>	<b>\$ (150,713)</b>	<b>78,824</b>	<b>-</b>	<b>90,815</b>	<b>18,926</b>
Balance at January 2017	\$ (22,279)		16,078	-	(6,201)
Exchange differences on translation of foreign	(29,173)	-	-	-	(29,173)
Unrealized gains (losses) on available for sale financial assets	-	-	33,998	-	33,998
<b>Balance at December 31, 2017</b>	<b>\$ (51,452)</b>	<b>-</b>	<b>50,076</b>	<b>-</b>	<b>(1,376)</b>

(u) **Earnings per share**

The calculation of basic earnings per share and diluted earnings per share for years 2018 and 2017 were as follows:

(i) Basic earnings per share

	<b>2018</b>	<b>2017</b>
Net Profit attributable to the Company-continuing operations	\$ 460,955	335,620
Net loss attributable to the company-discontinued operation	(62,227)	(65,322)
Net profit attributable to ordinary shareholders of the company.	<b>398,728</b>	<b>270,298</b>
Weighted-average number of ordinary shares	<b>181,473</b>	<b>181,473</b>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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	<b>2018</b>	<b>2017</b>
Basic earnings per share		
Net profit from continuing operations	\$ 2.54	1.85
Net profit from discontinued operation	(0.34)	(0.36)
	<b>\$ 2.20</b>	<b>1.49</b>
	<b>2018</b>	<b>2017</b>
<b>Diluted earnings per share</b>		
Net Profit attributable to the Company-continuing operations	\$ 460,955	335,620
Net profit attributable to the Company-discontinued operation	(62,227)	(65,322)
Net profit attributable to ordinary	<b>\$ 398,728</b>	<b>270,298</b>
Weighted-average number of ordinary shares	181,473	181,473
Effect of restricted employee shares unvested	464	405
Weighted average number of ordinary shares (diluted) at December 31	<b>181,937</b>	<b>181,878</b>
Diluted earnings per share		
Net profit from continuing operation	\$ 2.53	1.85
Net loss from discontinued operation	(0.34)	(0.36)
	<b>\$ 2.19</b>	<b>1.49</b>

(v) **Revenue from contracts with customers**

(i) Details of revenue

	<b>2018</b>
<u>Primary geographical markets</u>	
America	\$ 5,859,238
Europe	138,572
Other	187,778
Less : Revenue of disposal group	(76)
	<b>\$ 6,185,512</b>
<u>Major products/services lines</u>	
Woodworking tools	\$ 2,181,574
Fitness equipment	3,766,921
Other	237,093
Less : Revenue of disposal group	(76)
	<b>\$ 6,185,512</b>

(Continued)



**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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For details on revenue for the year ended December 31, 2017, please refer to note 6(w).

(ii) Contract balances

	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Contract liabilities	\$ <u>16,355</u>	<u>10,157</u>

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$3,625 thousands.

Contract liabilities mainly arise from the deferred revenue from sales contract of woodworking tools and fitness equipment. The Group will recognize revenue when the goods are transferred to customers.

(w) **Revenue**

The details of revenue for the years ended December 31, 2017 was as follows:

	<u>2017</u>
Sale of goods	5,315,650
Less : Revenue of disposal group	<u>(300)</u>
	<u><u>5,315,350</u></u>

For details on revenue for the year ended December 31, 2018, please refer to note 6(v).

(x) **Employee compensation and directors' and supervisors' remuneration**

In accordance with the Articles of incorporation, the Company should contribute no less than 5% of the profit as employee compensation and less than 5% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the board of directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

For the year ended December 31, 2018 and 2017, the Company estimated its employee remuneration amounting to \$27,500 thousands and \$16,739 thousands, and directors' and supervisors' remuneration amounting to \$9,000 thousands and \$8,730 thousands respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2018 and 2017.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(y) **Non-operating income and expenses**

(i) **Other income**

The details of other income for the years 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Interest income—bank deposits	\$ 3,555	2,687
Dividend income	9,182	5,886
Other	68,825	35,484
Less : other income of disposal group	<u>(7,291)</u>	<u>(2,436)</u>
	<u>\$ 74,271</u>	<u>41,621</u>

(ii) **Other income and losses**

The details of other income and losses for the years 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Net foreign exchange gains	\$ 28,073	(47,258)
Net (gains) losses on disposal of property, plant and equipment	(41,188)	(7,919)
Gain on measurement of financial assets measured at fair value through profit or loss	(1,040)	15,353
Less : other income and losses of disposal group	<u>9,175</u>	<u>561</u>
	<u>\$ (4,980)</u>	<u>(39,263)</u>

(iii) **Finance expenses**

The details of finance expenses for the years 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Interest expenses—bank borrowings	\$ (38,411)	(43,409)
Less: capitalization of interest	260	270
Less: interest expenses of disposal group	<u>-</u>	<u>1,385</u>
	<u>\$ (38,151)</u>	<u>(41,754)</u>

(z) **Financial Instruments**

(i) **Credit risk**

1) **Credit risk exposure**

The carrying amount of financial assets represents the maximum exposure to credit risk.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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2) Concentration of credit risk

Major clients of the Group are concentrated in automatic facilities market. To minimize credit risk, the Group periodically evaluates their financial positions and requests collateral if deemed necessary. As of December 31, 2018 and 2017, three and six customers accounted for 80% and 82% of accounts receivable resulted in concentration of credit risk.

3) Receivables

For credit risk exposure of notes and accounts receivable, please refer to note 6(e). Other financial assets at amortized cost includes other receivables. For the details and loss allowance, please refer to note 6(f).

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including the estimated interest payments and excluding the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>1-12months</u>	<u>1-2 years</u>	<u>2-5 years</u>
<b>December 31, 2018</b>					
<b>Non-derivative financial liabilities</b>					
Secured bank loans	\$ 678,500	691,654	546,609	99,061	45,984
Unsecured loans	604,072	614,265	522,504	64,747	27,014
Other payables	<u>2,255,062</u>	<u>2,255,062</u>	<u>2,255,062</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,537,634</u>	<u>3,560,981</u>	<u>3,324,175</u>	<u>163,808</u>	<u>72,998</u>
<b>December 31, 2017</b>					
<b>Non-derivative financial liabilities</b>					
Secured bank loans	\$ 746,633	760,171	555,526	126,355	78,290
Unsecured loanse	1,076,006	1,091,828	795,759	236,302	59,767
Other payable	<u>1,776,606</u>	<u>1,776,606</u>	<u>1,776,606</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,599,245</u>	<u>3,628,605</u>	<u>3,127,891</u>	<u>362,657</u>	<u>138,057</u>

The Group does not expecting the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2018			December 31, 2017		
	Foreign Currency	Exchange Rates	New Taiwan Dollars	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial Assets</u>						
<u>Monetary items</u>						
USD	\$ 101,926	30.72	3,131,167	78,142	29.76	2,325,506
EUR	112	35.20	3,942	82	35.57	2,917
JPY	75,264	0.2782	20,938	31,655	0.2642	8,363
GBP	245	38.88	9,526	235	40.11	9,426
<u>Financial Liabilities</u>						
<u>Monetary items</u>						
USD	13,113	30.72	402,831	14,164	29.76	421,521
EUR	542	35.20	19,078	-	-	-

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts and other receivables, and accounts and other payables that are denominated in foreign currency. A strengthening (weakening) 1% of the TWD against the USD, EUR, JPY, and GBP as of December 31, 2018 and 2017 would have increased (decreased) the net profit after tax by \$21,949 thousands and \$15,975 thousands, respectively. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases.

The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary items

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2018 and 2017, foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$28,073 thousands and \$(47,258) thousands, respectively.

(iv) Interest rate analysis

Please refer to the note on liquidity risk management and the interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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Regarding liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate which increases or decreases by 1% when reporting to the internal management, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate increases/decreases by 1%, with all other variable factors remaining constant, the Group's net income would have increase/decrease by \$12,999 thousands and \$20,474 thousands for the years ended December 31, 2018 and 2017, respectively. This is mainly due to the Group's borrowings in variable rates.

(v) Other market price risk

For the years ended December 31, 2018 and 2017, the sensitivity analyses for the changes in the securities price at the reporting date were performed using the same basis for the profit and loss as illustrated below:

<u>Prices of securities at the reporting date</u>	<u>2018</u>		<u>2017</u>	
	<u>Othe comprehensive income after tax</u>	<u>Net income</u>	<u>Other comprehensive income after tax</u>	<u>Net income</u>
Increasing 1%	\$ <u>1,881</u>	<u>93</u>	<u>2,025</u>	<u>164</u>
Decreasing 1%	\$ <u>(1,881)</u>	<u>(93)</u>	<u>(2,025)</u>	<u>(164)</u>

(vi) Fair value of financial instruments

1) Categories and fair value of financial instruments

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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	December 31, 2018				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>					
Non derivative financial assets mandatorily measured at fair value through profit or loss	\$ 366,748	366,652	-	96	366,748
<b>Financial assets at fair value through other comprehensive income</b>					
Stocks in listed companies	188,135	188,135	-	-	188,135
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	1,396,507	-	-	-	-
Notes receivable, trade receivable, and other receivable (including related parties)	1,679,473	-	-	-	-
Deposit	353	-	-	-	-
	<u>\$ 3,631,216</u>	<u>554,787</u>	<u>-</u>	<u>96</u>	<u>554,883</u>
<b>Financial liabilities at amortized cost</b>					
Short-term borrowings	\$ 804,960	-	-	-	-
Notes payable, accounts payable, and other payable(including related parties)	2,255,062	-	-	-	-
Long-term borrowings, current portion	244,680	-	-	-	-
Loan-term borrowings	232,932	-	-	-	-
	<u>\$ 3,537,634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	December 31, 2017				
	Carrying amount	Fair Value			Total
		Leve 1	Leve 2	Leve 3	
Financial assets at fair value through profit or loss	608,279	608,279	-	-	608,279
Current and non-current available – for – sale financial assets	202,512	202,512	-	-	202,512
Financial assets at cost	5,839	-	-	-	-
Loans and receivables					
Cash and cash equivalents	936,121	-	-	-	-
Notes receivables, accounts receivables and other receivables	1,411,741	-	-	-	-
	<u>\$ 3,164,492</u>	<u>810,791</u>	<u>-</u>	<u>-</u>	<u>810,791</u>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	December 31, 2017				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at amortized cost					
Short – term borrowings	\$ 1,000,911	-	-	-	-
Notes payable trade payable, and other payable (including related parties)	1,776,606	-	-	-	-
Long-term borrowings, current portion	327,536	-	-	-	-
Long-term borrowings	<u>494,192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,599,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2) Valuation techniques of financial instruments not measured at fair value

The Group estimates its financial instruments, that are not measured at fair value, by methods and assumption as follows:

Financial liabilities at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Valuation techniques for financial instruments measured at fair value.

Financial instruments trade in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

If a quoted price of a financial instrument can be obtained in time and often from the exchanges, brokers, underwriters, industrial unions, pricing service agencies or authorities, and such price can reflect those actual trading and frequently happen in the market, then the financial instrument is considered to have a quoted price in an active market.

If a financial instrument is not accord with the definition mentioned above, then it is considered to be without a quoted price in an active market. In general, market with low trading volume or high bid-ask spreads is an indication of a non-active market.

The fair value of the listed common shares and funds held by the Group are determined by reference to the market quotation.

4) Transfer between Level 1 and Level 2

There were no transfers from one level to another in 2018 and 2017.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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- 5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement The Group's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – equity investments". Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets measured at fair value through profit or loss – equity investment with inactive market	Net Asset Value Method	• Net Asset Value	• Not applicable

**(aa) Financial risk management**

**(i) Overview**

The Group has exposures to the following risks from its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

In this note expressed the information on risk exposure and adjectives, policies and procedures of risk measurement and management. For detailed information, please refer to the related notes of each risk.

**(ii) Structure of risk management**

The Group's finance management department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations. The Group minimizes the risk exposure through derivative financial instruments. The board of directors regulated the use of derivative financial instruments in accordance with the Group's policy on risks arising from financial instruments such as credit risk, currency risk, and interest rate risk, the use of derivative and non-derivative financial instruments, and the investments of excess liquidity. The internal auditors of the Group continue to review the amount of the risk exposure in accordance with the Group's policies and the risk management's policies and procedures. The Group has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

**(iii) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

1) Accounts receivable and other receivables

The Group established a credit policy to obtain the necessary collateral to mitigate risks arising from financial loss due to default risk. The Group will transact with corporations having credit ratings equivalent to investment grade, and such ratings are provided by independent rating agencies. Where it is not possible to obtain such information, the Group will assess the ratings based on other publicly available financial information and records of transactions with its major customers. The Group continuously monitors the exposure to credit risk and counterparty credit ratings, and establish sales limits based on credit rating for each of its approved customer. The credit limits for each counterparty are approved and reviewed annually by the Risk Management Committee.

The Group did not have any collateral or other credit enhancement to avoid credit risk of the financial assets.

2) Investments

The exposure to credit risk for the bank deposits and other financial instruments is measured and monitored by the Group's finance department. The Group only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Group does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

3) Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. As of December 31, 2018 and 2017, the Group provided financial guarantee to its subsidiaries amounted to \$230,400 thousands and \$297,600 thousands, respectively.

(iv) Liquidity risk

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities to ensure they are in compliance with the terms of the loan agreements.

The loans and borrowings from the bank form an important source of liquidity for the Group. The Group has unused long-term and short-term bank facilities of \$1,048,952 thousands and \$826,000 thousands as of December 31, 2018 and 2017, respectively.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (NTD). The currencies used in these transactions are the NTD, EUR, USD, GBP and JPY.

2) Interest rate risk

The Group maintains an appropriate proportion of the fixed and variable interest rate instruments and using interest rate swap contracts to mitigate the floating interest rate risk. The Group will assess the hedging activities for consistent interest rates within its risk preferences and use the most cost-effective hedging strategy on a regular basis.

3) Other market price risk

Please refer to note 6(z) for the sensitivity analysis of equity price risk.

(ab) **Capital management**

The Group meets its objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, and issue new shares or sell assets to settle any liabilities.

The Group and other entities in the similar industry use the debt-to-equity ratio to manage capital. This ratio uses the total net debt divided by the total capital. The net debt from the balance sheet are derived from the total liabilities, less, cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, other equity, and non-controlling interest, plus, net debt.

As of December 31, 2018, the Group's capital management strategy is consistent with the prior year as of December 31, 2017. The Group's debt to equity ratio as of December 31, 2018 and 2017, were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total liabilities	\$ 4,460,539	3,920,177
Less: cash and cash equivalents	<u>(1,396,507)</u>	<u>(936,121)</u>
Net debt	3,064,032	2,984,056
Total equity	<u>2,549,559</u>	<u>2,446,487</u>
Total capital	<u><b>\$ 5,613,591</b></u>	<u><b>5,430,543</b></u>
Debt to equity ratio	<u><b>55%</b></u>	<u><b>55%</b></u>

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(ac) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the years ended December 31, 2018 and 2017, were as follows:

	<u>January 1,2018</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>December 31,2018</u>
			<u>Acquisition</u>	<u>Foreign exchange movement</u>	<u>Fair value changes</u>	
Long-term borrowings	\$ 821,728	(336,161)	-	(7,955)	-	477,612
Short-term borrowings	<u>1,000,911</u>	<u>(202,697)</u>	<u>-</u>	<u>6,746</u>	<u>-</u>	<u>804,960</u>
Total liabilities from financing	<u>\$ 1,822,639</u>	<u>(538,858)</u>	<u>-</u>	<u>(1,209)</u>	<u>-</u>	<u>1,282,572</u>

**(7) Related-party transactions:**

(a) Names and relationship with related parties

(i) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Group</u>
Fine Clear Co.,Ltd	An associate

(b) Significant related-party transactions

(i) Sale of goods to related parties

The amounts of significant sales transactions between the Group and the related parties were as follows:

	<u>2018</u>	<u>2017</u>
Associates—Fine Clear Co., Ltd	<u>\$ 40,571</u>	<u>44,458</u>

Prices of related-party sales were incomparable with other sales because the Group did not have similar sales to unrelated parties. Terms collection periods of selling offered to related parties and general customers are 270 days and 30-120 days, respectively. Receivables from related parties were not secured with collateral and did not require provisions for bad debt expenses.

ii) Receivables from related-parties

<u>Account</u>	<u>Related-party type</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	Associates—Fine Clear Co., Ltd	\$ 8,504	17,286
Accounts receivable	Associates—Fine Clear Co., Ltd	<u>20,047</u>	<u>18,096</u>
		<u>\$ 28,551</u>	<u>35,382</u>

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

iii) Payables to related-parties

<u>Account</u>	<u>Related-party type</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes payable	Associates – Fine Clear Co., Ltd	\$ 350	467
Other payables	Associates – Fine Clear Co., Ltd	95	173
		<u>\$ 445</u>	<u>640</u>

(c) Key management personnel compensation

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 29,310	25,736
Post-employment benefits	510	1,024
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	<u>\$ 29,820</u>	<u>26,760</u>

**(8) Pledged assets:**

The carrying values of pledged assets were as follow:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Land	Guarantee for bank loans	\$ 293,176	293,176
Buildings	Guarantee for bank loans	590,924	847,290
		<u>\$ 884,100</u>	<u>1,140,466</u>

**(9) Commitments and contingencies:**

The Group's unrecognized contractual commitments were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Purchase property, plant and equipment	\$ 6,738	15,652

**(10) Losses Due to Major Disasters:None**

**(11) Subsequent Events:**

- (i) The Company's subsidiary- Gold Interl Group Ltd. sold the shares of Motomax Hong Kong and its indirect investment in Hangzhou Liwu Machinery & Electric Co., Ltd. The procedures of the settlement has been finished on March 5, 2019.
- (ii) The Board of Directors passed a resolution to liquidate a subsidiary – Hangzhou Kanji Trading Co.,Ltd. for strategic decision on February 26, 2019.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(12) Other:**

- (a) The followings are the summary statement of the current period employee benefits, depreciation, depletion, and amortization expenses by function:

By function	2018				2017			
	Operating cost	Operating expenses	Disposal group expense	Total	Operating cost	Operating expenses	Disposal group expense	Total
Employee benefits								
Salary	375,865	236,225	771	612,861	339,090	223,639	1,558	564,287
Labor and health insurance	29,858	18,632	96	48,586	27,583	18,702	126	46,411
Pension	16,367	8,296	94	24,757	16,230	8,472	131	24,833
Others	9,633	1,850	-	11,483	9,949	2,347	-	12,296
Depreciation	96,973	18,373	7,085	122,431	83,006	16,820	8,802	108,628
Amortization	377	8,085	73	8,535	251	14,284	119	14,654

**(b) Discontinued operation**

On November 8, 2018, the board of directors passed the resolution of selling the shares of Motomax Hong Kong and its indirect investment in Hangzhou Liwu Machinery & Electric Co., Ltd, through the Company's subsidiary- Gold Item Group Ltd. The segment was not a discontinued operation or classified as held for sale on December 31, 2017, so the comparative statement of comprehensive income has been restated to show the discontinued operation separately from continuing operations.

Profit and loss, and cash flows from (used in) discontinued operations are summarized as follows:

	<u>2018</u>	<u>2017</u>
<b>Results from operating activities:</b>		
Operating revenue	\$ 76	300
Operating expenses	(94)	(347)
Gross profit from operation	(18)	(47)
Operating expenses	(60,325)	(18,110)
Net operating loss	(60,343)	(18,157)
Non-operating income and expenses	(1,884)	490
Profit before income tax	(62,227)	(17,667)
Income tax expense	-	(47,655)
<b>Net loss from discontinued operation</b>	<b>\$ (62,227)</b>	<b>(65,322)</b>
<b>Basic earnings per share</b>	<b>\$ (0.34)</b>	<b>(0.36)</b>
<b>Diluted earnings per share</b>	<b>\$ (0.34)</b>	<b>(0.36)</b>

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from (used in) discontinued operation:</b>		
Net cash from operating activities	\$ (502)	48,528
Net cash from investing activities	2,811	97
Net cash from financing activities	-	<u>(127,847)</u>
<b>Net cash inflow (outflow)</b>	<u><u>\$ 2,309</u></u>	<u><u>(79,222)</u></u>

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(13) Other disclosures:****(a) Information on significant transactions:**

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

- (i) Loans to other parties: None
- (ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexion	2	1,011,529	(USD17,500,524,125)	(USD7,500,230,400)	(USD7,500,230,400)	-	9.11 %	1,011,529	Y	N	Y

Note1 : The total amount and the limited amount of the guarantee provided by the company to any individual subsidiary shall not exceed forty percent (40%) of the Company's net worth.

Note2 : No.0 represents the parent company.

Note3 : The relationship between guarantee provider and guarantee party were as follows :

- 1) Companies which were in business relationship.
- 2) Subsidiaries which the company directly or indirectly held more than fifty percent (50%).
- 3) Companies with substantial control

**(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):**

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Shares/Units (thousands)	Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value			
REXON INDUSTRIAL CORP., LTD.	Stock – Mega Holdings		Financial assets at fair value through profit or loss-current	5	120	- %	120	5	- %	
REXON INDUSTRIAL CORP., LTD.	Stock –Taiwan Fu Hsing Industrial Co., Ltd.		Financial assets at fair value through profit or loss-current	0.4	15	- %	15	0.4	- %	
REXON INDUSTRIAL CORP., LTD.	Stock –China Steel Corporation.		Financial assets at fair value through profit or loss-current	68	1,639	- %	1,639	68	- %	
REXON INDUSTRIAL CORP., LTD.	Stock –United Microelectronics Corp.		Financial assets at fair value through profit or loss-current	146	1,647	- %	1,647	146	- %	
REXON INDUSTRIAL CORP., LTD.	Stock –Chung Hung Steel Corporation		Financial assets at fair value through profit or loss-current	171	1,831	- %	1,831	171	- %	
REXON INDUSTRIAL CORP., LTD.	Stock –Johnson Health Tech		Financial assets at fair value through profit or loss-current	12	379	- %	379	12	- %	
REXON INDUSTRIAL CORP., LTD.	Stock –AU Optronics Corporation		Financial assets at fair value through profit or loss-current	119	1,463	- %	1,463	119	- %	
REXON INDUSTRIAL CORP., LTD.	Stock – Evergreen Marine Corporation		Financial assets at fair value through profit or loss-current	76	902	- %	902	76	- %	
REXON INDUSTRIAL CORP., LTD.	Stock –EVA Airways Corp.		Financial assets at fair value through profit or loss-current	82	1,299	- %	1,299	82	- %	
REXON INDUSTRIAL CORP., LTD.	Stock – Powertech Technology Inc.		Financial assets at fair value through profit or loss-current	-	-	- %	-	33	- %	

(Continued)

**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest Shares/Units (thousands)	Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value			
REXON INDUSTRIAL CORP., LTD.	Stock –Taiwan Chinsan Electronic Industrial Co., Ltd		Financial assets at fair value through profit or loss-current	-	-	- %	-	47	- %	
REXON INDUSTRIAL CORP., LTD.	Stock-Hwa Chung Venture Capital Corp.		Financial assets at fair value through profit or loss-current	10	96	- %	96	10	- %	
REXON INDUSTRIAL CORP., LTD.	LGT GIM Growth (USD) B		Financial assets at fair value through profit or loss-current	0.38	153,887	- %	153,887	0.38	- %	
REXON INDUSTRIAL CORP., LTD.	LGT Select Convertible (USD) B		Financial assets at fair value through profit or loss-current	0.65	30,560	- %	30,560	0.65	- %	
REXON INDUSTRIAL CORP., LTD.	LGT Select Equity Enhanced Minimum Variance (USD) B		Financial assets at fair value through profit or loss-current	0.75	25,608	- %	25,608	0.75	- %	
REXON INDUSTRIAL CORP., LTD.	LGT Strategy 2 Years (EUR) B		Financial assets at fair value through profit or loss-current	2.50	75,405	- %	75,405	5.14	- %	
REXON INDUSTRIAL CORP., LTD.	LGT Select Equity Enhanced Minimum Variance (USD)		Financial assets at fair value through profit or loss-current	0.86	29,254	- %	29,254	0.86	- %	
REXON INDUSTRIAL CORP., LTD.	LGT Select Equity North America (USD) B		Financial assets at fair value through profit or loss-current	0.58	42,643	- %	42,643	0.58	- %	
REXON INDUSTRIAL CORP., LTD.	LGT Money Market (USD)		Financial assets in fair value through profit or loss -current	-	-	- %	-	0.75	- %	
REXON INDUSTRIAL CORP., LTD.	LGT Sustainable Equity Fund Global (USD)		Financial assets in fair value through profit or loss -current	-	-	- %	-	1.00	- %	
REXON INDUSTRIAL CORP., LTD.	LGT New Capital China Equity Fund		Financial assets in fair value through profit or loss -current	-	-	- %	-	19.216	- %	
REXON INDUSTRIAL CORP., LTD.	LGT Select Insurance Linked securities Fund		Financial assets in fair value through profit or loss -current	-	-	- %	-	0.84	- %	
<b>Subtotal</b>				-	<b>366,748</b>		<b>366,748</b>			
REXON INDUSTRIAL CORP., LTD.	Stock-Falcon Machine Tools Co., LTD		Financial assets at fair value through other comprehensive income-current	3,832	41,005	4.98 %	41,005	6,264	8.15 %	
<b>Subtotal</b>					<b>41,005</b>		<b>41,005</b>			
REXON INDUSTRIAL CORP., LTD.	Stock-ASIX Electronics Corporation		Financial assets at fair value through other comprehensive income-non-current	4,888	147,130	9.1 %	147,130	4,888	9.1 %	
<b>Subtotal</b>					<b>147,130</b>		<b>147,130</b>			

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None

(Continued)



**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexon	The subsidiary of the investee accountd for using equity method	Purchase	1,609,811	34 %	90-150Days	Note 1	Note 2	(206,901)	(10)%	

Note1 : Prices of related-party sales were incomparable with other shles because the Group did not have similar sales to unrelated parties.

Note2 : The period of payment for the related party is 90-150 days. Apart from according to the established payment policy, the related working capital, industry characteristics, and industrial prosperity are also considered.

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
Tongxiang Rexon	REXON INDUSTRIAL CORP., LTD.	The Company is a corporate shareholder that indirectly holds more than 50% of the company's equity	Account receivable 206,901	11.69	-		The recovery amount as of February 21, 2019: 206,901	-

- (ix) Trading in derivative instruments:None

- (x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexon	1	Purchases	1,609,811	The sales prices and payment terms were by agreement	26.03%
0	REXON INDUSTRIAL CORP., LTD.	Tongxiang Rexon	1	Accounts payable	206,901	The sales prices and payment terms were by agreement	2.95%
0	REXON INDUSTRIAL CORP., LTD.	Rexon Technology Corp., Ltd.	1	Purchases	35,471	The sales prices and payment terms wereby agreement	0.57%
0	REXON INDUSTRIAL CORP., LTD.	Rexon Technology Corp., Ltd.	1	Other receivables	13,097	The sales prices and payment terms wereby agreement	0.19%
0	REXON INDUSTRIAL CORP., LTD.	Rexon Technology Corp., Ltd.	1	Accounts payable	7,896	The sales prices and payment terms wereby agreement	0.11%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Service fee	45,229	The sales prices and payment terms were by agreement	0.73%

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Other payable	75,100	The sales prices and payment terms were by agreement	1.07%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Accounts receivables	22,093	The sales prices and payment terms were by agreement	0.32%
0	REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	1	Sales	49,659	The sales prices and payment terms were by agreement	0.80%
0	REXON INDUSTRIAL CORP., LTD.	Hangzhou Kanji Trading Co., Ltd.	1	Sales	1,477	The sales prices and payment terms were by agreement	0.02%
1	Tongxiang Rexion	Hangzhou Kanji Trading Co., Ltd.	3	Sales	3,142	The sales prices and payment terms were by agreement	0.05%
1	Tongxiang Rexion	Hangzhou Kanji Trading Co., Ltd.	3	Account receivable	11,543	The sales prices and payment terms were by agreement	0.16%
2	Hangzhou kanji Trading Co., Ltd.	Tongxiang Rexion	3	Sales	63	The sales prices and payment terms were by agreement	-%

Note1 : Representations of No. were as follows:

- 1) No.0 represents the parent company.
- 2) Subsidiaries were numbered in sequence from No.1.

Note2 : Type of intra-group transactions were as follows:

- 1) 1 represents the transactions from parent company to subsidiary.
- 2) 2 represents the transactions from subsidiary to parent company.
- 3) 3 represents the transactions between subsidiaries.

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2018 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Net income (losses) of investee	Share of profits/losses of investee	Highest Shares/Units (thousands)	Highest Percentage of ownership (%)	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value					
REXON INDUSTRIAL CORP., LTD.	Fine Clear Co., Ltd.	R.O.C	Buying and selling accessories	14,197	14,197	1,600	16.00 %	16,977	2,546	407	1,600	16.00 %	Investment Using Equity Method
REXON INDUSTRIAL CORP., LTD.	Rexion Technology Corp., Ltd. (Rexion Tech)	R.O.C	Manufacture and sale of electric components	91,106	91,106	7,388	80.09 %	59,729	1,102	882	7,388	80.09 %	Direct subsidiaries of the Company
REXON INDUSTRIAL CORP., LTD.	Power Tool Specialists Inc.	U.S.A	Merchandise trading	196,465	196,465	0.1	96.00 %	165,568	713	684	0.10	96.00 %	Direct subsidiaries of the Company
REXON INDUSTRIAL CORP., LTD.	Gold Item Group Ltd.	British Virgin Islands	Investing and holding	1,114,954	1,114,954	US\$35,606 (Note 1)	100.00 %	927,396	(45,568)	(45,568)	US\$35,606 (Note 1)	100.00 %	Direct subsidiaries of the Company
Gold Item	Motomax Hong Kong	Hong Kong	Investing and holding	US\$10,606	US\$10,606	79,560	100.00 %	105,376	(124,506)	(124,506)	79,560	100.00 %	Direct subsidiaries of Gold Item
Gold Item	Gold Tech Group Ltd.	Hong Kong	Investing and holding	US\$25,000	US\$25,000	US\$25,000 (Note 1)	100.00 %	800,908	79,410	79,410	US\$25,000 (Note 1)	100.00 %	Direct subsidiaries of Gold Item
Rexion Technology Corp., Ltd.	Rexion Technology Ltd. (Brunei)	Brunei	Investing	24,151	24,151	US\$700 (Note 1)	100.00 %	-	-	-	US\$700 (Note 1)	100.00 %	Direct subsidiaries of Gold Item

Note : Company Limited without issuing Shares. The amount of capital invested is disclosed.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
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(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Highest balance during the year		Accumulated remittance of earnings in current period
					Outflow	Inflow						Shares	Units	
Hangzhou Liwu Machinery & Electric Co., Ltd. (Hangzhou Liwu)	Manufacture and sale of audit-visual equipment, woodwork tools, and components of grinders	RMB 100,007 USD 12,200	Indirectly owned by the company	USD 11,454 NTD 367,096	-	-	USD 11,454 NTD 367,096	(124,506)	100.00%	(124,506)	105,376	USD 11,454 NTD 367,096	100.00 %	-
Tongxiang Rexon	Manufacture of drills, woodwork tools and fitness equipment	RMB 154,465 USD 25,000	Indirectly owned by the company	USD 25,000 NTD 745,565	-	-	USD 25,000 NTD 745,565	79,410	100.00%	79,410	800,908	USD 25,000 NTD 745,565	100.00 %	-
Hangzhou Kanji Trading Co., Ltd.	Manufacture of drills, woodwork tools, and fitness equipment	RMB 3,085 USD 500	Direct subsidiaries of the Company	USD 500 NTD 14,975	-	-	USD 200 NTD 22,820	(1,212)	100.00%	(1,212)	3,047	USD 200 NTD 22,820	100.00 %	-
Rexon Technology Ltd. (Shanghai)	Manufacture and sale of radio communication equipment	RMB 5,792 NTD 24,192	Indirectly owned by the Rexon Technology Ltd. (Brunei)	USD 700 NTD 22,820	-	-	USD 700 NTD 22,820	-	100.00%	-	-	USD 200 NTD 22,820	100.00 %	-

(ii) Limitation on investment in Mainland China:

	Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
REXON INDUSTRIAL CORP., LTD.	US\$36,954 (NT\$1,127,636)	US\$38,798 (NT\$1,191,875)	1,517,294
Rexon Technology Ltd. (Brunei)	US\$700 (NT\$22,820)	US\$700 (NT\$21,504)	45,098

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

**(14) Segment information:**

(a) General information

The Group has only one reportable segment which is automatic facilities and fitness equipment segment. The automatic facilities and fitness equipment segment engages mainly in the manufacturing and selling of drills, woodwork tools, automatic facilities, and fitness equipment.

On November 8, 2018, the board of directors passed the resolution of selling the share of Motomax Hong Kong and its indirect investment in Hangzhou Liwu Machinery & Electric Co., Ltd., so express disposal group and operating segments.

(b) Reportable information of segment's profit, assets, liabilities, and the measurement basis:

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine the resource allocation and make a performance evaluation.

The segment profit includes depreciation and amortization expenses, income tax expense (income), unusual profit (loss), and other significant non-monetary items. The reporting amount is the same with that of the chief operating decision maker use.

Accounting policies for the operating segments correspond to those stated in note 4.

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**REXON INDUSTRIAL CORP., LTD. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The Group's operating segment information was as follows:

<b>2018</b>	<b>Automatic facilities and fitness equipment Segment</b>	<b>Discontinued Operation</b>	<b>Adjustments and elimination</b>	<b>Total</b>
<b>Revenue</b>				
Revenue from external customers	\$ 6,185,512	76	-	6,185,588
Intersegment revenues	-	-	-	-
Interest revenue	<u>3,531</u>	<u>24</u>	<u>-</u>	<u>3,555</u>
Total revenue	<u>\$ 6,189,043</u>	<u>100</u>	<u>-</u>	<u>6,189,143</u>
Interest expenses	<u>\$ 38,151</u>	<u>-</u>	<u>-</u>	<u>38,151</u>
Depreciation and amortization	<u>\$ 123,808</u>	<u>7,158</u>	<u>-</u>	<u>130,966</u>
<b>Reportable segment profit or loss</b>	<u>\$ 461,204</u>	<u>(124,506)</u>	<u>62,279</u>	<u>398,977</u>
<b>Reportable segment assets</b>	<u>\$ 6,900,244</u>	<u>109,854</u>	<u>-</u>	<u>7,010,098</u>
<b>Reportable segment liabilities</b>	<u>\$ 4,456,062</u>	<u>4,478</u>	<u>-</u>	<u>4,460,540</u>
<b>2017</b>	<b>Automatic facilities and fitness equipment Segment</b>	<b>Discontinued Operation</b>	<b>Adjustments and elimination</b>	<b>Total</b>
<b>Revenue</b>				
Revenue from external customers	\$ 5,315,350	300	-	5,315,650
Intersegment revenues	-	-	-	-
Interest revenue	<u>2,572</u>	<u>115</u>	<u>-</u>	<u>2,687</u>
Total revenue	<u>\$ 5,317,922</u>	<u>415</u>	<u>-</u>	<u>5,318,337</u>
Interest expenses	<u>\$ 41,754</u>	<u>1,385</u>	<u>-</u>	<u>43,139</u>
Depreciation and amortization	<u>\$ 114,361</u>	<u>8,921</u>	<u>-</u>	<u>123,282</u>
<b>Reportable segment profit or loss</b>	<u>\$ 335,861</u>	<u>(65,322)</u>	<u>-</u>	<u>270,539</u>
<b>Reportable segment assets</b>	<u>\$ 6,306,881</u>	<u>217,249</u>	<u>(137,161)</u>	<u>6,386,969</u>
<b>Reportable segment liabilities</b>	<u>\$ 3,916,073</u>	<u>9,219</u>	<u>(5,115)</u>	<u>3,920,177</u>

(c) Production information

Revenue from the external customers of the Group was as follows:

<b>Production</b>	<b>2018</b>	<b>2017</b>
Automatic facilities	\$ 2,181,574	2,884,621
Fitness equipment	3,766,921	2,152,463
Other	<u>237,093</u>	<u>278,566</u>
	<u>\$ 6,185,588</u>	<u>5,315,650</u>

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(d) Geographical information

In presenting the information on the basis of geography, segment revenue is based on the geographical location of the customers and the segment non-current assets are based on the geographical location of the assets.

Revenue from the external customers of the Group was as follows:

<u>Region</u>	<u>2018</u>	<u>2017</u>
United States	\$ 5,859,238	4,960,301
Europe	138,572	121,584
Other	<u>187,778</u>	<u>233,765</u>
	<u>\$ 6,185,588</u>	<u>5,315,650</u>

Non-current assets:

<u>Region</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan	\$ 1,452,129	1,289,626
Other	<u>891,472</u>	<u>1,073,929</u>
	<u>\$ 2,343,601</u>	<u>2,363,555</u>

Non-current assets include property, plant and equipment, investment property, intangible assets, and other assets, not including financial instruments and deferred tax assets.

(e) Major customers' information

Sale revenues from individual customers representing over 10% of the total revenue were summarized as follows:

<u>Customer</u>	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
A	\$ 953,432	15	1,380,937	26
B	552,904	9	825,973	16
D	<u>2,744,885</u>	<u>44</u>	<u>1,011,661</u>	<u>19</u>
Total	<u>\$ 4,251,221</u>	<u>68</u>	<u>3,218,571</u>	<u>61</u>