

Stock Code:1527

(English Translation of Financial Statements and Report Originally Issued in Chinese)

BASSO INDUSTRY CORPORATION

Financial Statements

With Independent Auditors' Report

For the Years Ended December 31, 2018 and 2017

Address: No. 24, 36th Rd., Taichung Industrial Park, Taichung, 40768 Taiwan, R.O.C.
Telephone: 886-4-2359-8877

The independent auditors' report and the accompanying 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 financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Report	3
4. Balance Sheets	4
5. Statements of Comprehensive Income	5
6. Statements of Changes in Equity	6
7. Statements of Cash Flows	7
8. Notes to the Financial Statements	
(1) Company history	8
(2) Approval date and procedures of the financial statements	8
(3) New standards, amendments and interpretations adopted	8~13
(4) Summary of significant accounting policies	14~30
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	30~31
(6) Explanation of significant accounts	31~56
(7) Related-party transactions	56
(8) Pledged assets	57
(9) Commitments and contingencies	57
(10) Losses Due to Major Disasters	57
(11) Subsequent Events	57
(12) Other	57
(13) Other disclosures	
(a) Information on significant transactions	58~59
(b) Information on investees	59
(c) Information on investment in mainland China	59
(14) Segment information	59~60
9. Statements of major accounting items	61~73

Independent Auditors' Report

To the Board of Directors of Basso Industry Corporation:

Opinion

We have audited the financial statements of Basso Industry Corporation ("the Company"), which comprise the balance sheets as of December 31, 2018 and 2017, the statement of comprehensive income, changes in equity and cash flows for the years ended then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers 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 Financial Statements section of our report. We are independent of the Company 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 of our opinion.

Emphasis of Matter

We draw attention to Note 3(a) of the financial statements, the company first applied the International Financial Reporting Standard No. 9 "Financial Instruments" on January 1, 2018 and chose not to rewrite the comparison period. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

1. Revenue recognition

For the accounting policies relating to income recognition, please refer to Note 4 (m).

Description of key audit matter:

Part of the sales of The Company is subject to the discount, return, warranty (according to the contract) or sales contracts that are consignment transactions provided to the customer based on the contractual agreement or commercial practice. The estimated series of the above matters of the company's management is the deduction of income. So there is a risk of error in the correctness of the recognition of sales revenue. Therefore, the test of income recognition is an important part of the accountant's implementation of the individual financial report of The Company.

How the matter was addressed in our audit

Our principal audit procedures included: Test the effectiveness of the internal control system design and implementation of the sales and collection operations cycle Understand whether the relevant customer's major sales contract or external order assessment income recognition has been handled in accordance with the relevant regulations. To understand the sales revenue of the top ten sales customers, compare the actual difference with the same period last year to assess whether there are any major abnormalities. Select sales during the period before and after the shipment deadline ,and check the relevant documents to assess the correctness of the income recognition period, and understand whether there is a major return after the period.

2. Inventory evaluation

For the accounting policies of inventories, please refer to Note 4 (g); For the accounting estimates and assumptions uncertainty of inventory evaluation, please refer to Note 5; For the description of the inventory evaluation, please refer to Note 6(h).

Description of key audit matter:

The inventory of The Company is measured by the lower cost and net realizable value. In recent years, the global market has become more active, which has led to an increase in the market demand for pneumatic nailing machines. The competition in the international markets is fierce, driving the design and manufacturing technology of pneumatic nailing machines to change rapidly. The introduction of new products may change the needs of European and American brand manufacturers and consumers, and the original product is outdated or no longer meets market demand.Sales of related products may fluctuate drastically. The risk that the cost of the inventory may exceed its net realizable value. Therefore, the inventory evaluation is performed by the accountant.

How the matter was addressed in our audit

The main audit procedures of the accountant for the above key audit matters include: assessing the rationality of the inventory evaluation accounting policy. Review the inventory age report, analyze the inventory age change, and evaluate whether the inventory evaluation has been handled according to accounting policies. Understand and assess the rationality of the net realizable value basis adopted by management, select samples, and check relevant documents to test the correctness of the amount.Assess whether the management's disclosure of the relevant inventory evaluation is acceptable.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements 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 Chun-Yuan, Wu and Shyh-Huar, Kuo.

KPMG

Taipei, Taiwan (Republic of China)
March 25, 2019

Notes to Readers

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

The independent auditors' report and the accompanying 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 financial statements, the Chinese version shall prevail.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
BASSO INDUSTRY CORPORATION

Balance Sheets

December 31, 2018 and 2017

(expressed in Thousands of New Taiwan dollars)

Assets	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Current assets:				
Cash and cash equivalents (note 6 (a))	\$ 253,364	2	161,550	1
Current financial assets at fair value through profit or loss (note 6 (b) and 8)	3,755,830	25	-	-
Current available-for-sale financial assets (note 6 (c) and 8)	-	-	3,624,654	26
Notes receivable, net (note 6)	9,858	-	10,906	-
Accounts receivable, net (note 6 (f))	882,436	6	747,054	6
Other receivables (note 6 (g))	172,003	1	150,804	1
Inventories (note 6 (h))	547,552	4	434,905	3
Other current financial assets (note (k))	7,575,465	51	6,708,313	48
Other current assets (note 6 (k) and 8)	26,808	-	24,876	-
	<u>13,223,316</u>	<u>89</u>	<u>11,863,062</u>	<u>85</u>
Non-current assets:				
Non-current financial assets at fair value through other comprehensive income (note 6 (d))	10	-	-	-
Non-current financial assets at cost, net (note 6 (e))	-	-	10	-
Property, plant and equipment (note 6 (e))	889,073	6	890,017	7
Intangible assets (note 6 (f))	22,693	-	27,737	-
Deferred tax assets (note 6 (m))	222,963	2	240,867	2
Other non-current financial assets (note 6 (k) and (8))	473,011	3	883,574	6
Other non-current assets (note 6 (k))	30,616	-	11,531	-
	<u>1,638,366</u>	<u>11</u>	<u>2,053,736</u>	<u>15</u>
Total assets	\$ 14,861,682	100	13,916,798	100

Liabilities and Equity	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Current liabilities:				
Short-term borrowings (note 6 (l) and 8)	\$ 8,993,000	60	9,111,000	65
Notes payable	8,020	-	147,293	1
Accounts payable	270,802	2	228,912	2
Other payables	391,789	3	307,142	2
Contract liabilities	43,252	-	-	-
Current income tax liabilities	91,483	1	72,599	1
Provisions (note 6(r))	6,417	-	6,525	-
Advanced receipts	-	-	51,283	-
Long-term borrowings, current portion (note 6 (j) and 8)	769,000	5	190,000	1
Other current liabilities	1,261	-	2,136	-
	<u>10,575,024</u>	<u>71</u>	<u>10,116,890</u>	<u>72</u>
Non-Current liabilities:				
Long-term borrowings (note 6 (m) and 8)	420,000	3	769,000	6
Defined benefit liabilities, net (note 6 (n))	38,074	-	49,072	-
	<u>458,074</u>	<u>3</u>	<u>818,072</u>	<u>6</u>
Total liabilities	11,033,098	74	10,934,962	78
Equity attributable to owners: (note 6 (p))				
Ordinary share	1,379,606	9	1,379,606	10
Capital surplus	593	-	305	-
Retained earnings	2,486,945	17	2,186,368	16
Other equity interest	(38,560)	-	(584,443)	(4)
	<u>3,828,584</u>	<u>26</u>	<u>2,981,836</u>	<u>22</u>
Total equity	3,828,584	26	2,981,836	22
Total liabilities and equity	\$ 14,861,682	100	13,916,798	100

(English Translation of Financial Statements and Report Originally Issued in Chinese)

BASSO INDUSTRY CORPORATION**Statements of Comprehensive Income****For the years ended December 31, 2018 and 2017****(expressed in Thousands of New Taiwan dollars , except for earnings per share)**

	2018		2017	
	Amount	%	Amount	%
Operating revenues	\$ 3,748,295	100	3,847,649	100
Sales returns	865	-	949	-
Sales allowances	14,110	-	10,443	-
Net operating revenues (note 6 (r) and (s))	3,733,320	100	3,836,257	100
Operating costs (note 6 (h), (n) and (t))	2,615,381	70	2,722,398	71
Gross profit from operations	1,117,939	30	1,113,859	29
Operating expenses (note 6 (j), (n) and (t))				
Selling expenses	154,110	4	160,791	4
Administrative expenses	85,405	2	68,276	2
Research and development expenses	153,414	6	112,091	3
	392,929	12	341,158	9
Net operating income	725,010	18	772,701	20
Non-operating income and expenses (note 6 (u))				
Other income	376,454	10	339,922	9
Other gains and losses, net	235,571	6	(770,001)	(20)
Finance costs	(102,235)	(3)	(105,824)	(3)
	509,790	13	(535,903)	(14)
Profit before income tax	1,234,800	31	236,798	6
Less: income tax expense (note 6 (q))	203,035	6	32,825	1
Profit	1,031,765	25	203,973	5
Other comprehensive income (loss):				
Items that may not be reclassified subsequently to profit or loss:				
Gains (losses) on remeasurements of defined benefit plans	7,840	-	(1,041)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	7,840	-	(1,041)	-
Items that may be reclassified subsequently to profit or loss:				
Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	(426,173)	(11)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6 (o))	-	-	72,449	2
Other comprehensive income (after tax)	7,840	-	(354,765)	(9)
Comprehensive income	\$ 1,039,605	25	(150,792)	(4)
Basic earnings per share (NT dollars) (note 6(t))	\$ 7.48		1.48	
Diluted earnings per share (NT dollars) (note 6(t))	\$ 7.43		1.48	

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

BASSO INDUSTRY CORPORATION**Statements of Changes in Equity****For the years ended December 31, 2018 and 2017****(Expressed in Thousands of New Taiwan dollars)**

	Retained earnings						Total other equity interest			
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	Total equity
Balance at January 1, 2017	\$ 1,379,606	305	584,357	-	1,964,717	2,549,074	-	(230,719)	(230,719)	3,698,266
Profit for the year ended December 31, 2017	-	-	-	-	203,973	203,973	-	-	-	203,973
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	(1,041)	(1,041)	-	(353,724)	(353,724)	(354,765)
Comprehensive income for the year ended December 31, 2017	-	-	-	-	202,932	202,932	-	(353,724)	(353,724)	(150,792)
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	94,984	-	(94,984)	-	-	-	-	-
Special reserve	-	-	-	230,719	(230,719)	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(565,638)	(565,638)	-	-	-	(565,638)
Balance at December 31, 2017	1,379,606	305	679,341	230,719	1,276,308	2,186,368	-	(584,443)	(584,443)	2,981,836
Balance on January 1, 2018	1,379,606	305	679,341	230,719	1,276,308	2,186,368	-	(584,443)	(584,443)	2,981,836
Effects of retrospective application	-	-	-	-	(545,883)	(545,883)	(38,560)	584,443	545,883	-
Balance on January 1, 2018 after adjustments	1,379,606	305	679,341	230,719	730,425	1,640,485	(38,560)	-	(38,560)	2,981,836
Profit for the year ended December 31, 2018	-	-	-	-	1,031,765	1,031,765	-	-	-	1,031,765
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	7,840	7,840	-	-	-	7,840
Comprehensive income for the year ended December 31, 2018	-	-	-	-	1,039,605	1,039,605	-	-	-	1,039,605
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	20,397	-	(20,397)	-	-	-	-	-
Special reserve	-	-	-	353,724	(353,724)	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(193,145)	(193,145)	-	-	-	(193,145)
Other changes in capital surplus	-	288	-	-	-	-	-	-	-	288
Balance at December 31, 2018	\$ 1,379,606	593	699,738	584,443	1,202,764	2,486,945	(38,560)	-	(38,560)	3,828,584

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

BASSO INDUSTRY CORPORATION**Statements of Cash Flows****For the years ended December 31, 2018 and 2017****(expressed in Thousands of New Taiwan dollars)**

	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 1,234,800	236,798
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	85,469	80,441
Amortization expense	11,676	9,324
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	46,055	-
Interest expense	102,235	105,824
Interest revenue	(376,454)	(339,922)
Loss (gain) on disposal of property, plan and equipment	(2,175)	(1,638)
Loss (gain) on disposal of investments	-	73,768
overdue dividends	288	-
Total adjustments to reconcile profit	(132,906)	(72,203)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in notes receivable	1,048	2,651
Decrease(increase) in accounts receivable	(135,382)	13,984
Decrease(increase) in other receivables	517	(4,549)
Decrease(increase) in inventories	(125,214)	136,164
Decrease (increase) in other current assets	(1,932)	18,685
Changes in operating assets	(260,963)	166,935
Changes in operating liabilities:		
Increase in contract liability	(8,031)	-
Increase (decrease) in notes payable	(139,273)	2,641
Increase in accounts payable	41,890	4,545
Increase (decrease) in other payable	85,057	(9,084)
Increase (decrease) in provisions	(108)	1,900
Increase in advanced receipts	-	(22,794)
Increase (decrease) in other current liabilities	(875)	133
Decrease in net defined benefit liability	(3,158)	(2,851)
Changes in operating liabilities	(24,498)	(25,510)
Total changes in operating assets and liabilities	(285,461)	141,425
Total adjustments	(418,367)	69,222
Cash inflow generated from operations	816,433	306,020
Interest received	354,738	320,465
Interest paid	(100,757)	(101,302)
Income taxes paid	(166,247)	(186,322)
Net cash flows from operating activities	904,167	338,861
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through profit or loss	(673,869)	-
Proceeds from disposal of financial assets at fair value through profit or loss	496,638	-
Acquisition of available-for-sale financial assets	-	(30,620)
Proceeds from disposal of available-for-sale financial assets	-	458,923
Acquisition of property, plant and equipment	(19,753)	(14,257)
Proceeds from disposal of property, plant and equipment	2,910	1,870
Acquisition of intangible assets	(6,632)	(28,312)
Decrease (increase) in other financial assets	(456,589)	668,799
Decrease in other non-current assets	275	(43,444)
Increase in prepaid equipment	(74,188)	-
Net cash flows from (used in) investing activities	(731,208)	1,012,959
Cash flows from (used in) financing activities:		
Increase in short-term loans	310,000	360,000
Repayments of short-term borrowings	(428,000)	(1,270,000)
Increase in long-term borrowings	230,000	150,000
Repayments of long-term borrowings	-	(300,000)
Cash dividends paid	(193,145)	(565,638)
Net cash flows from (used in) financing activities	(81,145)	(1,625,638)
Net increase (decrease) in cash and cash equivalents	91,814	(273,818)
Cash and cash equivalents at beginning of period	161,550	435,368
Cash and cash equivalents at end of period	\$ 253,364	161,550

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in Thousands of New Taiwan dollars, Unless Otherwise Specified)

(1) Company history

Basso Industry Corporation (the “Company”) was incorporated on July 2, 1973 as a Group limited by shares and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company’s registered office is No. 24, 36th Rd., Taichung Industrial Park, Taichung, 40768 Taiwan, R.O.C. The Company primarily is involved in the manufacturing and selling of nailing machine and pneumatic tools.

(2) Approval date and procedures of the financial statements

The financial statements were authorized for issuance by the Board of Directors on March 25, 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.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the 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 Company 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 Company 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 Company uses the practical expedients for its 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 the changing of accounting policies:

1) Sales of goods

Revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15,

2) Impacts on financial statements

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

Impacted line items on the balance sheet	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
Current contract liabilities	\$ -	(43,252)	(43,252)	-	(51,283)	(51,283)
Advanced receipts	(43,252)	43,252	-	(51,283)	51,283	-
Impact on liabilities	(43,252)	-	(43,252)	(51,283)	-	(51,283)

(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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

As a result of the adoption of IFRS 9, the Company 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 Company’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Company 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 Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(f).

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(6).

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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

- 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 Company 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 Company's financial assets as of January 1, 2018. The type of measurement and book value of financial liabilities have not changed.

		IAS39			IFRS9
		Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets					
Cash and equivalents	Loans and receivables		161,550	Amortized cost	161,550
Debt securities	Available-for-sale (Note 1)		3,624,654	Designated as at FVTPL	3,624,654
Equity instruments	Measured by cost (Note 2)			10 FVOCI	10
Trade and other receivables	Loans and receivables (Note 3)		908,764	Amortized cost	908,764
Other financial assets (Refundable deposits and time deposits)	Loans and receivables		7,593,396	Amortized cost	7,593,396

Note 1: The corporate debt securities categorized as available-for-sale under IAS 39 are held by the Company's treasury unit in a separate portfolio to provide interest income; however, they may be sold to meet liquidity requirements arising in the normal course of business. The Company considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The corporate debt securities mature in one to two years and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9. An allowance for impairment of \$584,443 thousand was recognized in opening retained earnings on transition to IFRS 9 on January 1, 2018.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

Note2: These equity securities (including financial assets measured at cost) represent investments that the Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI. Accordingly, no increase were recognized in total assets and retained earnings, as well as no decrease was recorded in reserves. However, an amount of \$38,560 was recognized in non-controlling on January 1, 2018.

Note3: 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)	\$ -	-	-	-	-	-
Additions – debt instruments:						
From available for sale	-	3,624,654	-	-	(584,443)	584,443
Total	<u>\$ -</u>	<u>3,624,654</u>	<u>-</u>	<u>3,624,654</u>	<u>(584,443)</u>	<u>584,443</u>
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 3,624,664	(10)	-	-	-	-
From FVTPL	-	-	-	-	38,560	(38,560)
Subtractions – debt instruments:		10				
To FVTPL – required reclassification based on classification criteria	-	(3,624,654)	-	-	-	-
Total	<u>\$ 3,624,664</u>	<u>(3,624,664)</u>	<u>-</u>	<u>10</u>	<u>38,560</u>	<u>(38,560)</u>
Amortized cost						
Beginning balance of cash and cash equivalents, bond investment without an active market, trade and other receivables, and other financial assets (IAS39)	<u>\$ 8,663,710</u>	<u>-</u>	<u>-</u>	<u>8,663,710</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 Company present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(y).

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

The amendments clarify that deferred income tax assets will be recognized for unrealized losses if certain conditions are met and the calculation of "future taxable income". The Company has retrospectively applied the amendments.

There is no change in deferred income tax assets, other equity items and retained earnings as of January 1 and December 31, 2017. Therefore, there were no impact on the Company's income tax expenses, basic earnings per share and cash flow statements in 2017.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

In addition, if the Company had applied its previous accounting policy, there would have been no changes in its deferred income tax assets, other equity items and retained earnings as of January 1 and December 31, 2018. Therefore, there were no impact on the Company's income tax expenses, basic earnings per share and cash flow statement in 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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements.

(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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

The Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(4) Summary of significant accounting policies

The accompanying 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 financial statements, the Chinese version shall prevail.

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

(a) Statement of compliance

These 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, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value.
- 2) The defined benefit liability (asset) is recognized as the fair value of the plan assets, less, the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at the 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 amortized cost in the functional currency at the beginning of the period, 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

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 those differences relating to the following, which are recognized in 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.

(d) 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 the 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 (as defined in IAS 7) 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.

An entity shall classify a liability as current when:

- (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 issuing equity instruments do not affect its classification.

(e) 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(f) 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 Company 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 Company 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)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

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 is calculated using the effective interest method, foreign exchange gains and losses, and impairment losses. 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.

A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using settlement date accounting.

Dividend income derived from equity investments is recognized on the date that the Company's right to receive payment is established, which in the case of quoted securities is normally the exdividend date.

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 and accounts receivable, which is presented as accounts receivable. On initial recognition, the Company 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 Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivables, other receivables, leases receivable, guarantee deposits paid and other financial assets), debt investments measured at FVOCI, accounts receivable measured at FVOCI and contract assets.

The Company 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)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

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 Company 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 Company 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 Company's historical experience and informed credit assessment as well as forward-looking information.

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

The Company considers a financial asset to be in default when the financial asset is more than a year past due or the borrower is unlikely to pay its credit obligations to the Company 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 Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company 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 a year past due ;

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

- 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 ;
- 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 Company 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 Company 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 Company' 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 Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Company 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 Company 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(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, available-for-sale financial assets and loans and receivables.

1) Availablefor sale financial assets

Availableforsale 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. Availableforsale 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 availableforsale 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 the statement of comprehensive income. 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 are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Company' s right to receive payment is established, which in the case of quoted securities is normally the exdividend date.

Interest income from investment in bond security is recognized in profit or loss, under other income of nonoperating income and expenses.

2) 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 shortterm 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

3) 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 Company on terms that the Company 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 Company 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 will not be reversed in subsequent periods.

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 availablefor 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 the impairment was recognized at the reversal date.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

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 nonoperating income and expenses.

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the assets are terminated, or when the Company 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 <statement of comprehensive income>.

The Company 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.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Company 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

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 capital cost is recognized in profit or loss.

3) Derecognition of financial liabilities

The Company 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 is included in non-operating income or expenses.

4) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the Company 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.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted-average method and includes the 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.

(h) 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.

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 parts 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. 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 items 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.

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

- 1) buildings and structures: 2~57 years
- 2) machinery and equipment: 1~21 years
- 3) other equipment: 1~21 years

Buildings and structures constitute mainly of building and building repair project. Each such part depreciates based on its useful life of 51~57 years and 2~56 years, respectively.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

(i) Lease

Leases in which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized in the Company'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.

(j) Intangible assets

(i) 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

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.

(ii) Other intangible assets

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

(iii) 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.

(iv) 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) Computer software: 1~10 years

The residual value, amortization period, and 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 estimates.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(k) Impairment of non-financial assets

The Company 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 Company will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for an individual asset or a CGU 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.

The Company 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 entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be 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. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a reversal of a previously recognized 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.

(l) Provisions

A provision is recognized if, as a result of a past event, the Company 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.

Warranty liability provisions are recognized when selling goods or services, and the liability provision is weighted by its associated probability based on historical warranty information and all possible outcomes.

(m) Revenue from contracts with customers

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

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company 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 Company's main types of revenue are explained below.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

1) Sale of goods

The Company manufactures and sells nail machine and pneumatic tools. The Company 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 Company has objective evidence that all criteria for acceptance have been satisfied.

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

2) Financing components

The Company 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 Company does not adjust any of the transaction prices for the time value of money.

(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 a discount 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.

(n) Employee benefits

(i) Defined contribution plans

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.

(Continued)

BASSO INDUSTRY CORPORATION**Notes to the Financial Statements****(ii) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company'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; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date (market yields of high-quality corporate bonds or government bonds) on bonds that have maturity dates approximating the terms of the Company'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 Company, the recognized asset is limited to the total of 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 Company. An economic benefit is available to the Company 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 past 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 Company reclassify the amounts recognized in other comprehensive income to retained earnings. The Company recognizes all actuarial gains and losses arising subsequently from defined benefit plans in other comprehensive income.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting changes in the fair value of plan assets, any changes in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost that had not previously been recognized.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(o) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or 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, as well as 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 are 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 in 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 apply to the period when the asset is realized or the liability is settled, which are normally the 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 fulfills one of the below scenarios:
 - 1) Levied by the same taxing authority; or
 - 2) Levied by different taxing authorities, but where each such authority intends 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 is 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 are also reevaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(p) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on 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 dilutive potential ordinary shares, such as employee bonus and employee stock options.

(q) Operating segments

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

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

The preparation of the financial statements in conformity with the Regulations and the 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. It recognizes any changes in accounting estimates during the period and the impact of those changes in the accounting estimates in the following period.

As inventories are stated at the lower of cost or net realizable value, the Company 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. Please refer to note 6 (h) for further description of the valuation of inventories.

The Company's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- 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).
- Level 3: inputs for the assets or liability that are not based on observable market data.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to Note 6(v) for assumptions used in measuring fair value.

(6) Explanation of significant accounts

(a) Cash and Cash Equivalents

	December 31, 2018	December 31, 2017
Cash on hand	\$ 611	903
Demand deposits and time deposits	80,722	117,260
Foreign currency deposits	172,031	43,387
Cash and cash equivalents	<u>\$ 253,364</u>	<u>161,550</u>

Please refer to note 6(v) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Company.

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

	December 31, 2018
Financial assets designated as at fair value through profit or loss	
Foreign bonds	<u>\$ 3,755,830</u>

The investments were classified as available-for-sale financial assets on December 31, 2017.

For market risk, please refer to note 6 (v).

As of December 31, 2018, the financial assets at fair through profit or loss of the Company had been pledged as collateral for long-term borrowing; please refer to note 8.

(c) Available-for-sale financial assets

	December 31, 2017
Available-for-sale financial assets	
Foreign bond	<u>\$ 3,624,654</u>

These investments were classified as financial assets at fair value through profit or loss on December 31, 2018; please refer to note 6 (b).

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

The Company holds its debt instrument investment to obtain interest income as follows:

	December 31, 2017	
	Interest rate range	Maturity period
Available-for-sale financial assets	2.674%~7.625%	2018~2023

For market risk, please refer to note 6 (v).

As of December 31, 2017, the available-for-sale financial assets of the Company had been pledged as collateral for long-term borrowings; please refer to note 8.

- (d) Financial assets at fair value through other comprehensive income

	December 31, 2018
Equity investments at fair value through other comprehensive income	
Domestic unlisted stock-COTA Commercial bank	\$ 10
Domestic unlisted stock-GATETECH technology Inc.	-
Total	<u>\$ 10</u>

On January 1, 2018, the Company designated its investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017.

No strategic investments were disposed as of December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

For market risk; please refer to note 6 (v).

As of December 31, 2018, the financial assets at fair value through other comprehensive income of the Company had not been pledged as collateral for long-term borrowings.

- (e) Financial assets measured at cost

	December 31, 2017
Domestic unlisted common shares	<u>\$ 10</u>

The Company assessed and recognized its impairment for investment in shares amounting to \$38,560 thousand.

The aforementioned investments held by the Company were measured at amortized cost as of December 31, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Company's management had determined that the fair value cannot be measured reliably. These investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018. please refer to note 6(d).

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

For market risk, please refer to note 6 (v).

The financial assets of the Company above had been pledged as collateral.

(f) Note and trade receivables

	December 31, 2018	December 31, 2017
Note receivables—measured as amortized cost	\$ 9,858	10,906
Trade receivables—measured as amortized cost	893,728	758,346
Less: Loss allowances	(11,292)	(11,292)
	<u>882,436</u>	<u>747,054</u>
	<u>\$ 892,294</u>	<u>757,960</u>

The Company 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:

	Gross carrying amount	Weighted-avera ge loss rate	Loss allowance provision
Current	\$ 694,575	- %	-
1 to 90 days past due	184,453	- %	-
91 to 180 days past due	12,760	- %	-
181 to 365 days past due	11,599	95.64%	11,093
More than a year past due	199	100%	199
Total	<u>\$ 903,586</u>		<u>11,292</u>

As of December 31, 2017, the Company 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:

	2017	
Overdue 1 to 90 days	<u>\$</u>	<u>61,388</u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

The movement in the allowance for notes and trade receivables was as follows:

	2018	2017 Individually assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	\$ 11,292	<u>11,292</u>
Adjustment on initial application of IFRS 9	<u>-</u>	
Balance on January 1, 2018 per IFRS 9	<u>\$ 11,292</u>	

The Company does not hold any collateral for the collectible amounts.

For further credit risk information, please refers to note 6 (v).

(g) Other receivables

	December 31, 2018	December 31, 2017
Other accounts receivable—interests receivable	\$ 164,824	143,108
Others	7,179	7,696
Less: Loss allowance	<u>-</u>	<u>-</u>
	<u>\$ 172,003</u>	<u>150,804</u>

As of December 31, 2017, the aging analysis of other receivables, which were past due but not impaired.

For further credit risk information, please refers to note 6 (v).

(h) Inventories

	December 31, 2018	December 31, 2017
Finished goods	\$ 84,921	61,633
Work in progress	269,876	223,495
Raw materials	192,753	149,734
Commodity	<u>2</u>	<u>43</u>
	<u>\$ 547,552</u>	<u>434,905</u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

As of December 31, 2018 and 2017, the detail of inventory write-downs as follows:

	For the years ended December 31	
	2017	2016
Provisions (reversal of provision) for inventory valuation and obsolescence	\$ 16,378	50,218
Losses on disposal of scrap	5,532	6,006
inventory losses (profit)	(7)	(1)
Gains on disposal of miscellaneous	(23,706)	(21,280)
warranty preparation	(108)	1,900
Others	(1,683)	(1,981)
	\$ (3,594)	34,862

As of December 31, 2018 and 2017, the Company did not provide any inventories as collateral for its loans.

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

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2017 and 2016 were as follows:

	Land	Buildings and Structures	Machinery and Equipment	Other Equipment	Total
Cost or deemed cost:					
Balance at January 1, 2018	\$ 305,349	657,083	1,796,780	185,326	2,944,538
Additions	-	2,541	10,903	4,421	17,865
Disposals	-	(1,735)	(43,108)	(29,806)	(74,649)
Reclassification	-	7,742	52,007	7,646	67,395
Balance at December 31, 2018	\$ 305,349	665,631	1,816,582	167,587	2,955,149
Balance at January 1, 2017	\$ 305,349	648,883	1,783,074	178,559	2,915,865
Additions	-	5,070	9,820	6,127	21,017
Disposals	-	-	(50,832)	(986)	(51,818)
Reclassification	-	3,130	54,718	1,626	59,474
Balance at December 31, 2017	\$ 305,349	657,083	1,796,780	185,326	2,944,538
Depreciation and impairment loss :					
Balance at January 1, 2018	\$ -	266,634	1,622,631	165,256	2,054,521
Depreciation for the year	-	16,487	61,174	7,808	85,469
Disposals	-	(1,735)	(42,373)	(29,806)	(73,914)
Balance at December 31, 2018	\$ -	281,386	1,641,432	143,258	2,066,076
Balance at January 1, 2017	\$ -	251,488	1,615,883	158,295	2,025,666
Depreciation for the year	-	15,146	57,348	7,947	80,441
Disposals	-	-	(50,600)	(986)	(51,586)
Balance at December 31, 2017	\$ -	266,634	1,622,631	165,256	2,054,521

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

	<u>Land</u>	<u>Buildings and Structures</u>	<u>Machinery and Equipment</u>	<u>Other Equipment</u>	<u>Total</u>
Carrying amounts:					
Balance at December 31, 2018	<u>\$ 305,349</u>	<u>384,245</u>	<u>175,150</u>	<u>24,329</u>	<u>889,073</u>
Balance at December 31, 2017	<u>\$ 305,349</u>	<u>397,395</u>	<u>167,191</u>	<u>20,264</u>	<u>890,199</u>
Balance at January 1, 2017	<u>\$ 305,349</u>	<u>390,449</u>	<u>174,149</u>	<u>20,070</u>	<u>890,017</u>

As of December 31, 2017 and 2016, the property, plant and equipment of the Company had been pledged as collateral for borrowings; please refer to Note 8.

(j) Intangible Assets

The costs of intangible assets, amortization, and impairment loss of the Company for the years ended December 31, 2017 and 2016 were as follows:

	<u>Computer software</u>
Costs:	
Balance at January1, 2018	\$ 35,832
Additions	6,632
Disposals	<u>(1,715)</u>
Balance at December 31, 2018	<u>\$ 40,749</u>
Balance at January1, 2017	\$ 10,196
Additions	28,312
Disposals	<u>(2,676)</u>
Balance at December 31, 2017	<u>\$ 35,832</u>
Amortization and Impairment Loss:	
Balance at January1, 2018	\$ 8,095
Amortization for the year	11,676
Disposals	<u>(1,715)</u>
Balance at December 31, 2018	<u>\$ 18,056</u>
Balance at January1, 2017	\$ 1,447
Amortization for the year	9,324
Disposals	<u>(2,676)</u>
Balance at December 31, 2017	<u>\$ 8,095</u>
Carrying amounts:	
Balance at December 31, 2018	<u>\$ 22,693</u>
Balance at January 1, 2017	<u>\$ 8,749</u>
Balance at December 31, 2017	<u>\$ 27,737</u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(i) Amortization

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

	2018	2017
Operating costs	\$ 2,928	2,094
Operating expenses	8,748	7,230
	<u>\$ 11,676</u>	<u>9,324</u>

(ii) Disclosures on pledges

As of December 31, 2017 and 2016, none of the intangible assets of the Company had been pledged as collateral.

(k) Other current assets and other non-current assets

The other current assets and other non-current assets of the Company were as follows:

	December 31, 2018	December 31, 2017
Current other financail assets	\$ 7,575,465	6,708,313
Noncurrent other financail assets	473,011	883,574
Prepaid equipment	28,949	9,589
Refundable deposits	1,509	1,509
Other-current	26,808	24,876
Other-non current	158	433
	<u>\$ 8,105,900</u>	<u>7,628,294</u>

Other financial assets are restricted bank deposits and bank time deposits with maturities of more than three months, which are provided as collateral guarantees. Please refer to note 8.

(l) Short-term borrowings

The short-term borrowings were summarized as follows:

	December 31, 2018	December 31, 2017
Secured bank loans	\$ 8,743,000	8,631,000
Credit loans	250,000	480,000
Total	<u>\$ 8,993,000</u>	<u>9,111,000</u>
Unused short-term credit lines	<u>\$ 2,152,000</u>	<u>1,534,000</u>
Range of interest rates	<u>0.95%~1.06%</u>	<u>0.95%~1.17%</u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

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

(m) Long-term borrowings

The details were as follows:

December 31, 2018				
	Currency	Rate	Maturity year	Amount
Secured bank loans	NTD	0.95%~1.01%	109.12.28	\$ 1,189,000
Less: current portion				(769,000)
Total				<u>\$ 420,000</u>
Unused long-term credit lines				<u>\$ 811,000</u>

December 31, 2017				
	Currency	Rate	Maturity year	Amount
Secured bank loans	NTD	0.87%~1.01%	108.12.29	\$ 959,000
Less: current portion				(190,000)
Total				<u>\$ 769,000</u>
Unused long-term credit lines				<u>\$ 241,000</u>

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

(n) Employee benefits

(i) Defined benefit plans

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

	December 31, 2018	December 31, 2017
Present value of the defined benefit obligations	\$ 132,560	143,088
Fair value of plan assets	(94,486)	(94,016)
Net defined benefit liabilities	<u>\$ 38,074</u>	<u>49,072</u>

The Company's employee benefit liabilities were as follows:

	December 31, 2018	December 31, 2017
Short-term vacation liability	<u>\$ 13,052</u>	<u>12,147</u>

The Company 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

1) Composition of plan assets

The Company 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 Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to 93,879 thousands at the report date. 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 movement in present value of the defined benefit obligations for the Company were as follows:

	<u>2018</u>	<u>2017</u>
Defined benefit obligations at January 1	\$ 143,088	142,195
Current service costs and interest costs	2,714	3,355
Remeasurements loss (gain):		
— Return on plan assets excluding interest income	(9,746)	(4,000)
Actuarial loss (gain) arising from:		
— demographic assumptions	487	500
— financial assumptions	4,001	4,044
Benefits paid	(7,984)	(3,006)
Defined benefit obligations at December 31	<u><u>\$ 132,560</u></u>	<u><u>143,088</u></u>

3) Movements of defined benefit plan assets

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

	<u>2018</u>	<u>2017</u>
Fair value of plan assets at January 1	\$ 94,016	91,313
Interest income	1,188	1,389
Remeasurements loss (gain):		
-Return on plan assets excluding interest income	2,582	(497)
Amount that has been allocated to the plan	4,684	4,817
Benefits paid	(7,984)	(3,006)
Fair value of plan assets at December 31	<u><u>\$ 94,486</u></u>	<u><u>94,016</u></u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	2018	2017
Current service costs	\$ 942	1,238
Net interest of net liabilities for defined benefit obligations	584	728
	<u>\$ 1,526</u>	<u>1,966</u>
Operating cost	\$ 1,009	1,286
Selling expenses	63	98
Administration expenses	205	269
Research and development expenses	249	313
	<u>\$ 1,526</u>	<u>1,966</u>

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

The Company' s remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2018 and 2017, was as follows:

	2018	2017
Accumulated amount at January 1	\$ (61,312)	(60,271)
Recognized during the period	7,840	(1,041)
Accumulated amount at December 31	<u>\$ (53,472)</u>	<u>(61,312)</u>

6) Actuarial assumptions

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

	2018	2017
Discount rate	1.00%	1.25%
Increase in future salary rate	2.00%	2.00%

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is 4,395 thousands.

The weighted average lifetime of the defined benefits plans is 12 years.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the 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:

	Influences of defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2018:		
Discount rate	\$ (4,021)	4,195
Future salary increasing rate	4,142	(3,992)
December 31, 2017:		
Discount rate	(4,066)	4,238
Future salary increasing rate	4,195	(4,046)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain 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.

There were no changes in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

(ii) Defined contribution plans

The Company 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 Company 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 14,381 thousands and 13,900 thousands for the years ended December 31, 2018 and 2017, respectively.

(o) 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

1. Income taxes

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

	<u>2018</u>	<u>2017</u>
Current tax expense		
Current period	\$ 185,946	162,098
Adjustment for prior periods	(815)	(8,389)
	<u>185,131</u>	<u>153,709</u>
Deferred tax expense		
Origination and reversal of temporary differences	60,410	(120,884)
Adjustment in tax rate	(42,506)	-
	<u>17,904</u>	<u>(120,884)</u>
Tax expenses	<u><u>\$ 203,035</u></u>	<u><u>32,825</u></u>

The amount of income tax recognized in other comprehensive income for 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Items that may be reclassified subsequently to profit or loss:		
Unrealized gains (losses) on available for sale financial assets	\$ -	<u><u>72,449</u></u>

Reconciliation of income tax and profit before tax for 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Profit excluding income tax	<u><u>\$ 1,234,800</u></u>	<u><u>236,798</u></u>
Income tax using the Company's domestic tax rate	246,960	40,256
Adjustment in tax rate	(42,506)	-
The amount of tax adjusted according to the tax law	(604)	(475)
Recognition of previously unrecognized tax profits	(815)	(8,389)
Undistributed surplus plus 10%	-	2,900
Others	-	(1,467)
	<u><u>\$ 203,035</u></u>	<u><u>32,825</u></u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(ii) Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

Deferred Tax Assets:

	Inventory price loss	Unrealized exchange loss	Convert-tible Bonds	Others	Total
Balance at January 1, 2018	\$ 20,535	97,095	119,705	3,532	240,867
Recognized in profit or loss	6,900	(33,801)	8,216	781	(17,904)
Balance at December 31, 2018	<u>\$ 27,435</u>	<u>63,294</u>	<u>127,921</u>	<u>4,313</u>	<u>222,963</u>
	Inventory price loss	Unrealized exchange loss	Convert-tible Bonds	Others	Total
Balance at January 1, 2017	\$ 11,997	-	47,256	1,615	60,868
Recognized in profit or loss	8,538	97,095	-	1,917	107,550
Recognized in other comprehensive income	-	-	72,449	-	72,449
Balance at December 31, 2017	<u>\$ 20,535</u>	<u>97,095</u>	<u>119,705</u>	<u>3,532</u>	<u>240,867</u>

Deferred Tax Assets:

	Unrealized exchange profit	Others	Total
Balance at January 1, 2017	\$ 47,334	(34,000)	13,334
Recognized in profit or loss	(47,334)	34,000	(13,334)
Balance at December 31, 2017	<u>\$ -</u>	<u>-</u>	<u>-</u>

(iii) Examination and Approval

The Company's tax returns for the years through 2016 were examined and approved by the Taipei National Tax Administration.

(p) Capital and Other Equity

As of December 31 2017 and 2016, the number of authorized ordinary shares was 137,961 thousands shares at par value of \$10 per share, amounting to \$1,862,196 thousands.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

Reconciliation of shares outstanding for 2017 and 2016 was as follows:

	Ordinary Shares	
	2018	2017
Balance on December 31	<u>137,961</u>	<u>137,961</u>
(i) Capital surplus		

The balances of capital surplus as of December 31, 2017 and 2016 were as follows:

	December 31, 2018	December 31, 2017
Gain on disposal assets	\$ 305	305
Overdue dividends	288	-
	<u>\$ 593</u>	<u>305</u>

According to the R.O.C. 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, the capital increase, by transferring the capital surplus in excess of the 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.

The Company's dividend policy depends on the Company's capital expenditure budget and required working capital. The remaining earnings will be distributed either in cash or in stock dividends, or both. However, the cash dividend can not be less than 10% of the total dividends distributed.

1) Legal reserve

According to the amendment of the R.O.C. Company Act in January 2012, 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.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of the current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for 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. equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net. The special reserve for the years ended December 31, 2018 and 2017 were \$584,443 thousand and \$230,719 thousand, respectively.

3) Earnings distribution

Earnings distribution for 2017 and 2016 were decided via the general meeting of the shareholders held on June 28, 2018 and June 28, 2017, respectively. The relevant dividend distributions to shareholders were as follows:

	2017		2016	
	Amount per share	Total amount	Amount per share	Total amount
Dividends distributed to common shareholders				
Cash	\$ 1.4	<u>193,145</u>	4.1	<u>565,638</u>

(iii) OCI accumulated in reserves, net of tax

	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total
Balance at January 1, 2018	\$ -	(584,443)	(584,443)
Effects of retrospective application	(38,560)	584,443	545,883
Balance at January 1, 2018 after adjustments	<u>\$ (38,560)</u>	<u>-</u>	<u>(38,560)</u>
Balance at January 1, 2017	\$ -	(230,719)	(230,719)
Unrealized gains (losses) on availableforsale financial assets	-	(353,724)	(353,724)
Balance at December 31, 2017	<u>\$ -</u>	<u>(584,443)</u>	<u>(584,443)</u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(q) Earnings per Share

The calculation of basic earnings per share and diluted earnings per share for the year 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Basic earnings per share		
Profit of the Company for the year	<u>\$ 1,031,765</u>	<u>203,973</u>
Weighted average number of	<u>137,961</u>	<u>137,961</u>
	<u>\$ 7.48</u>	<u>1.48</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders of the Company (diluted)	<u>\$ 1,031,765</u>	<u>203,973</u>
Weighted average number of ordinary shares (diluted) at December 31	137,961	137,961
Effect of employee share bonus		
WWeighted average number of ordinary shares (diluted) at December 31	908	138
	<u>138,869</u>	<u>138,099</u>
	<u>\$ 7.43</u>	<u>1.48</u>

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2018</u>
Primary geographical markets	
United States	\$ 1,810,089
German	405,669
Taiwan	329,097
Japan	139,026
Belgium	113,721
Other	935,718
	<u>\$ 3,733,320</u>
Major products	
Stapler gun	\$ 1,937,998
Pneumatic tool	1,149,001
Magnesium alloy products	203,197
Other	443,124
	<u>\$ 3,733,320</u>

For details on revenue for the year ended December 31, 2017, please refer to note 6 (n).

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(ii) Contract balances

	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Contract liabilities	<u>\$ 43,252</u>	<u>51,283</u>

For details on accounts receivable and allowance for impairment, please refer to note 6 (f).

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 \$34,036 thousand.

(s) Revenue

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

	<u>2017</u>
Sale of goods	<u>\$ 3,826,257</u>

Details of Revenue for 2018; please refer to note 6 (r).

(t) Employee compensation, Directors' and supervisors' remuneration

The Company's articles of incorporation, which were authorized by the board of directors but has yet to be approved by the shareholders, require that earnings shall first be offset against any deficit, then, a minimum of 0.5% will be distributed as employee remuneration, and a maximum of 3% will be allocated as remuneration to directors and supervisors. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the Company's subsidiaries who meet certain specific requirements.

For the years ended December 31, 2018 and 2017, the Company accrued and recognized its employee remuneration amounting to \$40,000 thousand and \$8,000 thousand, respectively, as well as its remuneration to directors and supervisors amounting to \$11,000 thousand and \$6,600 thousand, respectively. These amounts were calculated by using the Company's pre-tax net profit for the period before deducting the amounts of the remuneration to employees, directors and supervisors, multiplied by the distribution of ratio of the remuneration to employees, directors and supervisors based on the Company's articles of incorporation, and expensed under operating costs or expenses. If there would be any changes after the reporting date, the changes shall be accounted for as changes in accounting estimates and recognized as profit or lost in the following year.

(u) Non-operating Income and Expenses

(i) Other income

The details of other income were as follows:

	<u>2018</u>	<u>2017</u>
Interest income:		
Bank deposits and foreign bonds	<u>\$ 376,454</u>	<u>339,922</u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(ii) Other gains and losses

The details of other gains and losses were as follows:

	<u>2018</u>	<u>2017</u>
Foreign exchange gains or loss, net	\$ 278,150	(699,566)
Miscellaneous income	1,301	1,695
Loss on disposals of property, plant and equipment	2,175	1,638
Gains or losses on fair value through profit or loss financial assets	(46,055)	-
Loss on disposal of financial assets	-	(73,768)
	<u>\$ 235,571</u>	<u>(770,001)</u>

(iii) Finance costs

The details of financial costs were as follows:

	<u>2018</u>	<u>2017</u>
Interest expenses:		
Bank loans	<u>\$ 102,235</u>	<u>105,824</u>

(v) **Financial Instruments**

(i) Credit risk exposure

The carrying amount of financial assets and contract assets represents the maximum amount exposed to credit risk.

(ii) Concentration of credit risk

The major customers of the Company are centralized in the hightech computer industry. To minimize credit risk, the Company periodically evaluates their financial positions and the possibility of collecting trade receivables. Besides, the Company monitors and reviews the recoverable amount of the trade receivables to ensure the uncollectible amount are recognized appropriately as impairment loss. As of December 31, 2018 and 2017, 46% and 39%, respectively, of accounts receivable were three and two customers. Thus, credit risk is significantly centralized.

(iii) Receivables and debt securities

For credit risk exposure of note and trade receivables, please refer to note 6(f).

Other financial assets at amortized cost includes other receivables and time deposits. For the details on investments and loss allowance on December 31, 2017, please refer to note 6(g) and (k).

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. (Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f).)

(iv) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 6 months	6 months-1 years	1 -2 years	2 -5 years	Over 5 years
December 31, 2018							
Non-derivative financial liabilities							
Secured bank loans	\$ 9,932,000	9,951,028	8,830,117	694,489	426,422	-	-
Unsecured bank loans	250,000	250,111	250,111	-	-	-	-
Notes and Accounts payable	278,822	278,822	278,822	-	-	-	-
Other payables	208,043	208,043	208,043	-	-	-	-
	\$ 10,668,865	10,688,004	9,567,093	694,489	426,422	-	-
December 31, 2017							
Non-derivative financial liabilities							
Secured bank loans	\$ 9,590,000	9,610,314	8,757,486	70,705	782,123	-	-
Unsecured bank loans	480,000	480,205	480,205	-	-	-	-
Notes and Accounts payable	376,205	376,205	376,205	-	-	-	-
Other payables	169,165	169,165	169,165	-	-	-	-
	\$ 10,615,370	10,635,889	9,783,061	70,705	782,123	-	-

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

(v) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rates	TWD	Foreign currency	Exchange rates	TWD
Financial assets						
Monetary items						
USD	\$ 415,803	30.715	12,771,385	\$ 400,952	29.76	11,932,325

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, financial assets at fair value through other comprehensive income (available-for-sale financial assets) loans and borrowings; and trade and other payables that are denominated in foreign currency. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. A strengthening (weakening) of 3% of the USD as of December 31, 2018 and December 31, 2017 would have increased (decreased) the equity by 306,513 and 206,861 thousand and the net profit after tax by 0 and 90,254 thousand. The analysis is performed on the same basis for prior year.

3) Foreign exchange gain and loss on monetary items

Since the Company transacts in different functional currencies, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For the years 2018 and 2017, the foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$193,677 thousand, respectively. please refer to note 6(u).

(vi) Interest rate risk

Please refer to the notes on liquidity risk management and interest rate exposure of the Company'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. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.5% when reporting to management internally, which also represents the Company management's assessment of the reasonably possible interest rate change.

If the interest rate had increased / decreased by 0.5 basis points, the Company's net income would have increased / decreased by \$6,181 thousand and \$3,111 thousand for the year ended December 31, 2018 and 2017, respectively, with all other variable factors remaining constant. This is mainly due to the Company's borrowing at variable rates.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(vii) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss, derivative financial instruments used for hedging, and financial assets at fair value through other comprehensive income (available for sale financial assets) is measured on a recurring basis. The carrying amount and fair value of the Company'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 :

	December 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Designated at fair value through profit or loss	\$ 3,755,830	3,755,830	-	-	3,755,830
Financial assets at fair value through other comprehensive income					
Stocks in unlisted companies	10	-	-	10	10
Financial assets measured at amortized cost					
Cash and cash equivalents	253,364	-	-	-	-
Notes receivable, accounts receivable and other receivables	1,064,297	-	-	-	-
Current other financial assets	7,575,465	-	-	-	-
Non-current other financial assets	473,011	-	-	-	-
Total	<u>\$ 13,121,977</u>	<u>3,755,830</u>	<u>-</u>	<u>10</u>	<u>3,755,840</u>
Financial liabilities at amortized cost					
Short-term borrowings	\$ 8,993,000	-	-	-	-
Notes payable, accounts payable and other payables	670,611	-	-	-	-
Long-term borrowing due within one year	769,000	-	-	-	-
Long-term borrowings	420,000	-	-	-	-
Total	<u>\$ 10,852,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Available-for-sale financial assets	\$ 3,624,654	3,624,654	-	-	3,624,654
Financial assets measured by cost	10	-	-	-	-
Subtotal	3,624,664	3,624,654	-	-	3,624,654
Loans and receivables					
Cash and cash equivalents	161,550	-	-	-	-
Notes receivable, accounts receivable and other receivables	908,764	-	-	-	-
Current other financial assets	6,708,313	-	-	-	-
Non-current other financial assets	883,574	-	-	-	-
Subtotal	8,662,201	-	-	-	-
	\$ 12,286,865	3,624,654	-	-	3,624,654
Financial liabilities:					
Financial liabilities at amortized cost					
Short-term borrowings	\$ 9,111,000	-	-	-	-
Notes payable, accounts payable and other payables	683,347	-	-	-	-
Long-term borrowing due within one year	190,000	-	-	-	-
Long-term borrowings	769,000	-	-	-	-
	\$ 10,753,347	-	-	-	-

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

The Company's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

Financial assets measured at amortized cost (held-to-maturity financial assets). If quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted.

3) Valuation techniques for financial instruments measured at fair value

Non-derivative financial instruments financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

Measurements of fair value of financial instruments without an active market are based on a valuation technique or quoted price from a competitor. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the reporting date.

4) Transfers between Level 1 and Level 2

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

5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Company's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – debt investments" and "fair value through other comprehensive income (available-for-sale financial assets) – equity investments".

The Company's equity investment instruments that are not available for active market quotes and are not for short-term trading purposes, the management adopts the recent financial report of the investee company to assess the industry development and view publicly available information, and to examine and Evaluate the operating status and future operating performance of the investee company to assess the fair value of the investee company. Generally, changes in industry and market prospects are highly positively correlated with changes in the operating and future performance of the investee company.

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income (Non-current financial assets measured at cost) equity investments without an active market	Net Asset Value Method	• Net Asset Value	Not applicable

(w) **Financial Risk Management**

(i) Overview

The Company is exposed to the following risks from its financial instruments:

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

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

The following likewise discusses the Company' s objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects on these risks exposures, please refer to the respective notes in the accompanying financial statements.

(ii) Structure of risk management

The Company' s finance department provides business services for the overall internal department. It coordinates the domestic and international financial market operations, as well as supervises and manages the financial risks related to the Company' s operation based on the internal risk report on exposure to risk with the analysis of the extent and the width of the risk. Operation of derivative financial instruments is subject to the policy approved by the Board of Directors, which is the documentation regarding exchange rate risk, interest risk, credit risk , operation of derivative and non-derivative financial instruments and investment in the remaining current capital. The internal auditors of the Company continue with the review of the compliance with the policy and the extent of the exposure to risk. The Company 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 Company if a customer or counterparty to financial instruments fails to meet its contractual obligations that arise principally from the Company' s receivables from customers and investments in debt securities.

1) Trade and other receivable

The Company established a credit policy to obtain the necessary collateral to mitigate risks arising from financial loss due to default risk. The Company will transact with corporations having credit ratings equivalent to investment grade, and such ratings are provided by independent rating agencies. When it is not possible to obtain such information, the Company will assess the ratings based on other publicly available financial information and records of transactions with its major customers. The Company continuously monitors its exposure to credit risk and counterparty credit ratings, and establishes 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 Company did not have any collateral or other credit enhancements to avoid credit risk of financial assets.

2) Investments

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Company' s finance department. The Company only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Company expects the counterparties above to meet their obligations; hence, there is no significant credit risk arising from these counterparties.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

3) Guarantee

As of December 31, 2018 and 2017, there were no guarantees that were outstanding for both years.

(iv) Liquidity risk

The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. Its management supervises the banking facilities and ensures compliance with the terms of loan agreements.

Loans and borrowings from the bank form an important source of liquidity for the Company. As of December 31, 2018 and 2017, the Company's unused credit lines amounted to \$2,152,000 thousand and \$1,534,000 thousand, respectively.

(v) Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, which affects the Company'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.

1) Currency risk

The Company is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Company's entities, primarily US Dollars (USD).

2) Interest rate risk

The Company adopts a policy of ensuring that 0.87-1.17% of its exposure to changes in interest rates on borrowings is on a floating-rate basis

3) Other market price risk

The Company is exposed to equity price risk due to the investments in equity securities. This is a strategic investment and is not held for trading. The Company does not actively trade in these investments as the management of the Company minimizes the risk of holding different investment portfolios.

(x) Capital Management

The Company's objective is to manage its capital to safeguard its capacity to continue to operate, and provide a return on shareholders, as well as to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

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

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

The Company and other entities in the same industry use the debt-to-equity ratio to manage their capital. This ratio is the total net debt, divided by the total capital. The net debt from the balance sheet is derived from the total liabilities, less, cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, and other equity, plus, net debt.

As of December 31, 2017, the Company's capital management strategy is consistent with that of the prior year, and the debt to equity ratio is maintained within 50% to 100% to ensure financing at reasonable cost. The Company's debt to equity ratio at the end of the reporting period was as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 11,033,098	10,934,962
Less: cash and cash equivalents	(253,364)	(161,550)
Net debt	<u>\$ 10,779,734</u>	<u>10,773,412</u>
Total equity	<u>\$ 3,828,584</u>	<u>2,981,836</u>
Adjusted capital	<u>\$ 14,608,318</u>	<u>13,755,248</u>
Debt-to-equity ratio at 31 December	<u>73.79%</u>	<u>78.32%</u>

(y) Non-cash trading investing and financing activities

The adjustment of liabilities from financing activities are as follows:

	January 1, 2018	Cash flow statement	Change of non-cash Acquisition	Change of exchange rate	Change of fair value	December 31, 2018
Long-term borrowing (include due within a year)	\$ 959,000	230,000	-	-	-	1,189,000
Short-term borrowing	9,111,000	(118,000)	-	-	-	8,993,000
Total of liabilities from financing activities	<u>\$ 10,070,000</u>	<u>112,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,182,000</u>

(7) Related-party transactions:

(a) Key management personnel compensation

Key management personnel compensation comprised of the following:

	2018	2017
Short-term employee benefits	\$ 46,159	32,556
Post-employment Benefits	527	546
Termination benefits	-	-
Other long-term employee benefits	-	-
Share-based payment	-	-
	<u>\$ 46,686</u>	<u>33,102</u>

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(8) Pledged assets:

The carrying values of pledged assets were as follow:

Pledged assets	Object	December 31, 2018	December 31, 2017
Land	Guarantee for bank loans	\$ 105,388	105,388
Buildings and structures	Guarantee for bank loans	171,400	176,586
Other financial assets-current	Guarantee for bank loans	7,511,578	6,733,311
Financial assets at fair thorough profit or loss	Guarantee for bank loans	3,699,194	-
Available-for-sale financail assets	Guarantee for bank loans	-	3,567,957
		<u>11,487,560</u>	<u>10,583,242</u>

(9) Commitments and contingencies:None

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events:None

(12) Other:

A summary of current-period employee benefits, depreciation, depletion, and amortization, by function its as follows:

By function By item	2018			2017		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefits						
Salary	329,748	137,532	467,280	314,121	113,384	427,505
Labor and health insurance	27,424	8,931	36,355	26,549	8,854	35,403
Pension	11,660	4,247	15,907	11,548	4,318	15,866
Director's remuneration	-	26,107	26,107	-	13,175	13,175
Others	12,333	2,255	14,588	12,279	2,272	14,551
Depreciation	64,803	20,666	85,469	67,298	13,143	80,441
Amortization	2,928	8,748	11,676	2,094	7,230	9,324

The number of employees in the company in 2018 and 2017 was 759 and 743 respectively, of which the number of employees who did not have concurrent employees was five.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:None

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

(i) Loans to other parties:None

(ii) Guarantees and endorsements for other parties:None

(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				
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Note
The company	UBS Float 08/15/23 Corp	None	FVTPL	-	408,663	-%	408,663	
The company	UBS 4.875% 04/08/2020	None	FVTPL	-	497,138	-%	497,138	
The company	UBS T 7.125 02/15/23 Gort	None	FVTPL	-	1,961,752	-%	1,961,752	
The company	UBS Float 02/01/22 Corp	None	FVTPL	-	62,235	-%	62,235	
The company	UBS Float 05/23/23 Corp	None	FVTPL	-	183,580	-%	183,580	
The company	UBS Float 04/14/21 Corp	None	FVTPL	-	124,905	-%	124,905	
The company	UBS T 7.625 11/15/22 Gort	None	FVTPL	-	517,557	-%	517,557	
The company	Stock-COTA commercial bank	None	FVOCI	1	10	-%	13	Note 1
The company	Stock-GATETECH	None	FVOCI	203	-	0.39%	11	Note 1

Note 1: The stock has not been publicly traded, and there is no clear market price available. Therefore, the proportion of shares held had been disclosed on December 31, 2018.

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The company	UBS 5.75% 04/25/2018	FVTPL	UBS	None	-	504,327	-	-	-	496,638	607,237	(110,599)	-	-
The company	UBS Float 08/15/23 Corp	FVTPL	UBS	None	-	-	-	408,669	-	-	-	-	-	408,663

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

- (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
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None
- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None
- (ix) Trading in derivative instruments:None
- (x) Business relationships and significant intercompany transactions:None
- (b) Information on investment in mainland China:None
- (c) Significant transactions:None

(14) Segment information:

- (a) General information

The Company has one reportable segment, the pneumatic hand tool. This segment is mainly involved in manufacturing and selling Nail machine and pneumatic tools, providing products and manage relevant skills and marketing strategies.

- (b) Information about reportable segments and their measurement and reconciliations

The Company 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 internal management report includes profit before taxation.

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's.

There is no inconsistency between the accounting principles of the operating segment and the accounting principle described in Note 4. All reportable segments of the Company is consistent with the financial statements. Please refer to the balance sheet and comprehensive income statement.

(Continued)

BASSO INDUSTRY CORPORATION

Notes to the Financial Statements

(c) Production and service information

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

<u>Product and services</u>	<u>2018</u>	<u>2017</u>
Stapler gun	\$ 1,937,998	1,922,227
Pneumatic tool	1,149,001	1,275,096
Magnesium alloy products	203,197	149,649
Others	443,124	489,285
	<u><u>\$ 3,733,320</u></u>	<u><u>3,836,257</u></u>

(d) Geographic information

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

<u>Geographical information</u>	<u>2018</u>	<u>2017</u>
United States	\$ 1,810,089	1,840,149
German	405,669	437,301
Taiwan	329,097	163,993
England	113,528	124,660
Japan	139,026	114,757
Beliguim	113,721	112,995
Switzerland	99,032	107,543
Other countries	723,158	934,859
	<u><u>\$ 3,733,320</u></u>	<u><u>3,836,257</u></u>

Non-current assets:

<u>Geographical information</u>	<u>2018</u>	<u>2017</u>
Taiwan	<u><u>\$ 940,873</u></u>	<u><u>927,575</u></u>

Non-current assets include property, plant and equipment, investment property, intangible assets, and other assets; excluding financial instruments, deferred tax assets, pension fund assets, and rights arising from an insurance contract (non-current).

(e) Major customers

	<u>2018</u>	<u>2017</u>
A customer of pneumatic hand tool division	<u><u>\$ 639,231</u></u>	<u><u>596,103</u></u>

Item	Description	Amount
Cash	Petty cash	\$ 100
	Foreign currency(USD6,317.74×30.7664	
	JPY96,000×	
	0.2710	
	EUR3,680×	
	35.3804	
	HKD640×	
	3.9422	511
	CNY3,607.5	
	×4.8103	
Bank deposits	KRW568,000×0.0291	
	GBP3,000×	
	41.218)	
	Demand deposit and time deposit	80,722
	Foreign currency(USD3,490,550.93×30.715	
	JPY2,145,328×0.2782	
	EUR1,824,484.4×35.2	
	CAD×22.58)	172,031
		<u>\$ 253,364</u>

Basso Industry Corporation
List of current financial assets at fair value through profit or loss
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Financial product name</u>	<u>Description</u>	<u>Denomination (thousand)</u>	<u>Rate</u>	<u>Acquisition cost</u>	<u>Fair value</u>	<u>Situation of provide gurantee or pledg</u>
<u>Beneficiary certificate</u>						
UBS 4.875% 04/08/2020	Foreign bond	USD158,000	4.875%	\$ 546,172	497,138	Partial pledge
UBS Float 08/15/2023 Corp	Foreign bond	USD13,580	3.566%	408,669	408,663	Pledge
UBS T7.625% 11/15/2022 Govt	Foreign bond	USD14,200	7.625%	652,634	517,557	Pledge
UBS T7.125% 02/15/2023 Govt	Foreign bond	USD54,150	7.125%	2,418,304	1,961,752	Pledge
UBSFloat 04/14/2021 Corp	Foreign bond	USD3,980	4.216%	126,181	124,905	Pledge
UBS Float 05/23/2023 Corp	Foreign bond	USD6,000	3.897%	182,048	183,580	Pledge
UBS Float 02/01/2022 Corp	Foreign bond	USD2,000	4.071%	61,426	62,235	Pledge
				<u>\$ 4,395,434</u>	<u>3,755,830</u>	

Basso Industry Corporation
List of notes and accounts receivable
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Client's name</u>	<u>Description</u>	<u>Amount</u>
Notes Receivable :		
Menards, Inc.	Operating	\$ 3,450
Others (Note)	"	6,408
		<u>\$ 9,858</u>
Accounts Receivable :		
Techtronic Trading Ltd	Operating	\$ 304,278
Professional Tool Products LLC. Taiwan branch	"	57,397
B&D MACAO COM'L OFFSHORE LTD		46,625
KOKI HOLDINGS AMERICA LTD	"	45,375
Others (Note)	"	440,053
	"	893,728
Allowance lost		(11,292)
		<u>\$ 882,436</u>

Note: If the amount does not exceed 5% of the balance of the account, it will not be listed separately.

Other receivable list

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Other receivable	Interest receivable and others	<u>\$ 172,003</u>

Basso Industry Corporation
List of other current financial assets
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

Item	Description	Amount
Other financial assets	Restricted deposit	\$ 7,038,567
"	Time deposits with maturities of more than three months	<u>536,898</u>
		<u>\$ 7,575,465</u>

Inventory list

Item	Amount		Notes
	Cost	Market price	
Commodity	\$ 3	-	Net realizable value
Financial goods	90,281	104,619	Net realizable value
Work in process	290,051	270,034	Net realizable value
Raw materials	<u>304,390</u>	<u>248,381</u>	Replacement cost
	684,725	<u>623,034</u>	
Allowance for sluggish loss	<u>(137,173)</u>		
	<u>\$ 547,552</u>		

Basso Industry Corporation
List of prepaid expenses and other current assets
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Prepayments	Prepaid receipts	\$ 3,629
	Other prepaid expenses	<u>7,424</u>
		<u>11,053</u>
Tax refund	Business tax	14,983
Other current assets	Temporary payment	<u>772</u>
		<u>15,755</u>
		<u><u>\$ 26,808</u></u>

Basso Industry Corporation
List of changes in P.P.E and accumulated depreciation
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Opening balance</u>	<u>Increased</u>	<u>Decreased</u>	<u>Reclassify</u>	<u>Ending balance</u>	<u>Notes</u>
Cost :						
Land	\$ 305,349	-	-	-	305,349	Partial pledge
Building and structure	657,083	2,541	1,735	7,742	665,631	Partial pledge
Machinery equipment	1,796,780	10,903	43,108	52,007	1,816,582	
Other equipment	<u>185,326</u>	<u>4,421</u>	<u>29,806</u>	<u>7,646</u>	<u>167,587</u>	
	<u>2,944,538</u>	<u>17,865</u>	<u>74,649</u>	<u>67,395</u>	<u>2,955,149</u>	
Accumulated depreciation :						
Building and structure	266,634	16,487	1,735	-	281,386	Note1
Machinery equipment	1,622,631	61,174	42,373	-	1,641,432	Note1
Other equipment	<u>165,256</u>	<u>7,808</u>	<u>29,806</u>	<u>-</u>	<u>143,258</u>	Note1
	<u>2,054,521</u>	<u>85,469</u>	<u>73,914</u>	<u>-</u>	<u>2,066,076</u>	
	<u>\$ 890,017</u>	<u>(67,604)</u>	<u>735</u>	<u>67,395</u>	<u>889,073</u>	

Note1 : The depreciation of fixed assets is based on the straight-line method at the cost of the following estimated years of durability.

(1)Building and structure : 2~57 years

(2)Machinery equipment : 1~21 years

(3)Other equipment : 1~21 years

Note2 : The reclassify of this period consisted of the transfer of prepaid equipment into the amount of 54,828 thousand and the transfer of inventory to 12,567 thousand.

List of changes in intangible assets

Please refer to 6 (i) for related information.

Basso Industry Corporation
List of Non-current financial assets
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Other non-current financial assets	Restricted deposits	<u>\$ 473,011</u>

List of other non-current assets

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Other Non-current assets	Refundable deposits	\$ 1,509
	Prepaid equipment	28,949
	Prepayment	<u>158</u>
		<u>\$ 30,616</u>

Basso Industry Corporation
List of short-term borrowings
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Creditor</u>	<u>Loan nature</u>	<u>Ending balance</u>	<u>Contract term</u>	<u>Interest rate range %</u>	<u>Mortgage or collateral</u>
Taishin International Bank	Credit loan	\$ 250,000	107.12.17~108.01.17	0.95%	None
CTBC Bank Co.	Secured loan	400,000	107.10.26~108.03.21	0.97%~1%	Land
UBS	Secured loan	2,795,000	107.10.31~108.01.31	1.03%	FVTPL
CTBC Bank Co.	Secured loan	1,941,000	107.10.12~108.03.21	0.97%~1%	Current other financial assets
YUANTA Bank	Secured loan	1,717,000	107.11.16~108.01.15	1.06%	Current other financial assets
Taishin International Bank	Secured loan	<u>1,890,000</u>	107.12.17~108.01.17	0.95%	Current other financial assets
		<u>\$ 8,993,000</u>			

List of notes and accounts payable

<u>Supplier's name</u>	<u>Description</u>	<u>Amount</u>
Notes payable		
WESUN ENTERPRISE. CO, LTD	Operating	\$ 602
YOU ZHEN Co., LTD	"	586
SIN TE LIN Co., LTD	"	462
Other (Note)	"	6,370
		<u>\$ 8,020</u>
Account payable		
CHANG HANG ENTERPRISE Co., LTD	"	\$ 28,620
Other (Note)	"	242,182
		<u>\$ 270,802</u>

Note: If the amount does not exceed 5% of the balance of the account, it will not be listed separately.

Basso Industry Corporation
List of accrued expenses and other current liabilities
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Other payable	Payroll payable	\$ 119,199
	Processing fee payable	83,870
	Employee bonus and director's compensation payable	51,000
	Advertising payable	47,340
	Other (Note)	<u>90,380</u>
		<u>391,789</u>
Other current liabilities	Temporary payment—other	449
	Collection payment	<u>812</u>
		<u>1,261</u>
		<u>\$ 393,050</u>

Note: If the amount does not exceed 5% of the balance of the account, it will not be listed separately.

List of long-term borrowings and long-term loans due withing one year

<u>Loan Bank</u>	<u>Loan nature</u>	<u>Loan amount</u>		<u>Contract term</u>	<u>Rate</u>	<u>Collateral</u>
		<u>Expired part withing a year</u>	<u>More than one year due</u>			
First commercial Bank	Secured loan	<u>\$ 769,000</u>	<u>420,000</u>	106.02.02~109.12.29	0.95~1.01%	Other non-current financial assets

Basso Industry Corporation
List of net operating income
(expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Quantity</u>		<u>Amount</u>
Nail gun	863,370	\$	1,937,998
Pneumatic tools	620,927		1,149,001
Magnesium alloy products	1,934,272		203,197
Other			443,124
		\$	<u>3,733,320</u>

Basso Industry Corporation
List of cost of goods sold
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Amount</u>
Commodity	
Beginning commodity	\$ 44
Plus : Current purchase	7,508
Less : Ending commodity	(3)
Cost of goods sold	<u>7,549</u>
Raw materials	
Beginning raw materials	252,799
Plus : feed	1,647,039
Inventory profit	7
Less : Ending raw materials	(304,390)
Sale of raw materials	(199,938)
Scrapped	(5,320)
Other	<u>(22,757)</u>
Raw materials used	1,367,440
Direct labor	162,293
Manufacturing expenses	<u>963,447</u>
Manufacturing costs	2,493,180
Plus : Beginning work-in-process	235,424
Less : Ending work-in-process	<u>(290,051)</u>
Cost of finished goods	2,438,553
Plus : Beginning finished goods	67,433
Purchase finished goods	22,011
Less : Ending finished goods	(90,281)
Scrapped	(212)
Transfer of fixed assets	(12,567)
Other	<u>(13,449)</u>
Self-made sales cost	<u>2,411,488</u>
Sale of raw material	199,938
Inventory profit	(7)
Revenue from sale of scraps	(23,706)
Preparation for warranty	(108)
Scrapped	5,532
Inventory decline and sluggish loss	16,378
Other	<u>(1,683)</u>
Operating cost	<u><u>\$ 2,615,381</u></u>

Basso Industry Corporation
List of operating expenses
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Sales expense</u>	<u>Administration</u>	<u>Research expense</u>
Salary expenditure	\$ 34,036	61,521	71,442
Freight	16,557	-	-
Employee benefits	355	5,102	509
Depreciation	1,675	1,004	17,987
Advertising expense	41,709	-	-
Sample fee	16	-	14,105
Inventory transfer	1,883	-	7,029
Commision	14,568	-	-
Export fee	21,963	-	-
Labor costs	-	6,643	-
Repair fee	523	424	7,274
Amortization	264	328	8,156
Mold fee	-	-	9,430
Other expenses(note)	<u>20,561</u>	<u>10,383</u>	<u>17,482</u>
	<u>\$ 154,110</u>	<u>85,405</u>	<u>153,414</u>

Note: If the amount does not exceed 5% of the balance of the account, it will not be listed seperately.

Basso Industry Corporation
List of non-operating income and expenses
For the years ended December 31, 2018
(expressed in thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Non-operating income :		
Interest revenue — bank deposits and bonds	Non-operating	\$ 376,454
Profit on exchange	"	278,150
Other (note)	"	3,476
		<u>\$ 658,080</u>
Non-operating expense :		
Interest expense — bank loan	"	\$ 102,235
Financial assets valuation loss	"	46,055
		<u>\$ 148,290</u>

Note: If the amount does not exceed 5% of the balance of the account, it will not be listed separately.