Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Consolidated Financial Statements and

Independent Auditors' Report for the Years

ended December 31, 2017 and 2016

(Stock Code: 9802)

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Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Consolidated Financial Statements and Independent Auditors' Report for the Years ended December 31, 2017 and 2016

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Report of Independent Accountants Translated From Chinese

Auditors' Comments

We have audited the consolidated balance sheets of Fulgent Sun International (Holding) Co., Ltd. and subsidiaries (the Fulgent Sun Group) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fulgent Sun Group as of December 31, 2017 and 2016, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards (IFRS), and the International Accounting Standards (IAS) as well as the International Financial Reporting Interpretations (IFRIC) and the Standard Interpretations (SIC) endorsed by the Financial Supervisory Commission of the Republic of China with the effective dates.

Basis of Auditors' Comments

We have performed the auditing work in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the ROC. Our responsibility as specified in the said regulations and standards shall be described in the section "Responsibility of certified public accountants when auditing consolidated financial statements". Our auditors are subject to the regulations of independence and have acted according to the ROC CPA Code of Professional Ethics to remain neutral while fulfilling other duties set forth in the said Code. We are convinced that we have acquired enough and appropriate audit evidence to serve as the basis of the auditor's opinion.

Key Audit Matters

"Key audit matters" refer to those we consider the most important according to our professional judgments when auditing the consolidated financial statements of Fulgent Sun Group for 2017. These items have been covered in the verification process of the overall consolidated financial statements and the audit opinions; hence, the CPA shall not express separate opinions on these items.

Key audit matters of the consolidated financial statements of Fulgent Sun Group for 2017 are as follows:

Time of Sales Revenue Recognition

Matter Description

For the accounting policy regarding sales revenue, refer to Note 4 (29) to the consolidated financial statements. For the year ended December 31, 2017, the operating revenue of the Fulgent Sun Group is NT$10,388,151thousand.

Fulgent Sun Group produces and sells sports and outdoor shoes. When export goods are delivered to the forwarders designated by customers, their risks and remuneration are transferred, and sales revenue will be recognized on the date of delivery of the export goods.

As Fulgent Sun Group recognizes sales revenue on the date of delivery of the export goods, the process of recognition involves manual controls, which may result in the incorrect period of recognition of sales revenue. Therefore, we have included the time of sales revenue recognition in the most important matters to be audited for the year.

Corresponding Audit Procedures

The corresponding audit procedures we took for the specific aspects described in the aforementioned key audit matters are as follows:

1. We reviewed the procedures for sales transactions and internal controls to evaluate whether the management controlled the time of sales revenue recognition effectively.

2. We evaluated whether sales revenue was recognized in the correct period. After verification, sales revenue before/after a certain period of time as of the balance sheet date was recognized in the correct period, and changes in inventories and costs of sales had been recorded in the proper period.

3. For the accounts receivable at the end of the year, we conducted the substantive tests of the balance, including external confirmations and subsequent collection and confirmed that accounts receivable and sales revenue were recorded in the correct period in line with the time of revenue recognition.

Evaluation of the Allowance for Inventory Valuation Losses

Matter Description

For the accounting policy regarding inventory valuation, refer to Note 4 (13) to the consolidated financial statements. For the uncertainties of accounting estimates and assumptions regarding inventory valuation, refer to Note 5 (2). For the description of allowance for inventory valuation losses, refer to Note 6 (4). For the year ended December 31, 2017, the inventory balance of Fulgent Sun Group is NT$1,599,000 thousand and the allowance for inventory valuation losses is NT$82,850 thousand.

Fulgent Sun Group measures inventories over a certain period of age and those identified with impairments at cost or net realizable value, whichever is lower. The net realizable value used to valuate such inventories often involves subjective judgments. Considering the material impact of the allowance for inventory valuation losses on Fulgent Sun Group's financial statements, we have included the evaluation of the allowance for inventory valuation losses in the most important matters to be audited for the year.

Corresponding Audit Procedures

The corresponding audit procedures we took for the specific aspects described in the aforementioned audit matters are as follows:

1. We reviewed the operation and industry of Fulgent Sun Group to evaluate whether the recognition of the allowance for inventory valuation losses was reasonable.

2. We reviewed the procedures for warehousing and the annual inventory check plan and supervised the annual inventory check of Fulgent Sun Group to evaluate whether the management differentiated and controlled outdated inventories effectively.

3. We obtained the comparison of the cost of inventories and the net realizable value made by the management, spot checked individual items of inventory with related purchase/sales documents and records, and reviewed the correctness of the reports to evaluate the basis and correctness of the net realizable value.

4. We verified the correctness of the inventory aging report used for valuation and evaluated the reasonableness of the allowance for inventory valuation losses to ensure consistence between the report and the policy.

Responsibilities of the Management and the Governing Bodies for the Financial Statements

The responsibility of the management is to prepare the consolidated financial statements that fairly present the financial position of Fulgent Sun Group in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards (IFRS), and the International Accounting Standards (IAS) as well as the International Financial Reporting Interpretations (IFRIC) and the Standard Interpretations (SIC) endorsed by the Financial Supervisory Commission of the Republic of China, and also to maintain necessary internal controls with regard to the preparation of the consolidated financial statements so as to ensure that such financial statements do not contain any false contents as a result of fraudulence or mistakes.

When the consolidated financial statements are in the process of preparation, the responsibility of the management also includes the assessment of the capacity of Fulgent Sun Group as a going concern, the disclosure of related matters and the adoption of a going-concern basis, unless the management intends to liquidate or suspend the business of Fulgent Sun Group if there are no other practical options.

The governing bodies of Fulgent Sun Group (including the Audit Committee) have the responsibility to oversee the procedures for financial reporting.

Responsibilities of the CPAs in Auditing the Consolidated Financial Statements

Our objective when auditing the consolidated financial statements is to ascertain whether they contain any false contents as a result of fraudulence or mistakes and whether they are reasonably reliable and to issue the independent auditors' report. Reasonably reliable means highly reliable. However, auditing work carried out in accordance with the Generally Accepted Auditing Standards of the Republic of China cannot guarantee detection of significant false contents in the consolidated financial statements. False contents might have resulted from errors or fraudulence. If it could be reasonably anticipated that the misstated individual amounts or aggregated sums could have influence on the economic decisions made by the users of the consolidated financial statements, they will be deemed as material.

We conducted the auditing work according to the Generally Accepted Auditing Standards of the Republic of China and also exercised our profession judgments and remained professionally sceptical. We have also executed the following tasks:

1. Identifying and evaluating likely risks from significant false contents in the consolidated financial statements as a result of fraudulence of errors, designing and executing proper counter measures against the risks identified, and also establishing sufficient and appropriate audit evidence to serve as the basis of the auditors' comments. As fraudulence can involve conspiracy, forgery, intentional omissions, false statements or transgressions of internal control, the risk of failing to detect significant false contents resulting from fraudulence is higher than the risk of failing to identify those coming from errors.

2. Obtaining necessary knowledge of internal controls that are closely related to auditing work and designing the appropriate audit procedures without the intention to express any opinion about the validity of the internal controls of Fulgent Sun Group.

3. Evaluating the appropriateness of the accounting policy adopted by the management and the reasonableness of the accounting assessment and related disclosures made accordingly.

4. Based on the audit evidence obtained, concluding whether there is any material uncertainty of the appropriateness for the management to adopt the going-concern basis and the events or circumstances that may lead to significant doubts about the capacity of the Fulgent Sun Group as a going concern. If we are of the opinion that a material uncertainty exists, we shall remind users of the consolidated financial statements to pay attention to relevant disclosures in the notes to those statements within our audit report. If such disclosures are inadequate, we need to modify our opinion. Our conclusion was established according to the audit evidence obtained before the deadline of the independent auditors' report. However, future events or circumstances may cause Fulgent Sun Group to no longer have the capacity to function as a going concern.

5. Evaluating the overall expression, structure and contents of the consolidated financial statements (including related notes) and whether the consolidated financial statements could appropriately express related transactions and events.

6. Obtaining sufficient and appropriate audit evidence with regard to the finances of the individual entities in Fulgent Sun Group to establish our opinion about the consolidated financial statements. We are responsible for the guidance, supervision and implementation of Fulgent Sun Group's audit, and for forming the auditors' comments on Fulgent Sun Group.

We communicated with the governing bodies about the planned audit range and time and important audit findings (including significant internal control defects found during the audit process).

We provided governance units with a statement assuring the personnel of our accounting firm who are subject to independent regulations had acted according to the ROC CPA Code of Professional Ethics to remain neutral and also communicated with them about the all relations and other matters (including related preventive measures) that could affect the independence of certified public accountants.

Based on the result of our discussion with the governing bodies, we decided on the matters to be regarded as key audit matters when auditing the consolidated financial statements for 2017. We have clearly described the said matters in the independent auditors' report except for certain matters which public disclosure is prohibited by law or certain matters which we decided not to mention under some extremely rare circumstances because disclosure of such matters can be reasonably expected to lead to negative effects that would be greater than the public good they might benefit.

PwC Taiwan

Hung, Shu-Hua

Certified Public Accountants

Wang, Yu-Chuan

March 9, 2018

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Consolidated Balance Sheet
As of December 31, 2017 and 2016

Unit: NT$'000

	Asset	Notes	2017/12/31 Amount	%	2016/12/31 Amount	%
	Current Assets					
1100	Cash and cash equivalents	6 (1)	$ 1,068,037	12	$ 1,030,502	11
1110	Financial assets at fair value through profit or loss – current	6 (2)	1,284	-	420	-
1150	Net notes receivable		9	-	-	-
1170	Net accounts receivable	6 (3)	1,874,185	20	1,388,856	15
1200	Other receivables		120,445	1	108,649	1
130X	Inventories	6 (4)	1,516,150	16	1,671,256	19
1410	Prepayments		74,364	1	87,545	1
1470	Other current assets		19,200	-	39,512	1
11XX	**Total current assets**		4,673,674	50	4,326,740	48
	Non-current Assets					
1523	Available-for-sale financial assets – non-current	6 (5)	2,908	-	2,181	-
1600	Property, plant and equipment	6 (6) and 8	4,319,269	46	4,279,201	47
1780	Intangible assets		18,581	-	25,094	-
1840	Deferred income tax assets	6 (23)	61,223	1	76,477	1
1900	Other non-current assets	6 (7) and 8	341,626	3	350,659	4
15XX	**Total Non-Current Assets**		4,743,607	50	4,733,612	52
1XXX	**Total assets**		$ 9,417,281	100	$ 9,060,352	100

(To be continued)

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Consolidated Balance Sheet
As of December 31, 2017 and 2016

Unit: NT$'000

	Liability and Shareholder's Equity	Notes	2017/12/31 Amount	%	2016/12/31 Amount	%
	Current Liabilities					
2100	Short-term loans	6 (8)	$ 871,857	9	$ 712,458	8
2120	Financial liabilities at fair value through profit or loss – current	6 (2)	-	-	1,412	-
2150	Notes payable		4,642	-	-	-
2170	Accounts payable		901,815	10	752,898	8
2200	Other payables	6 (9)	665,571	7	644,614	7
2230	Current income tax liabilities	6 (23)	114,564	1	131,856	2
2300	Other current liabilities	6 (10)(11)(12)	276,961	3	123,553	1
21XX	**Total current liabilities**		2,835,410	30	2,366,791	26
	Non-current Liabilities					
2530	Corporate bonds payable	6 (10)	-	-	678,175	7
2540	Long-term loans	6 (11)	90,000	1	69,500	1
2570	Deferred income tax liabilities	6 (23)	16,336	-	4,414	-
2600	Other non-current liabilities	6 (12)	231,902	3	237,813	3
25XX	**Total non-current liabilities**		338,238	4	989,902	11
2XXX	**Total Liabilities**		3,173,648	34	3,356,693	37
	Equity Attributable to Owners of Parent Company					
	Share Capital	6 (15)				
3110	Capital of common stock		1,461,973	15	1,380,954	15
	Capital Surplus	6 (16)				
3200	Capital surplus		3,336,445	35	2,990,516	33
	Retained Earnings	6 (17)				
3310	Legal surplus reserve		266,544	3	196,318	2
3320	Special surplus reserve		244,368	3	210,604	3
3350	Undistributed earnings		1,369,501	15	1,134,403	13
	Other Equity	6 (18)				
3400	Other equity		(446,134)	(5)	(245,099)	(3)
3500	**Treasury Stock**	6 (15)	(32,824)	-	-	-
31XX	**Equity attributable to owners of parent company**		6,199,873	66	5,667,696	63
36XX	**Non-controlling Interests**	6 (25)	43,760	-	35,963	-
3XXX	**Total equity**		6,243,633	66	5,703,659	63
	Commitments and Contingent Liabilities Subsequent Events	9				
3X2X	**Total liabilities and equity**		$ 9,417,281	100	$ 9,060,352	100

The notes to the consolidated financial statements are part of the consolidated financial statements and should be read together.

Chairman: Lin, Wen-Chih President: Liao, Fang-Chu Accounting Manager: Fan, Chen-Hsiang

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Consolidated Statement of Comprehensive Income
As of December 31, 2017 and 2016

Unit: NT$'000
(exception: earnings per share are in NT$)

	Item	Notes	2017 Amount	2017 %	2016 Amount	2016 %
4000	**Operating Revenue**		$ 10,388,151	100	$ 9,079,845	100
5000	**Operating Cost**	6 (4)	(8,333,008)	(80)	(7,446,525)	(82)
5950	**Net Gross Profit**		2,055,143	20	1,633,320	18
	Operating Expenses	6 (22)				
6100	Marketing		(197,443)	(2)	(151,377)	(2)
6200	General and administrative		(608,354)	(6)	(691,464)	(7)
6300	Research and development		(118,496)	(1)	(92,500)	(1)
6000	**Total operational expenses**		(924,293)	(9)	(935,341)	(10)
6900	**Operating Income**		1,130,850	11	697,979	8
	Non-Operating Income and Expenses					
7010	Other income	6 (19)	69,252	1	89,336	1
7020	Other gains and losses	6 (20)	(164,858)	(2)	130,817	1
7050	Finance costs	6 (21)	(15,421)	-	(18,117)	-
7000	**Total non-operating income and expenses**		(111,027)	(1)	202,036	2
7900	**Net Income before Tax**		1,019,823	10	900,015	10
7950	Income tax expense	6 (23)	(223,820)	(2)	(206,539)	(2)
8200	**Net income**		$ 796,003	8	$ 693,476	8
	Other comprehensive income (net)					
	Items that may be reclassified to profit or loss					
8361	Exchange differences on translation of foreign financial statements		($ 203,912)	(2)	($ 503,345)	(6)
8362	Unrealized gain or loss on valuation of available-for-sale financial assets	6(5)	727	-	(305)	-
8300	**Other Comprehensive Income, Net**		($ 203,185)	(2)	($ 503,650)	(6)
8500	**Total Comprehensive Income**		$ 592,818	6	$ 189,826	2
	Net Income Attributable to:					
8610	Owners of parent company		$ 803,113	8	$ 702,262	8
8620	Non-controlling interests		($ 7,110)	-	($ 8,786)	-
	Total Comprehensive Income Attributable to:					
8710	Owners of parent company		$ 601,347	6	$ 200,455	2
8720	Non-controlling interests		($ 8,529)	-	($ 10,629)	-
	Basic Earnings per Share	6(24)				
9750	Total basic earnings per share		$ 5.65		$ 5.23	
	Diluted earnings per share					
9850	Total Diluted earnings per share		$ 5.51		$ 4.82	

The footnotes to the consolidated financial statements are part of the consolidated financial statements and should be read together.

Chairman: Lin, Wen-Chih President: Liao, Fang-Chu Accounting Manager: Fan, Chen-Hsiang

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Consolidated Statement of Changes in Equity
As of December 31, 2017 and 2016

Unit: NT$'000

		Equity Attributable to Owners of Parent Company											
				Retained Earnings			Other Equity						
	Notes	Capital of Common Stock	Capital Surplus	Legal Surplus Reserve	Special Surplus Reserve	Undistributed Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gain or Loss on Valuation of Available-for-sale Financial Assets	Unearned Employee Compensation	Treasury Stocks	Total	Non-controlling Interests	Total Equity
2016													
Balance, January 1, 2016		$ 1,326,983	$ 2,792,288	$ 184,778	$ 210,604	$ 709,336	$ 257,439	$ -	($ 5,217)	$ -	$ 5,476,211	$ 38,533	$ 5,514,744
Distribution of earnings	6(17)												
Allocation to legal surplus reserve		-	-	11,540	-	(11,540)	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(265,655)	-	-	-	-	(265,655)	-	(265,655)
Net income		-	-	-	-	702,262	-	-	-	-	702,262	(8,786)	693,476
Other comprehensive income		-	-	-	-	-	(501,502)	(305)	-	-	(501,807)	(1,843)	(503,650)
Cash capital increase	6(14)(15)	40,000	130,979	-	-	-	-	-	-	-	170,979	-	170,979
Employee compensation	6(14)	-	11,334	-	-	-	-	-	-	-	11,334	-	11,334
Restricted employee shares compensation	6(14)(18)	-	(477)	-	-	-	-	-	4,486	-	4,009	-	4,009
Cancellation of restricted employee shares compensation	6(14)	(179)	179	-	-	-	-	-	-	-	-	-	-
Common stock converted from convertible corporate bonds	6(10)(27)	14,150	31,226	-	-	-	-	-	-	-	45,376	-	45,376
Composition of equity recognized due to convertible corporate bond issuance		-	24,987	-	-	-	-	-	-	-	24,987	-	24,987
Changes in non-controlling interests		-	-	-	-	-	-	-	-	-	-	8,059	8,059
Balance, December 31, 2016		$ 1,380,954	$ 2,990,516	$ 196,318	$ 210,604	$ 1,134,403	($ 244,063)	($ 305)	($ 731)	$ -	$ 5,667,696	$ 35,963	$ 5,703,659
2017													
Balance, January 1, 2017		$ 1,380,954	$ 2,990,516	$ 196,318	$ 210,604	$ 1,134,403	($ 244,063)	($ 305)	($ 731)	$ -	$ 5,667,696	$ 35,963	$ 5,703,659
Distribution of earnings	6(17)												
Allocation to legal surplus reserve		-	-	70,226	-	(70,226)	-	-	-	-	-	-	-
Special Surplus Reserve		-	-	-	33,764	(33,764)	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	(456,829)	-	-	-	-	(456,829)	-	(456,829)
Net income		-	-	-	-	803,113	-	-	-	-	803,113	(7,110)	796,003
Other comprehensive income	6(18)	-	-	-	-	-	(202,493)	727	-	-	(201,766)	(1,419)	(203,185)
Restricted employee shares compensation	6(14)(18)	-	(110)	-	-	-	-	-	731	-	621	-	621
Cancellation of restricted employee shares compensation	6(14)	(42)	42	-	-	-	-	-	-	-	-	-	-
Common stock converted from convertible corporate bond	6(10)(27)	81,061	355,127	-	-	-	-	-	-	-	436,188	-	436,188
Redemption of treasury stocks	6(15)	-	-	-	-	-	-	-	-	(32,824)	(32,824)	-	(32,824)
Recognition of changes in percentage of ownership in subsidiaries	6(25)	-	(9,130)	-	-	(7,196)	-	-	-	-	(16,326)	16,326	-
Balance, December 31, 2017		$ 1,461,973	$ 3,336,445	$ 266,544	$ 244,368	$ 1,369,501	($ 446,556)	$ 422	$ -	($ 32,824)	$ 6,199,873	$ 43,760	$ 6,243,633

The footnotes to the consolidated financial statements are part of the consolidated financial statements and should be read together

Chairman:Lin, Wen-Chih President: Liao, Fang-Chu Accounting Manager: Fan, Chen-Hsiang

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Consolidated Statement of Cash Flows
As of December 31, 2017 and 2016

Unit: NT$'000

	Notes	2017	2016
Cash Flow from Operating Activities			
Net income before tax		$ 1,019,823	$ 900,015
Adjustments			
Adjustments to reconcile profit (loss)			
Net financial assets (liabilities) at fair value through profit or loss	6 (20)	(2,572)	3,235
Recognition of reversal of allowances	6 (3)	(448)	201
Depreciation expense	6 (6) (22)	465,878	485,120
Amortization expense	6 (22)	27,299	30,713
Doubtful accounts appropriation (reversal)	6 (3)	2,125	(158)
Rent expense reclassified from long-term prepayment of rent	6 (7)	6,285	6,783
Loss (gain) on disposal of property, plant and equipment	6 (20)	955	(1,661)
Loss on disposal of intangible assets		-	113
Interest income	6 (19)	(8,135)	(6,436)
Interest expense	6 (21)	15,421	18,117
Share-based payment remuneration cost	6 (14)	621	15,343
Changes in assets and liabilities related to operating activities			
Net change in assets related to operating activities			
Financial assets (liabilities) at fair value through profit or loss		(594)	(4,598)
Notes receivable		(9)	-
Accounts receivable		(586,044)	(294,563)
Other receivables (including other receivables from subsidiaries)		(9,875)	8,596
Inventories		76,845	46,746
Prepayments		4,883	(33,672)
Other current assets		(3,234)	5,929
Net change in liabilities related to operating activities			
Notes payable		4,642	-
Accounts payable		178,009	40,895
Other payables		11,741	154,208
Other current liabilities		(29,021)	(275)
Other non-current liabilities		(3,236)	(3,277)
Cash inflow generated from operations		1,171,359	1,371,374
Interest income received		8,432	7,438
Interest paid		(9,058)	(12,695)
Income tax paid		(212,819)	(132,831)
Net cash flows generated from operating activities		957,914	1,233,286

(To be continued)

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Consolidated Statement of Cash Flows

As of December 31, 2017 and 2016

Unit: NT$'000

	Notes	2017	2016
Cash Flows from Investment Activities			
Decrease (increase) in other financial assets		$ 24,064	($ 25,414)
Acquisition of property, plant and equipment	6 (27)	(703,594)	(586,885)
Disposal of property, plant and equipment		14,025	18,866
Acquisition of intangible assets		(303)	(1,764)
Increase in other non-current assets		(27,935)	(13,879)
Decrease (increase) in refundable deposits		(58)	3,561
Net cash flows used in investing activities		(693,801)	(605,515)
Cash Flows from Financing Activities			
Increase (decrease) in short-term loans		213,274	(654,923)
Decrease in under financial lease obligation		-	(117,024)
Issuance of convertible corporate bonds payable		-	700,000
Repayment of convertible corporate bonds payable		-	(100)
Proceeds from long-term loans		129,044	297,988
Repayments of Long-term loans		(159,468)	(246,074)
Cash dividends paid	6 (17)	(456,829)	(265,655)
Cash capital increase	6 (15)(16)	-	170,979
Changes in non-controlling interests:		-	8,059
Cost of redemption of treasury stocks	6 (15)	(32,824)	-
Net cash flows used in financing activities		(306,803)	(106,750)
Exchange differences		80,225	(239,573)
Increase in cash and cash equivalents for the year		37,535	281,448
Cash and cash equivalents at beginning of year		1,030,502	749,054
Cash and cash equivalents at end of year		$ 1,068,037	$ 1,030,502

The notes to the consolidated financial statements are part of the consolidated financial statements and should be read together.

Chairman: Lin, Wen-Chih President: Liao, Fang-Chu Accounting Manager: Fan, Chen-Hsiang

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016

Unit: NT$1000

(Unless specified otherwise)

1. Company Profile

Fulgent Sun International (Holding) Co., Ltd. (the Company) was established in the British Cayman Islands in November 2009 with the office located at No.76, Sec.3, Yunke Rd., Douliu City, Yunlin Country, Taiwan. The scope of business of the Company and subsidiaries (the Group) is to produce and sell sports and outdoor shoes.

2. Approval Date and Procedures of the Financial Statements

The consolidated financial statements were released on March 8, 2018 after being approved by the Board of Directors.

3. Application of New and Amended International Financial Reporting Standards and Interpretations

(I). Effects of the adoption of new and amended IFRSs endorsed by the Financial Supervisory Commission ("FSC")

Application of new, revised and amended IFRSs endorsed by FSC starting from 2017:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	January 1, 2016
Amendment to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IFRS 14: Regulatory Deferral Accounts	January 1, 2016
Amendment to IAS 1: Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants	January 1, 2016
Amendment to IAS 19: Defined Benefit Plans: Employee Contributions	July 1, 2014
Amendment to IAS 27: Equity Method in Separate Financial Statements	January 1, 2016
Amendment to IAS 36: Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets	January 1, 2014
Amendment to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 22: Levies	January 1, 2014

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Annual Improvements in IFRSs 2010-2012 Cycle	July 1, 2014
Annual Improvements in IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements in IFRSs 2012-2014 Cycle	January 1, 2016

Upon evaluation, the aforesaid standards and interpretations had no significant effect on the Group's financial position and performance.

(II). Effects of not yet adopting new and amended IFRSs endorsed by FSC

Application of new, revised and amended IFRSs endorsed by FSC starting from 2018:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendment to IFRS 2: Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendment 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 IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers	January 1, 2018
Amendment to IFRS 7: Disclosure Initiative	January 1, 2017
Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Amendment to IAS 40: Transfers of Investment Property	January 1, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018
Annual Improvements in IFRSs 2014-2016 Cycle: IFRS 1 First-time Adoption of International Financial Reporting Standards	January 1, 2018
Annual Improvements in IFRSs 2014-2016 Cycle: IFRS 12 Disclosure of Interests in Other Entities	January 1, 2017
Annual Improvements in IFRSs 2014-2016 Cycle: IAS 28 Investments in Associates and Joint Ventures	January 1, 2018

The Group believes that the aforesaid standards and interpretations will not have a significant effect on the Group's financial position and performance.

(III). Effects of IFRSs issued by IASB but not yet endorsed by FSC

New, revised and amended IFRSs issued by IASB but not yet endorsed by FSC:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendment to IFRS 9: Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 16: Leases	January 1, 2019
IFRS 17: Insurance Contracts	January 1, 2021
Amendment to IAS 19: Plan Amendment, Curtailment or Settlement	January 1, 2019
Amendment to IAS 28: "Long-term Interests in Associates and Joint Ventures	January 1, 2019
IFRIC 23: Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvements in IFRSs 2015-2017 Cycle	January 1, 2019

Except for the following, the Group believes that the aforementioned standards and interpretations will not have a significant effect on the Group's financial position and performance. The amount of related effect will be disclosed when the evaluation is completed:

IFRS 16: Leases

IFRS 16: Leases replaces IAS 17 Leases and its interpretations and standard interpretations. According to IFRS 16: Leases, lessees shall recognize assets and liabilities for all leases (unless the lease term is 12 months or less or the underlying asset has a low value). Lessors continue to classify leases as operating or financial, with the approach to lessor accounting substantially unchanged, and disclose such leases accordingly.

4. Significant Accounting Policies

Accounting policies applied in preparing this consolidated financial statement are listed below. Unless otherwise stated, the policies shall be applicable to all reporting periods presented.

(I). Statement of Compliance

This consolidated financial statement has been prepared in conformance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs, IASs, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC.

(II). Basis of Preparation

1. Except for the following significant items, this consolidated financial statement has been prepared on the historical cost basis:
   (1) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
   (2) Available-for-sale financial assets measured at fair value.
2. The preparation of financial statements in conformance with the IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree

of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

(III). Basis of Consolidation

1. Basis for preparation of consolidated financial statements

(1) The Group includes all subsidiaries as entities in the consolidated financial statements. Subsidiaries are all entities controlled by the Group (including structured entities). The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(2) Transactions, balances and unrealized gains or losses between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(3) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(4) Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e., transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(5) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of in case of losing control of the subsidiary.

2. Subsidiaries included in the consolidated financial statements:

Investor	Subsidiary	Main Activity	% of Ownership December 31, 2017	% of Ownership December 31, 2016	Description
The Company	Capital Concord Enterprises Limited	Holdings and Production and sales of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited	Fujian Laya Outdoor Products Co., Ltd.	Distribution and import/export trade	100	100	
Capital Concord Enterprises Limited	Laya Max Trading Co.,Ltd	Distribution and import/export trade	100	100	
Capital Concord Enterprises Limited	Laya Outdoor Products Co., Ltd.	Holding Company	100	100	
Capital Concord Enterprises Limited	Fujian Sunshine Footwear Co., Ltd.	Production and sales of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited	Sunny Footwear Co., Ltd.	Production and sales of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited	Hubei Sunsmile Footwear Co., Ltd.	Production and sales of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited	Fulgent Sun Footwear Co., Ltd.	Production and sales of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited	Lin Wen Chih Sunbow Enterprises Co., Ltd.	Production and sales of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited	Lin Wen Chih Sunstone Enterprises Co., Ltd.	Processing and trading of clothing	91.27	87.5	(1)
Capital Concord Enterprises Limited	NGOC Hung Footwear Co., Ltd.	Production of sports and outdoor shoes	100	100	
Lin Wen Chih Sunbow Enterprises Co., Ltd.	Lin Wen Chih Sunlit Enterprises Co., Ltd.	Land lease	100	100	
Laya Outdoor Products Co., Ltd.	Fujian La sportiva Co., Ltd.	Distribution and import/export trade	60	60	

(1) On August 31, 2017 and November 30, 2017, Capital Concord Enterprises Limited increased investment in Lin Wen Chih Sunstone Enterprises Co., Ltd. by cash at US$2.75 million and US$2 million respectively, increasing the shareholding ratio from 87.5% to 91.27% (refer to Note 6 (25)).

3. Subsidiaries not included in the consolidated financial statements: None.
4. Adjustments for subsidiaries with different balance sheet dates: None.
5. Significant restrictions: None.
6. Subsidiaries that have non-controlling interests that are material to the Group: None.

(IV). Foreign Currency Translation

The functional currency of the Group's subsidiaries in the Republic of China, the People's Republic of China and Southeast Asia is New Taiwan dollars, China Yuan, and Viet Nam Dong and US dollars respectively. The consolidated financial statements are presented in New Taiwan dollars, which is the Group's presentation currency.

1. Foreign Currency Transaction and Balance

(1) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(2) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(3) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(4) All other foreign exchange gains and losses are presented in the statement of comprehensive income within "other gains and losses".

2. Translation from Foreign Operations

The operating results and financial position of all the Company entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

A、 Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

B、 Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

C、 All resulting exchange differences are recognized in other comprehensive income.

(V). Criteria for Classifying Assets and Liabilities into Current and Non-current

1. Assets that meet one of the following criteria are classified as current assets:

(1) Assets that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.

(2) Assets held primarily for trading purposes.
(3) Assets that are expected to be realized within 12 months after the balance sheet date.
(4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than 12 months after the balance sheet date.

The Group classifies assets that do not meet the aforementioned criteria as non-current assets.

2. Liabilities that meet one of the following criteria are classified as current liabilities:

(1) Liabilities that are expected to be settled within the normal operating cycle;
(2) Liabilities held primarily for trading purposes.
(3) Liabilities that are expected to be settled within 12 months after the balance sheet date.
(4) Liabilities for which the repayment date cannot be extended unconditionally to more than 12 months after balance sheet date. Terms of a liability that could, at the option of the counterpart, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies liabilities that do not meet the aforementioned criteria as non-current liabilities.

(VI). Cash and Cash Equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(VII). Financial Assets at Fair Value through Profit or Loss

1. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short term.
2. On a regular purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.
3. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are recognized in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(VIII). Available-for-sale Financial Assets

1. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
2. On a regular purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
3. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(IX). Accounts Receivable

Accounts receivable are receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable that do not bear interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

(X). Allowance for Sales Discounts

Allowance for sales discounts is recognized based on a certain percentage of the actual amount of sales.

(XI). Impairment of Financial Assets

1. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired 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 or group of financial assets that can be reliably estimated.
2. The criteria that the Group uses to determine whether there is objective evidence of impairment loss is as follows:
   (1) Significant financial difficulty of the issuer or debtor;
   (2) A breach of contract, such as a default or delinquency in interest or principal payments;
   (3) The Group, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
   (4) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
   (5) The disappearance of an active market for that financial asset because of financial difficulties;
   (6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
   (7) Information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or
   (8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
3. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
   (1) Financial assets measured at amortized costs

   The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(2) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from "other comprehensive income" to "profit or loss". Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset.

(XII). <u>Derecognition of Financial Assets</u>

When the contractual rights to receive the cash flows from the financial asset expire, the Group will derecognize a financial asset.

(XIII). <u>Inventories</u>

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(XIV). <u>Property, Plant and Equipment</u>

1. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
2. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
3. Land is not depreciated. The cost model is applied to other property, plant and equipment and these are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.
4. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	2~50 years
Machinery and equipment	3~15 years
Transportation equipment	3~15 years
Office equipment	3~11 years
Other equipment	1~21 years

(XV). Leasing Assets/Operating Leases (Lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(XVI). Intangible Assets

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 2 to 15 years.

(XVII). Impairment of Non-financial Assets

The Group assesses at each balance sheet date the recoverable amounts of those assets for which there is an indication that they are impaired. An impairment loss is recognized for the amount when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(XVIII). Borrowings

1. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
2. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(XIX). Notes and Accounts Payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable that do not bear interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

(XX). Financial Liabilities at Fair Value through Profit or Loss

1. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:
   (1) Hybrid (combined) contracts; or
   (2) They eliminate or significantly reduce a measurement or recognition inconsistency; or derecognition: A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.
   (3) They are managed and their performance is evaluated on a fair value basis, in accordance

with a documented risk management policy.

2. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are recognized in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(XXI). Offsetting Financial Instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realized the asset and settle the liability simultaneously.

(XXII). Corporate Bonds Payable

Convertible corporate bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the conditions of issuance. Convertible corporate bonds are accounted for as follows:

1. Call options and put options embedded in convertible corporate bonds are recognized initially at net fair value as "financial assets or financial liabilities at fair value through profit or loss". They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognized as "gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss".
2. Convertible corporate bonds payable are initially recognized at fair value and subsequently stated at amortized cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortized in profit or loss as an adjustment to the "finance costs" over the period of bond circulation using the effective interest method.
3. Conversion options embedded in convertible corporate bonds issued by the Group which meet the definition of an equity instrument are initially recognized in "capital surplus—stock warrants" at the residual amount of total issue price less amounts of "financial assets or financial liabilities at fair value through profit or loss" and "corporate bonds payable—net" as stated above. Conversion options are not subsequently remeasured.
4. Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.
5. When bondholders exercise conversion options, the liability component of the bonds (including "corporate bonds payable" and "financial assets or financial liabilities at fair value through profit or loss") shall be remeasured on the conversion date. The carrying value of ordinary shares issued due to the conversion shall be based on the adjusted carrying value of the aforementioned liability component plus the carrying value of "capital surplus - stock warrants".
6. When bondholders exercise call options in the next year, corporate bonds payable shall be reclassified as current liabilities. After the period of call options exercised expires, corporate bonds payable where call options are not exercised shall be reclassified as non-current liabilities.

(XXIII). Derivative Financial Instruments

Derivative instruments are initially recognized at fair value on the day of signing the contract. These derivative instruments are subsequently remeasured and stated at fair value, and any changes in the fair value of these derivative instruments are recognized in profit or loss.

(XXIV). Employee Benefits

1. Short-term employee benefits

   Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expenses in that period when the employees render service.

2. Pensions

   For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

3. Employees' Compensation and Directors' and Supervisors' Remuneration

   Employees' remuneration and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(XXV). Employee Share-based Payment

1. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.
2. Restricted employee shares
   (1) Restricted employee shares are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.
   (2) Employees are not restrained from participating in the distribution of dividends and are not required to return dividends received during the vesting period when resigning. The dividends received by employees expecting to resign during the vesting period are recognized as compensation cost at fair value on the announcement date of the dividends.
   (3) Employees receive restricted employee shares free of charge. When employees resign during the vesting period, the Company will recover the shares free of charge and cancel them.

(XXVI). Income Tax

1. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
2. The current income tax expense is calculated on the basis of the tax laws enacted or

substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities.

3. Deferred tax is recognized using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
4. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
5. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(XXVII). Share Capital

1. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
2. Where the Company repurchases its equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their carrying value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(XXVIII). Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities. Stock dividends are recorded as stock dividends to be distributed and reclassified to ordinary shares on the base date of new share issuance.

(XXIX). Revenue recognition

The Group produces and sells sports and outdoor shoes. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the Group. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(XXX). Government Grants

A government grant is recognized at fair value only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. The grant is recognized as income over the period necessary to match it with the related costs of the Group, for which it is intended to compensate, on a systematic basis. Government grants associated with property, plant and equipment are recognized as non-current liabilities and income using the straight-line method over their estimated useful lives.

(XXXI). Operating Segments

Operating segments of the Group are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make critical judgments in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The related information is addressed below:

(I). Critical judgments in applying the Group's accounting policies: None.

(II). Critical accounting estimates and assumptions: Evaluation of inventories

Inventories are stated at the lower of cost or net realizable value, and the Group must judge and estimate the net realizable value of inventory on the balance sheet date. Due to rapid changes in technology, the Group evaluates the amount of inventories under normal wear and tear, obsolete or unsaleable on the balance sheet date and reduces the cost of inventories to the net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which may cause a significant variation.

6. Important Accounting Items

(I). Cash and Cash Equivalents

	December 31, 2017	December 31, 2016
Cash on hand and revolving funds	$ 6,601	$ 4,985
Checking deposits and demand deposits	838,850	803,937
Time deposits	222,586	221,580
Total	$ 1,068,037	$ 1,030,502

1. The Group transacts with a variety of financial institutions with high credit quality to disperse credit risk, so it expects that the probability of counterpart default is low.

2. The Group's time deposits with original due dates over 3 months and that do not meet short-term cash commitments are recognized in Other Current Assets. For the years ended December 31, 2017 and 2016, time deposits amounted to $0 and $25,359 respectively.

(II). Financial Assets and Liabilities at fair value through profit or Loss

Item	December 31, 2017	December 31, 2016
Current items:		
Financial assets held for trade -Forward exchange contracts	$ 957	$ -
-Redemption of convertible corporate bonds (Note 6 (10))	327	420
	$ 1,284	$ 420

Item		
Current items:		
Financial liabilities held for trade		
-Forward exchange contracts	$ -	($ 1,412)

1. Transactions and contracts pertaining to non-hedging derivative financial assets are described below:

Financial Product	December 31, 2017 Contract Amount (Notional Amount)	Due Date
Delivery forward	US$1,000 thousand	2018.2.22

Financial Product	December 31, 2016 Contract Amount (Notional Amount)	Due Date
Delivery forward	US$1,000 thousand	2017.1.9 ~ 2017.4.7

The Group purchased forward (by selling USD to buy RMB) to avoid exchange rate risks arising from import and export; however, hedge accounting was not applied. For the years ended December 31, 2017 and 2016, the Group recognized $1,703 and ($1,748) in gain or loss respectively.

2. For redemption and put option of convertible corporate bonds, the Group recognized $869 and ($1,487) in gain or loss for the years ended December 31, 2017 and 2016 respectively.
3. No financial asset at fair value through profit or loss was pledged by the Group as collateral.

(III). Accounts receivable – Net

	December 31, 2017	December 31, 2016
Accounts receivable	$ 1,877,253	$ 1,390,338
Less: Allowance for doubtful accounts	(2,749)	(715)
Less: Allowance for sales returns and allowances	(319)	(767)
	$ 1,874,185	$ 1,388,856

1. For accounts receivable not overdue and not impaired, the quality of credit under the Group's credit standards is described below:

	December 31, 2017	December 31, 2016
Group A	$ 1,145,388	$ 600,504
Group B	499,647	491,394
Group C	132,839	105,864
	$ 1,777,874	$ 1,197,762

Note: Group A: The line of credit for shipment is more than US$3 million.

Group B: The line of credit for shipment is more than US$1 million but less than US$3 million.

Group C: The line of credit for shipment is less than US$1 million.

2. The aging analysis of financial assets overdue but not impaired is described below:

	December 31, 2017	December 31, 2016
≦90 days	$ 92,542	$ 190,004
91-120 days	130	783
121-180 days	3,780	359
181-365 days	1,329	1,388
>365 days	1,598	42
Total	$ 99,379	$ 192,576

The ageing analysis above was based on the number of days overdue.

3. The movement analysis of financial assets impaired is described below:

(1) For the years ended December 31, 2017 and 2016, the Group did not perform the individual provision of accounts receivable impaired.

(2) The movement analysis of the allowance for doubtful accounts is described below:

	2017		
	Individual Provision	Group Provision	Total
January 1	$ -	$ 715	$ 715
Provision for impairment	-	2,125	2,125
Effects of foreign exchange	-	(91)	(91)
December 31	$ -	$ 2,749	$ 2,749

	2016		
	Individual Provision	Group Provision	Total
January 1	$ -	$ 898	$ 898
Reversal of impairment	-	(158)	(158)
Effects of foreign exchange	-	(25)	(25)
December 31	$ -	$ 715	$ 715

(IV). Inventories

	December 31, 2017		
	Cost	Allowance for inventory valuation and obsolescence loss	Book value
Merchandise inventory	$ 68,546	($ 11,587)	$ 56,959
Raw materials	490,649	(43,631)	447,018
Work in process	425,924	(8,767)	417,157
Finished goods	428,023	(18,865)	409,158
Inventory in transit	185,858	-	185,858
Total	$ 1,599,000	($ 82,850)	$ 1,516,150

	December 31, 2016		
	Cost	Allowance for inventory valuation and obsolescence loss	Book value
Merchandise inventory	$ 62,938	($ 11,040)	$ 51,898
Raw materials	366,736	(58,076)	308,660
Work in process	404,001	(25,068)	378,933
Finished goods	722,926	(24,098)	698,828
Inventory in transit	232,937	-	232,937
Total	$ 1,789,538	($ 118,282)	$ 1,671,256

The cost of inventories recognized as expense for the period:

	2017	2016
Cost of inventories sold	$ 8,367,634	$ 7,432,296
Inventory valuation and obsolescence (recovery profit) loss	(35,432)	12,545
Loss on disposal of inventories	4,274	1,761
Gain on inventories	(6,892)	(4,408)
Recognition as an expense	(962)	(1,832)
Effect of Exchange	4,386	6,163
	$ 8,333,008	$ 7,446,525

In 2017, the Group closed out part of the inventories for which valuation loss had been recognized. This led to a rise in the net realizable value of the inventories, which was recognized in the loss on cost of goods sold.

(V). Available-for-sale Financial Assets – Non-current

Item	December 31, 2017	December 31, 2016
Non-current items:		
Shares of publicly listed companies	$ 2,486	$ 2,486
Valuation adjustment of available-for-sale financial assets	422	(305)
Total	$ 2,908	$ 2,181

The Group recognized $727 and ($305) in other comprehensive income for the change in the fair value for the years ended December 31, 2017 and 2016, respectively.

(VI). Property, Plant and Equipment

Cost	Opening Balance	Increase in the Period	Decrease in the Period	Transfer in the Period	Effect of Foreign Exchange	Ending Balance
	2017					
Land	$ 317,149	$ -	$ -	$ -	($ 24,487)	$ 292,662
Buildings	2,783,012	80,234	-	56,616	(105,847)	2,814,015
Machinery equipment	2,112,123	216,846	(47,735)	1,025	(70,585)	2,211,674
Transportation equipment	75,313	20,066	(2,049)	2,088	(4,340)	91,078
Office equipment	34,496	1,083	(2,219)	7,652	(1,453)	39,559
Others	948,397	209,332	(53,091)	(2,609)	(44,937)	1,057,092
Leased assets	5,560	-	-	-	-	5,560
Construction in progress	286,052	215,228	-	(67,173)	(25,239)	408,868
	$ 6,562,102	$ 742,789	($ 105,094)	($ 2,401)	($ 276,888)	$ 6,920,508

Accumulated depreciation	2017 Opening Balance	Increase in the Period	Decrease in the Period	Transfer in the Period	Effect of Foreign Exchange	Ending Balance
Buildings	($ 642,245)	($ 126,756)	$ -	$ -	$ 14,927	($ 754,074)
Machinery equipment	(1,076,715)	(181,041)	34,554	-	24,194	(1,199,008)
Transportation equipment	(44,010)	(7,799)	789	-	2,170	(48,850)
Office equipment	(25,764)	(3,305)	2,045	(7,336)	897	(33,463)
Others	(492,221)	(146,421)	52,726	7,301	15,273	(563,342)
Leased assets	(1,946)	(556)	-	-	-	(2,502)
	($ 2,282,901)	($ 465,878)	$ 90,114	($ 35)	$ 57,461	($ 2,601,239)
	$ 4,279,201					$ 4,319,269

Cost	2016 Opening Balance	Increase in the Period	Decrease in the Period	Transfer in the Period	Effect of Foreign Exchange	Ending Balance
Land	$ 205,483	$ 6,704	$ -	$ 108,552	($ 3,590)	$ 317,149
Buildings	2,476,674	57,523	-	412,761	(163,946)	2,783,012
Machinery equipment	2,193,325	106,251	(46,690)	7,984	(148,747)	2,112,123
Transportation equipment	79,013	6,908	(5,113)	49	(5,544)	75,313
Office equipment	32,883	4,408	(759)	572	(2,608)	34,496
Others	727,180	163,699	(28,801)	128,818	(42,499)	948,397
Leased assets	116,102	-	-	(108,552)	(1,990)	5,560
Construction in progress	691,917	190,394	-	(557,395)	(38,864)	286,052
	$ 6,522,577	$ 535,887	($ 81,363)	($ 7,211)	($ 407,788)	$ 6,562,102

Accumulated depreciation	2016 Opening Balance	Increase in the Period	Decrease in the Period	Transfer in the Period	Effect of Foreign Exchange	Ending Balance
Buildings	($ 557,603)	($ 129,169)	$ -	$ 509	$ 44,018	($ 642,245)
Machinery equipment	(994,232)	(192,969)	29,620	1,057	79,809	(1,076,715)
Transportation equipment	(44,376)	(8,013)	5,113	-	3,266	(44,010)
Office equipment	(22,230)	(6,341)	732	(92)	2,167	(25,764)
Others	(400,764)	(148,072)	28,693	(1,178)	29,100	(492,221)
Leased assets	(1,390)	(556)	-	-	-	(1,946)
	($ 2,020,595)	($ 485,120)	$ 64,158	$ 296	$ 158,360	($ 2,282,901)
	$ 4,501,982					$ 4,279,201

For property, plant and equipment pledged by the Group for the years ended December 31, 2017 and 2016, refer to Note 8.

(VII). Other Non-Current Assets

	December 31, 2017	December 31, 2016
Long-term prepaid rent	$ 259,190	$ 274,055
Prepaid Equipment	38,530	37,642
Refundable Deposits	5,226	5,410
Others	38,680	33,552
Total	$ 341,626	$ 350,659

1. According to the contract signed by the Group, the term of the lease on land is 43.5~50 years and the rent was paid in full when the contract was signed. For the years ended December 31, 2017 and 2016, the Group recognized $6,285 and $6,783 in rental expense respectively.
2. For other Non-current assets pledged by the Group for the years ended December 31, 2017 and 2016, refer to Note 8.

(VIII). Short-term Loans

Loan Type	December 31, 2017	Range of Interest	Collateral
Credit loans	$ 871,857	0.78%~2.06%	Note

Loan Type	December 31, 2016	Range of Interest	Collateral
Credit loans	$ 712,458	0.78%~1.45%	Note

Note: For property, plant and equipment pledged by the Group, refer to Note 8.

(IX). Other Payables

	December 31, 2017	December 31, 2016
Accrued salaries	$ 398,801	$ 399,432
Payables on equipment	117,696	77,613
Professional service fees payable	4,269	5,706
Accrued interest payable	369	355
Others	144,436	161,508
	$ 665,571	$ 644,614

(X). Corporate Bonds Payable

	December 31, 2017	December 31, 2016
Third issuance of unsecured convertible corporate bonds in Taiwan	$ 251,700	$ 699,700
Less: Discounts for corporate bonds payable	(4,478)	(21,525)
Subtotal	247,222	678,175
Less: Corporate bonds payable due within one year	(247,222)	-
Total	$ -	$ 678,175

A. The Board of Directors adopted the issuance of the third domestic unsecured convertible corporate bonds on March 8, 2016. Detailed information is described below:

(a) The terms of issuance of the third tranche of domestic unsecured convertible corporate bonds are as follows:

i. For the issuance of the third tranche of domestic unsecured convertible corporate bonds as approved by the authority in charge, the total issuance is $700,000 with a par value of $100,000 per coupon. The coupon rate is 0%, and the duration of issuance is 3 years. The period of circulation is from May 3, 2016 to May 3, 2019. All convertible corporate bonds are repaid in cash at the bond's nominal amount when due. The convertible corporate bonds have been traded in Taipei Exchange since May 3, 2016.

ii. The bondholders may request the Company to convert the convertible corporate bonds to common stock at any time from three months of the bond issue to the maturity date except for the period of suspension of transfer prescribed in the regulations or by law. The rights and obligations of common stock converted from convertible corporate bonds are the same as those of common stock originally issued.

iii. The conversion price was NT$58.5 per share at issuance. The conversion price is set in accordance with the indenture. In case of any anti-dilution clause, the applicable conversion price shall be subject to adjustments set out in the indenture.

iv. The bondholders may request the Company to redeem the convertible corporate bonds in cash at 101.0025% of the bond's nominal amount within 40 days before two years of the bond issue.

v. The Company may inform creditors within 30 business days after the issuance and repurchase the bonds outstanding in cash at the bonds’ nominal amount at any time after the following event occurs: the closing price of the Company’s common stock is above the then conversion price by 30% for 30 consecutive business days during the period from the date after three months of the bonds issue to 40 days before the maturity date. The Company may repurchase all the bonds outstanding in cash at the bonds’ nominal amount at any time after the following events occur: the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date following three months of the bonds issue to 40 days before the maturity date.

vi. According to the conversion regulations, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured or converted are retired and not to be re-sold or re-issued; all rights and obligations attached to the bonds are also extinguished.

(b) As of December 31, 2017, the Company has converted the convertible corporate bonds of $448,300 to 8,111 thousand shares of common stock. After issuance, if the shares of common stock issued increase or the ratio of the current price per share at which cash dividends are distributed exceeds 1.5%, the Company shall adjust the conversion price to NT$53.8 per share in accordance with the formula set out in the terms of issuance.

(c) Regarding the issuance of convertible corporate bonds, the equity conversion options amounting to $8,985 thousand were separated from the liability component and were recognized in "capital surplus – stock warrants" in accordance with IAS 32. The call options and put options embedded in bonds payable were separated from their host contracts and were recognized in "financial assets or liabilities at fair value through profit or loss" in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation is 1.330%.

(XI). Long-term Loans

Loan Type	Loan Period and Repayment Term	Range of Interest	Collateral	December 31, 2017
Long-term bank loans				
Credit loans	December 26, 2017 ~ December 26, 2019, interest is repaid monthly, and principal is repaid at any time	0.9362%	None	$ 90,000

Loan Type	Loan Period and Repayment Term	Range of Interest	Collateral	December 31, 2016
Long-term bank loans				
Creditloans	December 26, 2016 ~ December 26, 2018, interest is repaid monthly, and principal is repaid at any time	0.9353%	None	$ 70,000
Secured loans	March 30, 2016~ March 30, 2019, interest is repaid monthly, and principal is repaid quarterly	1.0580%~ 1.0935%	Land	60,500
				130,500
Less: Long-term loans due within one year or one operating cycle				(61,000)
				$ 69,500

(XII). Other Current and Non-current Liabilities

Item	December 31, 2017	December 31, 2016
Current:		
Corporate bonds payable	$ 247,222	$ -
Other current liabilities – other	15,492	16,264
Advance Receipts	14,247	46,289
Long-term loans due within one year	-	61,000
Total	$ 276,961	$ 123,553

Item	December 31, 2017	December 31, 2016
Non-current:		
Deferred government grants	$ 135,870	$ 140,690
Other non-current liabilities – other	96,032	97,123
Total	$ 231,902	$ 237,813

(XIII). Pensions

1. Effective July 1, 2005, the Group's subsidiaries Capital Concord Enterprises Limited Taiwan Branch (H.K.) and Laya Max Trading Co., Ltd have established a defined contribution pension plan (the New Plan) under the Labor Pension Act (the "Act"), covering all regular employees of R.O.C. nationality. Under the New Plan, the Group contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Group were $4,765 and $4,127 for the years ended December 31, 2017 and 2016, respectively.
2. The Group's sub-subsidiaries in China contribute monthly an amount based on 18%~20% of the local employees' monthly salaries and wages (18% for Sunshine Footwear and Sunny Footwear; 19% for Sunsmile Footwear; 18%~20% for Fujian Laya and Fujian Lasportiva) to pension insurance in accordance with the pension insurance system prescribed by the government of the People's Republic of China. Each employee's pension is managed by the government. The Group is under no further obligation beyond the monthly contribution. The pension costs recognized by the Group's sub-subsidiaries according to the said regulations were $60,859 and $61,266 for the years ended December 31, 2017 and 2016, respectively.
3. The Group's subsidiary Capital Concord Enterprises Limited contributes an amount based on the local employees' monthly salaries and wages to pension insurance or pensions according to the local regulations. The mandatory provident fund recognized by the Group according to the said regulations were $0 and $10 for the years ended December 31, 2017 and 2016, respectively.
4. The Group's subsidiaries Fulgent Sun Footwear and NGOC Hung Footwear in Vietnam contribute monthly an amount based on a certain percentage of the total salaries and wages to the employees' pension fund and pay to the related authority in charge in accordance with the local regulations. The Group is under no further obligation beyond the monthly contribution. The pension costs recognized by the Group according to the said regulations were $65,133 and $56,860 for the years ended December 31, 2017 and 2016, respectively.

(XIV). Share-based Payment – Employee Compensation

1. For the years ended December 31, 2017 and 2016, the Group's share-based payment arrangements were as follows:

Type of Arrangement	Grant Date (1000 Shares)	Quantity Granted	Contract Period	Vesting Conditions
First restricted employee shares in 2014	2014.3.21	1,200 units	3year	Note
Cash capital increase reserved for employee subscription	2016.7.6	600 units	-	Vested immediately

On May 9, 2013, the Board of Directors resolved on the issuance of restricted employee shares. The issuance of restricted employee shares was resolved in the shareholders' meeting on June 21, 2013 and became effective with the approval of the authority in charge from July 4, 2013. The base date of capital increase was March 21, 2014 with the subscription price per share of NT$0. A total of 1,200 thousand shares of common stock were issued. The right to transfer shares is prohibited before employees meet the vested conditions, while the remaining rights and obligations are the same as those of common stock issued.

Note: Employees who are granted restricted employee shares will receive new shares based on the following schedule and the percentage of shares granted if they are working for the Group before the expiration:

Expiration	Percentage of Shares Granted
Working for one year after being granted	30%
Working for two years after being granted	30%
Working for three years after being granted	40%

Except for inheritance, employees are not allowed to transfer the said restricted employee shares issued by the Group in the vesting period; however, employees are not restricted from voting or distribution of dividends. If employees resign during the vesting period, they shall return their shares without returning the dividends already obtained.

2. Detailed information on the said share-based payment arrangements is as follows:

(a) First restricted employee shares in 2014

	2017	2016
	Quantity (Thousand Shares)	Quantity (Thousand Shares)
Restricted employee shares, beginning of year	1,012	1,030
Vesting in the period	(1,008)	-
Cancellation of restricted employee shares	(4)	(18)
Restricted employee shares, end of year	-	1,012

(b) Capital increase by cash

	2017		2016	
	Number of Options (Thousand Shares)	Weighted-average Exercise Price (NT$)	Number of Options (Thousand Shares)	Weighted-average Exercise Price (NT$)
Options outstanding, beginning of year	-	$ -	-	$ -
Options granted in the period	-	-	600	43
Options exercised in the period	-	-	(600)	43
Options outstanding, end of year	-	-	-	-
Options exercisable, end of year	-		-	

3. For the share-based payment granted by the Group, its fair value on the grant date is estimated using the Black-Scholes option-pricing model. The weighted-average parameters used in the estimation of the fair value are as follows:

Unit: New Taiwan Dollar (NT$)

Type of Arrangement	Grant Date	Weighted-average Stock Price	Exercise Price	Volatility	Life	Dividends	Interest Rate	Fair Value Per Unit
Restricted employee shares	2014.3.21	$ 37.2	$ 37.2	27.50%~ 42.19% (Note)	1-3 years	-	0.55%~ 0.82%	33.24 28.76 27.82
Capital increase by cash	2016.7.6	$ 61.8	$ 43.0	49.78%	0.13 years	-	0.27%	18.89

Note: Price volatility refers to the volatility of stock prices in the coming period and is calculated based on the standard deviation of stock returns over a specific period.

4. The expense arising from the share-based payment is as follows:

	2017	2016
Equity delivery	$ 621	$ 15,343

(XV). Share Capital

1. On March 8, 2016, the Board of Directors of the Company adopted a resolution to increase capital by issuing 4,000 thousand shares of common stock with a par value of NT$43 per share, which became effective with the approval of the Financial Supervisory Commission on April 12, 2016 and approved by TWSE on August 25, 2016. The base date of capital increase was August 24, and capital increased by $172,000.
2. As of December 31, 2017, the Company's authorized capital was $2,000,000, consisting of 200,000 thousand shares, and the outstanding capital was $1,461,973 with a par value of NT$10 per share.

   The Company's outstanding common stock at the beginning and end of periods were reconciled as follows:

Unit: Thousand shares

	2017	2016
January 1	138,095	132,698
Cancellation of restricted employee shares	(4)	(18)
Convertible corporate bonds exercised	8,106	1,415
Capital increase by cash	-	4,000
December 31	146,197	138,095

3. Treasury stock

(1) The reason for share re-acquisition and movements in the number of treasury stock are as follows:

		December 31, 2017	
Company Holding Shares	Reason for Re-acquisition	Number of Shares (Thousand Shares)	Carrying Amount
The Company	Transfer of shares to employees	500	$ 32,824

(2) According to the Securities and Exchange Act, the number of shares redeemed as treasury stock shall not exceed 10% of the number of the Company's issued and outstanding shares, and the amount redeemed shall not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus.

(3) According to the Securities and Exchange Act, treasury stock shall not be pledged as collateral and is not entitled to dividends before it is reissued.

(4) According to the Securities and Exchange Act, treasury stock redeemed due to transfer of shares to employees shall be transferred within three years from the date of redemption. Shares not transferred by the said deadline will be considered unissued and shall be retired.

(XVI). Capital Surplus

1. According to the Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided the Company has no accumulated deficit. According to the relevant provisions of the Securities Exchange Act, for allocated capital from additional paid-in capital, its maximum not exceed the limit of 10% of the paid-up capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

2. Movements of capital surplus are as follows:

	2017				
	Share Premium	Share Options	Restricted Employee Shares	Others	Total
January 1	$ 2,937,546	$ 24,976	$ 18,864	$ 9,130	$ 2,990,516
Restricted employee shares	-	-	(110)	-	(110)
Cancellation of restricted employee shares	-	-	42	-	42
Common stock converted from convertible corporate bonds	371,118	(15,991)	-	-	355,127
Changes in ownership of subsidiaries	-,	-	-	(9,130)	(9,130)
December 31	$ 3,308,664	$ 8,985	$ 18,796	$ -	$ 3,336,445

	2016				
	Share Premium	Share Options	Restricted Employee Shares	Others	Total
January 1	$ 2,762,280	$ 1,720	$ 19,162	$ 9,126	$ 2,792,288
Capital increase by cash	130,979	-	-	-	130,979
Capital increase by cash – employee compensation	11,334	-	-	-	11,334
Restricted employee shares	-	-	(477)	-	(477)
Cancellation of restricted employee shares	-	-	179	-	179
Common stock converted from convertible corporate bonds	32,953	(1,727)	-	-	31,226
Component of equity due to Issuance of convertible corporate bonds	-	24,987	-	-	24,987
Redemption of convertible corporate bonds	-	(4)	-	4	-
December 31	$ 2,937,546	$ 24,976	$ 18,864	$ 9,130	$ 2,990,516

(XVII). Retained Earnings

1. According to the Company's Articles of Incorporation, the distribution of earnings shall be resolved by the Board of Directors and adopted in the shareholders' meeting.

   (1) The current year's earnings, if any, shall first be used to offset the prior year's operating losses, and then 10% of the remaining amount shall be set aside as legal surplus reserve unless the accumulated legal surplus reserve has reached an amount equal to the Company's capital.

   (2) Special surplus reserve shall be set aside according to the regulations for listed companies or the requirements of the authority in charge.

   (3) No more than 3% of the balance may be set aside as directors' remuneration and no more than 3% of the balance as employees' bonuses.

2. No less than 2% of the current year's earnings less amounts in (1) and (2) in the preceding paragraph shall be distributed to shareholders, of which no less than 10% shall be distributed in the form of cash.

3. According to the Company's Articles of Incorporation, except for realized or unrealized benefits, share premium, or other payments granted under the Companies Law of Cayman Islands, the Company shall not distribute dividends or other payments. For legal surplus reserve over 25% of paid-in capital, it may be used to distribute dividends or other payments; the amount used shall not exceed 25% of the paid-in capital.

4. (a) In accordance with the regulations, the Company shall set aside special surplus reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

   (b) The amounts previously set aside by the Company as special surplus reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

5. The distribution of 2016 earnings was adopted in the shareholders' meeting on June 8, 2017 and the distribution of 2015 earnings was adopted in the shareholders' meeting on June 15, 2016. Details are summarized below:

	2016		2015	
	Amount	Dividend per Share (NT$)	Amount	Dividend per Share (NT$)
Legal surplus reserve	$ 70,226		$ 11,540	
Special surplus reserve	33,764		-	
Cash dividends	456,829	$ 3.3	265,655	$ 2
Total	$ 560,819		$ 277,195	

6. The distribution of 2017 earnings was resolved by the Board of Directors on March 8, 2018. Details are summarized below:

	2017	
	Amount	Dividend per Share (NT$)
Legal surplus reserve	$ 80,311	
Special surplus reserve	201,766	
Cash dividends	599,554	$ 4.1
Total	$ 881,631	

According to the regulation of Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865 dated April 6, 2012, for the current year's net deduction from other stockholders' equity, the same amount shall be set aside from the current year's earnings and the undistributed earnings in the previous year as special surplus reserve, which shall not be distributed; however, when the Company has set aside special surplus reserve on initial application of IFRSs, the difference between the amount set aside and the net deduction from other stockholders' equity shall be made up to special surplus reserve.

The unearned employee compensation arising from the issuance of restricted employee shares is not classified as unrealized gain or loss, so no special surplus reserve shall be recognized.

Regarding the dividend per share from the distribution of earnings for the years ended December 31, 2016 and 2015, due to the conversion of convertible corporate bonds, repurchase of treasury stock which has not been transferred to employees, and recovery of restricted employee shares whose vesting conditions were not met, the Chairman was authorized by the Board of Directors to adjust the dividend rate to NT$3.19/share and NT$1.99/share on June 8, 2017 and June 15, 2016 respectively.

As of March 8, 2018, the distribution of 2017 earnings has not been adopted in the shareholders' meeting. The distribution of cash dividends at NT$4.1/share has been proposed to the shareholders' meeting for adoption. Before the record date, if the number of shares outstanding is affected due to the conversion of convertible corporate bonds or issuance of restricted employee shares or other factors, causing change in the distribution of dividends, the Board of Directors shall be authorized in the shareholders' meeting to empower the Chairman for resolution at his discretion.

Information on the distribution of the Company’s earnings as proposed by the Board of Directors and resolved in the shareholders' meeting will be posted in the “Market Observation Post System” at the website of the Taiwan Stock Exchange.

7. For information on employees’ compensation and directors’ and supervisors’ remuneration, refer to Note 6 (22).

(XVIII). Other Equity Items

	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gain or Loss on Available-for-sale Financial Assets	Unearned Employee Compensation	Total
January 1, 2017	($ 244,063)	($ 305)	($ 731)	($ 245,099)
Restricted employee shares	-	-	731	731
Adjustment of valuation	-	727	-	727
Difference in foreign exchange - group	(202,493)	-	-	(202,493)
December 31, 2017	($ 446,556)	$ 422	$ -	($ 446,134)

	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gain or Loss on Available-for-sale Financial Assets	Unearned Employee Compensation	Total
January 1, 2016	$ 257,439	$ -	($ 5,217)	$ 252,222
Restricted employee shares	-	-	4,486	4,486
Adjustment of valuation	-	(305)	-	(305)
Difference in foreign exchange - group	(501,502)	-	-	(501,502)
December 31, 2016	($ 244,063)	($ 305)	($ 731)	($ 245,099)

(XIX). Other Income

	2017	2016
Government subsidy income	$ 14,821	$ 23,366
Interest income – bank deposit interest	8,135	6,436
Other income	46,296	59,534
Total	$ 69,252	$ 89,336

(XX). Other Gains and Losses

	2017	2016
Net gain (loss) on foreign exchange	($ 162,078)	$ 135,822
Net gain (loss) on financial assets and liabilities at fair value through profit or loss	2,572	(3,235)
Gain (loss) on disposal of property, plant, and equipment	(955)	1,661
Others	(4,397)	(3,431)
	($ 164,858)	$ 130,817

(XXI). Finance Costs

	2017	2016
Interest expense		
Bank loans	$ 9,226	$ 11,694
Convertible corporate bonds	6,195	6,423
	$ 15,421	$ 18,117

(XXII). Expenses by Nature

	2017	2016
Employee benefits expense		
Salary costs	$ 2,887,223	$ 2,716,150
Labor and health insurance premiums	85,645	82,686
Pension expense	130,757	122,263
Other personnel cost	52,790	48,262
	3,156,415	2,969,361
Depreciation expense	465,878	485,120
Amortization expense	27,299	30,713
	$ 3,649,592	$ 3,485,194

1. According to the Company's Articles of Incorporation, a ratio of distributable earnings of the current year shall be distributed as employees' compensation and directors' remuneration. The ratio shall be 3% for employees' compensation and shall not be higher than 3% for directors' remuneration.
2. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at both $5,000, and directors' remuneration was accrued at both $5,000. The aforementioned amounts were recognized in salary expenses. As of December 31, 2017, the said employees' compensation and directors' remuneration were calculated based on the ratio of the current year's net profit after tax prescribed in the Articles of

Incorporation after the legal surplus reserve is considered.

Employees' compensation and directors' remuneration of 2016 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2016 financial statements.

Information on employees’ compensation and directors’ remuneration of the Company as resolved by the Board of Directors will be posted in the Market Observation Post System

(XXIII). Income Tax

1. Income tax expense

(1) Components of income tax expense:

	2017	2016
Current income tax:		
Income tax incurred during the period	$ 182,345	$ 215,388
Surtax on unappropriated earnings	59	411
Underestimation of prior year’s income tax	14,240	6,128
Total income tax in the period	196,644	221,927
Deferred income tax:		
Origination and reversal of temporary differences	27,176	(15,388)
Total deferred income tax	27,176	(15,388)
Income tax expense	$ 223,820	$ 206,539

(2) Reconciliation between income tax expense and accounting profit:

	2017	2016
Income tax calculated based on profit before tax and statutory tax rate (Note)	$ 204,525	$ 255,518
Expenses disallowed by tax regulation	19,113	5,180
Tax exempted income by tax regulation	(33,127)	(60,364)
Underestimation of prior year’s income tax	14,240	6,128
Effect of income tax from unrecognized deferred income tax assets or liabilities	19,010	(334)
Undistributed earnings tax 10%	59	411
Income tax expense	$ 223,820	$ 206,539

Note: The applicable tax rate is based on the tax rate applicable in the country concerned.

2. Amounts of deferred tax assets or liabilities as a result of temporary difference and tax loss are as follows:

	2017		
	January 1	Recognized in Profit or Loss	December 31
Temporary differences:			
-Deferred income tax assets:			
Bonus	$ 5,209	($ 1,629)	$ 3,580
Allowance for sales returns and allowances	130	(76)	54
Allowance for doubtful accounts	1	(1)	-
allowance for inventory valuation and obsolescence loss	21,457	(8,536)	12,921
Loss carry-forward	18,725	(5,771)	12,954
Deferred income tax paid	30,955	(1,051)	29,904
Unrealized exchange loss	-	1,810	1,810
Subtotal	$ 76,477	($ 15,254)	$ 61,223
-Deferred income tax liabilities:			
Gain on foreign long- term investment	$ -	($ 15,255)	($ 15,255)
Unrealized exchange gains	(2,201)	2,201	-
Unrealized selling gross profit	(1,124)	1,057	(67)
Other	(1,089)	75	(1,014)
Subtotal	($ 4,414)	($ 11,922)	($ 16,336)
Total	$ 72,063	($ 27,176)	$ 44,887

	2016		
	January 1	Recognized in Profit or Loss	December 31
Temporary differences:			
-Deferred income tax assets:			
Bonus	$ 3,887	$ 1,322	$ 5,209
Allowance for sales returns and allowances	96	34	130
Allowance for doubtful accounts	176	(175)	1
allowance for inventory valuation and obsolescence loss	14,163	7,294	21,457
Unrealized selling gross profit	1,498	(1,498)	-
Loss carry-forward	4,852	13,873	18,725
Deferred income tax paid	34,266	(3,311)	30,955
Subtotal	$ 58,938	$ 17,539	$ 76,477
-Deferred income tax liabilities:			
Unrealized exchange gains	($ 1,016)	($ 1,185)	($ 2,201)
Unrealized selling gross profit	-	(1,124)	(1,124)
Other	(1,247)	158	(1,089)
Subtotal	($ 2,263)	($ 2,151)	($ 4,414)
Total	$ 56,675	$ 15,388	$ 72,063

3. The Company did not recognize subsidiaries' taxable temporary differences in deferred income tax liabilities. For the years ended December 31, 2017 and 2016, the amount of temporary differences not recognized in deferred income tax liabilities was $1,073,089 and $1,197,446 respectively.
4. For the Group's subsidiary Capital Concord Enterprises Limited Taiwan Branch (H.K.) and sub-subsidiary Laya Max Trading Co.,Ltd, the income tax returns through 2015 have been assessed and approved by the tax authority.

(XXIV). Earnings per share

	2017		
	Amount after Tax	Weighted-average Earnings Outstanding (Thousand Shares)	Earnings per Share **($)**
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 803,113	142,051	$ 5.65
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	803,113	142,051	
Assumed conversion of all dilutive potential ordinary shares			
Convertible corporate bonds	6,195	4,678	
Restricted employee shares	-	52	
Employees' compensation	-	102	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 809,308	146,883	$ 5.51

	2016		
	Amount after Tax	Weighted-average Earnings Outstanding (Thousand Shares)	Earnings per Share **($)**
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 702,262	134,215	$ 5.23
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	702,262	134,215	
Assumed conversion of all dilutive potential ordinary shares			
Convertible corporate bonds	5,953	12,495	
Restricted employee shares	-	233	
Employees' compensation	-	118	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 708,215	147,061	$ 4.82

(XXV). Transactions with non-controlling interests

1. The Group failed to subscribe to the issuance of common stock by subsidiaries proportionately to its shareholding percentage.

   The Group's subsidiary Lin Wen Chih Sunstone Enterprise Co., Ltd. issued shares for the purpose of capital increase by cash on August 31, 2017 and November 30, 2017, respectively. The Group failed to subscribe to the shares issued by the subsidiary proportionately to its shareholding percentage, leading to an increase in equity of 3.77%. The transaction increased the non-controlling interest of $16,326, and the equity attributable to owners of the parent decreased by $16,326.
   The effect of the change in the subsidiary's equity on the equity attributable to owners of the parent was as follows:

	2017		2016	
Retained earnings	$	7,196	$	-
Increase in the carrying amount of non-controlling interests	(	16,326)		-
Capital surplus – changes in ownership of subsidiaries	($	9,130)	$	-

2. The Group had no transaction with non-controlling interests in 2016.

(XXVI). Operating Leases

According to the leases signed by the Group's subsidiaries, the total rent payable is estimated below:

	December 31, 2017		December 31, 2016	
Less than 1 year	$	24,508	$	20,612
More than 1 year but no more than 5 years		89,401		77,331
Over 5 years		136,793		39,562
	$	250,702	$	137,505

(XXVII). Supplemental Cash Flow Information

1. Investing activities with partial cash payments:

	2017		2016	
Purchase of property, plant and equipment	$	742,789	$	535,887
Less: Advance on equipment, beginning of year	(	37,642)	(	20,801)
Add: Advance on equipment, end of year		38,530		37,642
Add: Payable on equipment, beginning of year		77,613		111,770
Less: Payable on equipment, end of year	(	117,696)	(	77,613)
Cash paid in the period	$	703,594	$	586,885

2. Financing activities not affecting cash flow:

	2017		2016	
Share capital converted from convertible corporate bonds	$	81,061	$	14,150

7. Related-party Transactions

Key management compensation

	2017		2016	
Short-term employee benefits	$	38,662	$	86,673
Share-based payments		368		10,618
Total	$	39,030	$	97,291

8. Pledged Assets

	Carrying Amount				
Pledged Assets		December 31, 2017		December 31, 2016	Purpose
Land	$	106,394	$	115,296	Short-, medium- and long-term loans
Buildings		174,217		193,577	Short-term loans and guarantees of convertible corporate bonds
Other financial assets (Recognized in other non-current assets)		370		-	Others
Refundable Deposits (Recognized in other non-current assets)		5,226		5,410	deposits for leased land and other
	$	286,207	$	314,283	

9. Significant Contingent Liabilities and Unrecognized Contractual Commitments

Commitments

(1) Capital expenditure signed but not yet incurred is as follows:

	Contract Price	
	December 31, 2017	December 31, 2016
Property, plant and equipment	$ 531,592	$ 673,525

	Unpaid Price	
	December 31, 2017	December 31, 2016
Property, plant and equipment	$ 103,512	$ 141,629

(2) For operating lease agreements, refer to Note 6 (26).

10. Losses Due to Major Disasters: None.

11. Significant Subsequent Events: None

12. Others

(1) Capital Management

Considering the industrial characteristics, future development, and changes in the environment, the Group plans working capital, research and development expenses and dividends to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure, so as to provide returns for shareholders. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or cash to shareholders, or repurchase shares.

The Group monitors capital on the basis of the debt to asset ratio. The "Total equity" presented in the consolidated balance sheet equals Total Assets minus Total Liabilities. For the years ended December 31, 2017 and 2016, the debt to asset ratios are as follows:

	December 31, 2017	December 31, 2016
Total liabilities	$ 3,173,648	$ 3,356,693
Total assets	$ 9,417,281	$ 9,060,352
Debt ratio	33.70%	37.05%

(2) Financial Instruments

A. Fair value information of financial instruments

(a) Except for those listed in the table below, the carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable, other receivables, other financial assets, refundable deposits, short-term loans, accounts payable, and other payables) are approximate to their fair values. With the interest rate similar to the market rate, the carrying amount of long-term loans (including those due within one year or one operating cycle) is measured reasonably at fair value. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

Financial liabilities:

	December 31, 2017	
		Fair Value
	Carrying Amount	Level 3
Corporate bonds payable	$ 247,222	$ 248,507

	December 31, 2016	
		Fair Value
	Carrying Amount	Level 3
Corporate bonds payable	$ 678,175	$ 673,807

(b) Methods and assumptions used by the Group to measure the fair value are as follows:

Convertible bonds payable: The coupon rate of convertible corporate bonds issued by the Group is similar to the market rate, so the fair value is measured at the discounted value of expected cash flows, which is equivalent to the carrying amount.

B. Financial risk management policies

(a) The Group's objectives when managing financial risks are to manage these risks pertaining to operating activities, including foreign exchange risk, price risk, interest rate risk, credit risk and liquidity risk. The Group strives to identify, evaluate, and hedge the uncertainties of financial markets to minimize potential adverse effects on the Group's financial performance.

(b) Major financial activities are reviewed and approved by the Board of Directors and the Audit Committee in accordance with related regulations and the internal control system. When executing financial plans, the Group abides by operating procedures for overall financial risk management and the division of powers and responsibilities.

C. Nature and degree of significant financial risks

(a) Market risk

Foreign currency risk

i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB and partly with respect to VND. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

ii. To avoid the decrease in value of assets denominated in foreign currencies and fluctuations in future cash flows, the Group used derivative financial instruments to hedge foreign currency risks. The use of such instruments helped the Group to reduce the impact of fluctuations in exchange rates, though such impact could not be eliminated completely.

iii. The Group's businesses involve some non-functional currency operations (the Company and some subsidiaries' functional currencies: NTD; some subsidiaries' functional currencies: USD, RMB, and VND). The information on assets and liabilities denominated in foreign currencies which values would be materially affected by exchange rate fluctuations is as follows:

(Foreign currency: functional currency)	December 31, 2017 Foreign Currency (in thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD:RMB	$ 11,201	6.5067	$ 332,694
NTD:USD	31,310	0.0336	31,310
Financial liabilities			
Monetary items			
USD:RMB	$ 3,436	6.5067	$ 102,046
NTD:USD	644,997	0.0336	644,997

(Foreign currency: functional currency)	December 31, 2016 Foreign Currency (in thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD:RMB	$ 8,454	6.9370	$ 270,755
RMB:USD	40,204	0.1432	185,623
Financial liabilities			
Monetary items			
USD:RMB	$ 3,353	6.9370	$ 107,398
NTD:USD	373,410	0.0310	373,410

iv. The total exchange gain (loss), including realized and unrealized, arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended December 31, 2017 and 2016, amounted to ($162,078) and $135,822, respectively.

v. Foreign currency market risks arising from significant foreign exchange variation are analyzed as follows:

(Foreign currency: functional currency)	2017 Sensitivity Analysis Degree of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
Financial assets			
Monetary items			
USD:RMB	5%	$ 16,635	$ -
NTD:USD	5%	1,566	-
Financial liabilities			
Monetary items			
USD:RMB	5%	$ 5,102	$ -
NTD:USD	5%	32,250	-

(Foreign currency: functional currency)	2016 Sensitivity Analysis Degree of Variation		Effect on Profit or Loss		Effect on Other Comprehensive Income
Financial assets					
Monetary items					
USD:RMB	5%	$	13,538	$	-
RMB:USD	5%		9,281		-
Financial liabilities					
Monetary items					
USD:RMB	5%	$	5,370	$	-
NTD:USD	5%		18,671		-

Price risk

i. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale. The Group is not exposed to any commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group.

ii. The Group's investments in equity securities comprise foreign and domestic listed stocks. The prices of equity securities change due to the change in the future value of investee companies. If the prices of these equity securities had increased/decreased by 5% with all other variables held constant, other components of equity for the years ended December 31, 2017 and 2016 would have increased/decreased by $145 and $109 respectively as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risks

i. The Group's interest rate risks come from short- and long-term loans. The Group is exposed to cash flow interest rate risks because of loans extended at variable rates. The Group is exposed to fair value interest rate risks because of loans extended at fixed rates. However, such risks are offset by cash and cash equivalents held at fixed rates. For the years ended December 31, 2017 and 2016, loans calculated at variable rates are denominated in NTD and USD.

ii. For the years ended December 31, 2017 and 2016, loans calculated at variable rates were denominated in NTD and USD. If market interest rates had been 1% higher/lower with all other variables held constant, profit before tax for the years ended December 31, 2017 and 2016 would have been $962 and $843 lower/higher, respectively.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by clients or trading partners of financial instruments on contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. The Group's credit risks mainly come from cash and cash equivalents, derivative financial instruments, and deposits at banks and financial institutions as well as credit risks from customers, including uncollected accounts payable. For banks and financial institutions, only institutions with a good credit rating will be accepted as trading partners.

ii. For the years ended December 31, 2017 and 2016, no credit limit was exceeded, and the management expected no material loss arising from default by trading partners.

iii. The carrying amount of financial assets represents the maximum amount of credit risks. For the carrying amount of financial assets, refer to Note 12 (2)3. For the credit risk of accounts receivable, refer to Note 6 (3).

(3) Liquidity Risk

i. The cash flow forecast is performed by each operating entity of the Group and compiled by the Group's treasury. The Group's treasury monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times.

ii. The Group's treasury invests surplus cash in interest-bearing demand deposits and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the aforementioned forecasts.

iii. As of December 31, 2017 and 2016, undrawn credit facilities of the Group were $2,057,494 and $1,844,776, respectively.

iv. The table below presents the Group’s non-derivative financial liabilities as relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date for non-derivative financial liabilities; derivative financial liabilities are grouped based on the remaining period from the balance sheet date to the expected maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2017	Less than 6 Months	7~12 Months	1~2 Year(s)	2 to 5 Year(s)	Over 5Year
Short-term loans	$ 772,812	$ 100,436	$ -	$ -	$ -
Notes payable	4,642	-	-	-	-
Accounts payable	901,815	-	-	-	-
Other payables	633,098	27,427	5,017	29	-
Corporate bonds payable	1,635	250,065	-	-	-
Long-term loans	-	-	91,671	-	-

Non-derivative financial liabilities:

December 31, 2016	Less than 6 Months	7~12 Months	1~2 Year(s)	2 to 5 Year(s)	Over 5Year
Short-term loans	$ 718,795	$ -	$ -	$ -	$ -
Accounts payable	752,893	5	-	-	-
Other payables	547,838	96,776	-	-	-
Corporate bonds payable	4,485	4,590	9,983	680,642	-
Long-term loans (including including those due within one year)	13,139	13,139	105,522	-	-

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12 (2)1.

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

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

A market is regarded as active if its transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investment in derivatives is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in convertible corporate bonds is included in Level 3.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities as of December 31, 2017 and 2016 is as follows:

December 31, 2017	Level 1	Level 2	Level 3	Total
Asset				
Recurring fair value				
Financial assets at fair value through profit or loss				
-Forward exchange contracts	$ -	$ 957	$ -	$ 957
-Redemption of convertible corporate bonds	-	-	327	327
Financial assets available for sale				
-Equity securities	2,908	-	-	2,908
Total	$ 2,908	$ 957	$ 327	$ 4,192

December 31, 2016	Level 1	Level 2	Level 3	Total
Asset				
Recurring fair value				
Financial assets at fair value through profit or loss	-			
-Redemption of convertible corporate bonds	$ -	$ -	$ 420	$ 420
Financial assets available for sale				
-Equity securities	2,181	-	-	2,181
Total	$ 2,181	$ -	$ 420	$ 2,601
Libility				
Recurring fair value				
Financial liabilities at fair value through profit or loss				
-Forward exchange contracts	$ -	$ 1,412	$ -	$ 1,412

D. The methods and assumptions the Group used to measure the fair value are as follows:

(a) For the Level 1 instruments which the Group used market quoted prices as their fair values and which are listed stocks by characteristics, their closing prices were used as market quoted prices.

(b) Forward exchange contracts are usually valuated based on the current forward exchange rate.

E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.

F. For financial instruments with active markets, their fair value is measured at the market quoted prices on balance sheet date. When quoted prices can be obtained immediately and regularly from stock exchanges, dealers, brokers, the industry, valuation service agencies or regulatory agencies, and such quoted prices represent actual and regular market transactions under normal conditions, the markets are deemed active markets. The market quoted prices of the financial assets held by the Group are closing prices, so such instruments are included in Level 1. Level 1 instruments mainly include equity instruments, which are classified as available-for-sale financial assets.

G. Movements of Level 3 instruments for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
	Non-derivative Equity Instruments	Non-derivative Equity Instruments
January 1	$ 420	$ 113
Gains or losses recognized in profit or loss in the period (Note 1)	869	(1,487)
Issued in the period	-	1,809
Transferred in the period	(962)	(15)
December 31	$ 327	$ 420

Note 1: Recognized in other gains and losses.

H. Finance Department is in charge of valuation procedures for fair value measurements for financial instruments in Level 3. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the source of information is independent, reliable and in line with other resources and represented as the exercisable price, frequently calibrating the valuation model, performing back-testing, and updating inputs used to the valuation model, and making any other necessary adjustments to the fair value.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to the valuation model used in Level 3 fair value measurement:

	Fair Value as of December 31, 2017	Valuation Technique	Significant Unobservable Input	Range Weighted-Average	Relationship of Inputs to Fair Value
Hybrid instruments					
Redemption of corporate bonds	$327	Binomial-tree approach	Volatility	23.66%	The higher the volatility, the higher the fair value

	Fair Value as of December 31, 2016	Valuation Technique	Significant Unobservable Input	Range Weighted-Average	Relationship of Inputs to Fair Value
Hybrid instruments					
Redemption of corporate bonds	$420	Binomial-tree approach	Volatility	30.53%	The higher the volatility, the higher the fair value

J. Group has carefully assessed the valuation models and assumptions used to measure fair value; however, use of different valuation models or assumptions may result in different measurements. The following is the effect on profit or loss from financial assets and liabilities categorized in Level 3 if the inputs used to valuation models have changed:

	Input	Change	December 31, 2017 Recognized in Profit or Loss Favorable Change	 Unfavorable Change
Financial assets				
Hybrid instruments	Volatiliy	±5%	$ 227	($ 176)

	Input	Change	December 31, 2016 Recognized in Profit or Loss Favorable Change	 Unfavorable Change
Financial assets				
Hybrid instruments	Volatiliy	±5%	$ 980	($ 420)

13. Additional Disclosures

(1) Significant transactions information

A. Loans to others: Refer to Table 1.

B. Provision of endorsements and guarantees to others: Refer to Table 2.

C. Holdings of marketable securities at the end of the period (excluding subsidiaries, associates and joint ventures): Refer to Table 3.

D. Acquisition or sale of the same securities with the accumulated cost exceeding NT$300 million or 20% of the Company's paid-in capital: None.

E. Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more: Refer to Table 4.

H. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: Refer to Table 5.

I. Trading in derivative instruments undertaken during the reporting periods: Refer to Notes 6 (2) and 12 (3).

J. Significant inter-company transactions during the reporting periods: Refer to table 6.

(2) Information on investee companies

Names, locations and other information of investee companies (not including investees in Mainland China): Refer to Table 7.

(3) Information on investee companies in Mainland China:

A. Basic information: Refer to Table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in Mainland China: Refer to Note 13 (1).

14. Operating Segments

(1) General information

The scope of business of the Company and subsidiaries is production and sale of sports and outdoor shoes. The Group's Board of Directors is the operating decision maker, which allocates resources and assesses performance of the Group as a whole. The Group's management has identified the operating segments based on the reports reviewed by the Board of Directors that are used to make decisions.

The Group’s company organization, basis of department segmentation and principles for measuring segment information for the period were not significantly changed.

(2) Segment information

The segment information provided to the operating decision maker for the reportable segments is as follows:

	2017			
Revenue	Production and Sale of Shoes	Retail Business	Other Business	Total
Revenue from external customers	$ 10,307,151	$ 57,495	$ $ 23,505	$ 10,388,151
Inter-segment revenue	7,631,969	595,370	24,502	8,251,841
Total revenue	$ 17,939,120	$ 652,865	$ 48,007	$ 18,639,992
Segment profit (loss)	$ 1,036,099	$ 24,510	$ 763,695	$ 1,824,304
Segment assets (Note)	$ -	$ -	$ -	$ -
Segment Liabilities (Note)	$ -	$ -	$ -	$ -

	2016			
Revenue	Production and Sale of Shoes	Retail Business	Other Business	Total
Revenue from external customers	$ 9,005,282	$ 63,570	$ 10,993	$ 9,079,845
Inter-segment revenue	6,726,113	448,417	12,383	7,186,913
Total revenue	$ 15,731,395	$ 511,987	$ 233,796	$ 16,266,758
Segment profit (loss)	$ 1,317,859	$ 41,231	$ 629,907	$ 1,988,997
Segment assets (Note)	$ -	$ -	$ -	$ -
Segment Liabilities (Note)	$ -	$ -	$ -	$ -

Note: As the measurement amounts for the Group’s assets and liabilities was not provided for the operating decision maker, the segments' total assets and liabilities were not disclosed.

(3) Reconciliation of segment revenue and profit (loss)

A. Total revenue after adjustment in the period and total revenue from continuing operations are adjusted below:

	2017	2016
Revenue after adjustment from reportable operating segments	$ 18,591,985	$ 16,243,382
Revenue after adjustment from other operating segments	48,007	23,376
Total revenue from operating segments	18,639,992	16,266,758
Elimination of intersegment revenue	(8,251,841)	(7,186,913)
Total consolidated operating revenue	$ 10,388,151	$ 9,079,845

B. Net operating profit after adjustment in the period and income before tax from continuing operations are adjusted below:

	2017	2016
Income before tax after adjustment from reportable operating segments	$ 1,060,609	$ 1,359,090
Income before tax after adjustment from other operating segments	763,695	629,907
Total income before tax from operating segments	1,824,304	1,988,997
Elimination of intersegment profit(loss)	(804,481)	(1,088,982)
Income before tax from continuing operations	$ 1,019,823	$ 900,015

(4) Information on products and services

The scope of business of the Company is production and sale of sports and outdoor shoes. The operating revenue, operating profit, and identifiable assets used by the segments account for more than 90% of the total operating revenue, total operating profit and total assets, so the Company is deemed to be in a single industry category.

(5) Geographical information

The Company's regional income is calculated by country of sales. Non-current assets are classified according to the location of assets, including property, plant, and equipment, intangible assets and other non-current assets. Financial products are excluded.

	2017		2016	
	Revenue	Non-current Assets	Revenue	Non-current Assets
USA	$ 2,430,694	$ -	$ 1,785,431	$ -
Germany	1,596,350	-	1,696,570	-
Italy	1,034,392	-	787,810	-
China	859,253	1,856,189	945,555	2,099,011
Belgium	587,831	-	554,675	-
Korea	500,217	-	691,634	-
Others	3,379,414	2,823,287	2,618,170	2,555,943
Total	$ 10,388,151	$ 4,679,476	$ 9,079,845	$ 4,654,954

(6) Major customer information

Major customer information of the Company for the years ended December 31, 2017 and 2016 is as follows:

	2017			2016	
	Revenue	Segment		Revenue	Segment
A	$1,947,026	Production and sale of shoes	A	$1,906,625	Production and sale of shoes
B	1,070,156	Production and sale of shoes			
	$3,017,182				

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Financings Provided
For the Year Ended December 31, 2017

Table 1

Unit: NT$'000
(Unless specified otherwise)

No (Note 1)	Creditor	Borrower	General Ledger Account	Related Party Status	Maximum Balance for the Period	Ending Balance	Actual Amount Drawn	Interest Rate	Nature of Loan	Amount of Transaction	Reason for short-term financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrower (Note 2)	Total Financing Amount Limits (Note 3)	Note
													Item	Value			
1	Sunny Footwear Co., Ltd.	Capital Concord Enterprises Limited	Other receivables	Y	$ 183,441	$ -	$ -	-	Short-term financing	$ -	Operating turnover	$ -	None	$ -	$223,935	$ 279,919	Note 4

Note 1: The numbers filled in are described as follows:
1. For the issuer, fill in 0.
2. Investee companies are numbered by company starting from 1 in sequence.

Note 2: Total amount of short-term financing shall not exceed 40% of the net worth of the creditor.
Note 3: The total financing amount shall not exceed 50% of the net worth of the creditor.
Note 4: In Q417, the exchange rates for assets and profit or loss were USD:NTD=29.76 and USD:NTD=30.4099, respectively.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Endorsements and Guarantees

For the Year Ended December 31, 2017

Table 2 Unit: NT$'000

(Unless specified otherwise)

No	Endorsement/Guarantee Provider	Endorsed/Guaranteed Party		Limit on Endorsements/Guarantees Provided for a Single Party (Note 1)	Maximum Balance for the Period	Outstanding Endorsement /Guarantee Amount	Actual Amount Drawn	Amount of Endorsement /Guarantee with Security on Property	Ratio of Accumulated Endorsement/Guarantee Amount to Net Asset Value of the Endorsement/Guarantee Provider	Ceiling on Total Amount of Endorsements/ Guarantees Provided (Note 2)	Endorsement /Guarantee Made by a Parent Company for a Subsidiary	Endorsement /Guarantee Made by a Subsidiary for a Parent Company	Endorsement /Guarantee for Entities in Mainland China	Note
		Company Name	Relationship											
1	Capital Concord Enterprise Limited	Hubei Sunsmile Footwear Co., Ltd.	Subsidiary	$ 3,864,001	$ 94,035	$ 74,400	$ 74,400	$ -	1.20%	$ 5,152,001	Y	N	Y	Note 3

Note 1: The limit of endorsements/guarantees provided for a single party is 60% of the net worth of Capital Concord Enterprise Limited.
Note 2: The maximum amount available for endorsements/guarantees is 80% of the net worth of Capital Concord Enterprise Limited.
Note 3: The joint guarantor of the endorsement/guarantee is Lin, Wen-Chih.
Note 4: In Q417, the exchange rates for assets and profit or loss were USD:NTD=29.76 and USD:NTD=30.4099, respectively.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Marketable securities held at end of period (excluding subsidiaries, associates and joint ventures)

For the Year Ended December 31, 2017

Table 3

Unit: NT$'000

(Unless specified otherwise)

Securities Held by	Type of Marketable Securities (Note 1)	Relationship with the Issuer of the Securities	Accounting Item	As of December 31, 2017				Note
				Number of Shares	Carrying Amount	Shareholding Percentage	Fair Value	
Fulgent Sun International (Holding) Co., Ltd.	Stock – Tainan Enterprises (CAYMAN)	None	Available-for-sale financial assets – non-current	363,549	$ 2,908	0.61	$ 2,908	-

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IAS 39: Financial instruments: recognition and measurement.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Purchases or Sales of Goods from or to Related Parties Reaching NT$100 Million or 20% of Paid-in Capital or More

For the Year Ended December 31, 2017

Table 4

Unit: NT$'000

(Unless specified otherwise)

Purchaser/Seller	Counterparty	Relationship	Transaction Details				Description of Reasons for Difference in Transaction Terms Compared to Non-related Party Transactions (Note)		Notes and Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	Percentage of Total Purchases (Sales)	Credit Period	Unit Price	Credit Period	Balance	Percentage of Total Notes/Accounts Receivable (Payable)	
Capital Concord Enterprise Limited	Fujian Sunshine Footwear Co., Ltd.	Subsidiary	Purchase	$ 2,623,732	31.49	90 days after purchase	Note 1	Note 1	($ 1,376,098)	(151.81)	Notes 2 and 3
Capital Concord Enterprise Limited	Sunny Footwear Co., Ltd.	Subsidiary	Purchase	477,110	5.73	90 days after purchase	Note 1	Note 1	(274,546)	(30.29)	Notes 2 and 3
Capital Concord Enterprise Limited	Hubei Sunsmile Footwear Co., Ltd.	Subsidiary	Purchase	560,758	6.73	90 days after purchase	Note 1	Note 1	(321,731)	(35.49)	Notes 2 and 3
Capital Concord Enterprise Limited	Lin Wen Chih Sunbow Enterprise Co., Ltd.	Subsidiary	Purchase	1,677,274	20.13	30 days after purchase	Note 1	Note 1	-	-	Notes 2 and 3
Capital Concord Enterprise Limited	Fujian Laya Outdoor Products Co., Ltd.	Subsidiary	Purchase	369,954	4.44	30 days after purchase	Note 1	Note 1	(112,168)	(12.37)	Notes 2 and 3
Capital Concord Enterprise Limited	Lin Wen Chih Sunbow Enterprise Co., Ltd.	Subsidiary	Sales	(486,146)	(4.68)	135 days after sales	Note 1	Note 1	176,756	9.43	Notes 2 and 3
Fujian Laya Outdoor Products Co., Ltd.	Lin Wen Chih Sunbow Enterprise Co., Ltd.	Subsidiary	Sales	(221,937)	(2.14)	135 days after sales	Note 1	Note 1	26,706	1.42	Notes 2 and 3
Capital Concord Enterprises Limited Taiwan Branch (H.K.)	Fujian Sunshine Footwear Co., Ltd.	Subsidiary	Sales	(133,908)	(1.29)	135 days after sales	Note 1	Note 1	17,275	0.92	Notes 2 and 3
Capital Concord Enterprises Limited Taiwan Branch (H.K.)	Lin Wen Chih Sunbow Enterprise Co., Ltd.	Subsidiary	Sales	(172,772)	(1.66)	135 days after sales	Note 1	Note 1	68,399	3.65	Notes 2 and 3
Fulgent Sun Footwear Co., Ltd.	Capital Concord Enterprise Limited	Parent company	Sales	(1,082,367)	(10.42)	30 days after billing	Note 1	Note 1	157,842	8.42	Notes 2 and 3
NGOC Hung Footwear Co., Ltd.	Capital Concord Enterprise Limited	Parent company	Sales	(319,042)	(3.07)	30 days after billing	Note 1	Note 1	89,917	4.80	Notes 2 and 3

Note 1: Sales transactions between the Group and related parties are valuated based on reasonable profits; thus, selling prices to related parties and those to non-related parties are incomparable. In terms of payment terms, there was no significant difference between related parties and non-related parties.
Note 2: In Q417, the exchange rates for assets and profit or loss were USD:NTD=29.76 and USD:NTD=30.4099, respectively.
Note 3: Offset in consolidated statements.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Receivables from Related Parties Reaching NT$100 Million or 20% of Paid-in Capital or More

For the Year Ended December 31, 2017

Table 5

Unit: NT$'000

(Unless specified otherwise)

Name of Creditor	Counterparty	Relationship	Balance of Accounts Receivable from Related Parties	Turnover Days	Overdue		Amounts Received in Subsequent Period (Note 1)	Allowance for Doubtful Accounts
					Amount	Actions Taken		
Fujian Sunshine Footwear Co., Ltd.	Capital Concord Enterprise Limited	Parent company	$ 1,376,098	2.03	$ -	-	$ 515,479	$ -
Sunny Footwear Co., Ltd.	Capital Concord Enterprise Limited	Parent company	274,546	1.90	-	-	87,825	-
Hubei Sunsmile Footwear Co., Ltd.	Capital Concord Enterprise Limited	Parent company	321,731	1.60	-	-	14,640	-
Fujian Laya Outdoor Products Co., Ltd.	Capital Concord Enterprise Limited	Parent company	112,168	4.42	-	-	74,653	-
Fulgent Sun Footwear Co., Ltd.	Capital Concord Enterprise Limited	Parent company	157,842	7.98	-	-	155,269	-
Capital Concord Enterprise Limited	Lin Wen Chih Sunbow Enterprise Co., Ltd.	Subsidiary	176,756	2.45	-	-	39,306	-

Note 1: The subsequent collections represent collections from the balance sheet date to March 8, 2018.
Note 2: In Q417, the exchange rates for assets and profit or loss were USD:NTD=29.76 and USD:NTD=30.4099, respectively.
Note 3: Offset in consolidated statements.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Significant Inter-company Transactions during the Reporting Periods

For the Year Ended December 31, 2017

Table 6 Unit: NT$'000

(Unless specified otherwise)

No (Note 1)	Name of Trading Partner	Counterparty	Relationship with Counterparty (Note 2)	Transaction Status			
				General Ledger Account	Amount (Note 5)	Trade Conditions	Percentage of Consolidated Total Revenue or Total Assets (Note 3)
0	Fulgent Sun International (Holding) Co., Ltd.	Capital Concord Enterprise Limited	1	Other payables	25,619	Note 4	0.27
1	Capital Concord Enterprise Limited	Fujian Sunshine Footwear Co., Ltd.	1	Accounts receivable	75,871	Note 4	0.81
1	Capital Concord Enterprise Limited	Hubei Sunsmile Footwear Co., Ltd.	1	Accounts receivable	24,858	Note 4	0.26
1	Capital Concord Enterprise Limited	Lin Wen Chih Sunbow Enterprise Co., Ltd.	1	Accounts receivable	176,756	Note 4	1.88
1	Capital Concord Enterprise Limited	Fujian Sunshine Footwear Co., Ltd.	1	Accounts payable	1,376,098	Note 4	14.61
1	Capital Concord Enterprise Limited	Hubei Sunsmile Footwear Co., Ltd.	1	Accounts payable	321,731	Note 4	3.42
1	Capital Concord Enterprise Limited	Sunny Footwear Co., Ltd.	1	Accounts payable	274,546	Note 4	2.92
1	Capital Concord Enterprise Limited	Fujian Laya Outdoor Products Co., Ltd.	1	Accounts payable	112,168	Note 4	1.19
1	Capital Concord Enterprise Limited	Lin Wen Chih Sunbow Enterprise Co., Ltd.	1	Sales	486,146	Note 4	4.68
1	Capital Concord Enterprise Limited	Fujian Sunshine Footwear Co., Ltd.	1	Purchase	2,623,732	Note 4	25.26
1	Capital Concord Enterprise Limited	Hubei Sunsmile Footwear Co., Ltd.	1	Purchase	560,758	Note 4	5.40
1	Capital Concord Enterprise Limited	Sunny Footwear Co., Ltd.	1	Purchase	477,110	Note 4	4.59
1	Capital Concord Enterprise Limited	Fujian Laya Outdoor Products Co., Ltd.	1	Purchase	369,954	Note 4	3.56
1	Capital Concord Enterprise Limited	Lin Wen Chih Sunbow Enterprise Co., Ltd.	1	Purchase	1,677,274	Note 4	16.15
1	Capital Concord Enterprise Limited	Lin Wen Chih Sunstone Garment Enterprises Co.,Ltd.	1	Purchase	21,574	Note 4	0.21
2	Fulgent Sun Footwear Co., Ltd.	Capital Concord Enterprise Limited	2	Sales	1,082,367	Note 4	10.42
2	Fulgent Sun Footwear Co., Ltd.	Capital Concord Enterprise Limited	2	Accounts receivable	157,842	Note 4	1.68
3	Fujian Sunshine Footwear Co., Ltd.	Sunny Footwear Co., Ltd.	3	Sales	77,512	Note 4	0.75
3	Fujian Sunshine Footwear Co., Ltd.	Fujian Lasportiva Outdoor Products Co., Ltd.	3	Sales	23,191	Note 4	0.22
3	Fujian Sunshine Footwear Co., Ltd.	Lin Wen Chih Sunbow Enterprise Co., Ltd.	3	Sales	56,053	Note 4	0.54
3	Fujian Sunshine Footwear Co., Ltd.	Hubei Sunsmile Footwear Co., Ltd.	3	Sales	29,174	Note 4	0.28
3	Fujian Sunshine Footwear Co., Ltd.	Hubei Sunsmile Footwear Co., Ltd.	3	Accounts payable	32,786	Note 4	0.35
3	Fujian Sunshine Footwear Co., Ltd.	Sunny Footwear Co., Ltd.	3	Processing expense	31,151	Note 4	0.30
3	Fujian Sunshine Footwear Co., Ltd.	Hubei Sunsmile Footwear Co., Ltd.	3	Processing expense	40,578	Note 4	0.39
4	Fujian Laya Outdoor Products Co., Ltd.	Lin Wen Chih Sunbow Enterprise Co., Ltd.	3	Accounts receivable	26,706	Note 4	0.28
4	Fujian Laya Outdoor Products Co., Ltd.	Lin Wen Chih Sunbow Enterprise Co., Ltd.	3	Sales	221,937	Note 4	2.14
5	Capital Concord Enterprises Limited Taiwan Branch (H.K.)	Fujian Sunshine Footwear Co., Ltd.	3	Sales	133,908	Note 4	1.29
5	Capital Concord Enterprises Limited Taiwan Branch (H.K.)	Hubei Sunsmile Footwear Co., Ltd.	3	Sales	36,274	Note 4	0.35
5	Capital Concord Enterprises Limited Taiwan Branch (H.K.)	Lin Wen Chih Sunbow Enterprise Co., Ltd.	3	Sales	172,772	Note 4	1.66
5	Capital Concord Enterprises Limited Taiwan Branch (H.K.)	Lin Wen Chih Sunbow Enterprise Co., Ltd.	3	Accounts receivable	68,399	Note 4	0.73
5	Capital Concord Enterprises Limited Taiwan Branch (H.K.)	Fujian Sunshine Footwear Co., Ltd.	3	Purchase	25,977	Note 4	0.25
5	Capital Concord Enterprises Limited Taiwan Branch (H.K.)	Fujian Sunshine Footwear Co., Ltd.	3	Accounts payable	22,226	Note 4	0.24
6	NGOC Hung Footwear Co., Ltd.	Fulgent Sun Footwear Co., Ltd.	3	Processing revenue	40,030	Note 4	0.39
6	NGOC Hung Footwear Co., Ltd.	Capital Concord Enterprise Limited	2	Sales	319,042	Note 4	3.07
6	NGOC Hung Footwear Co., Ltd.	Capital Concord Enterprise Limited	2	Accounts receivable	89,917	Note 4	0.95
6	NGOC Hung Footwear Co., Ltd.	Fulgent Sun Footwear Co., Ltd.	3	Processing expense	25,789	Note 4	0.25

Note 1: The numbers filled in for inter-company transactions are described as follows:
(1) The parent company is coded "0". (2) The subsidiaries are coded by company from 1 in sequence.
Note 2: Relationships are categorized into the following three types. Please specify the type. (The same transaction shall not be disclosed repetitively.
For example, if the transaction between the parent company and a subsidiary has been disclosed by the parent company, it need not be disclosed by the subsidiary.
If the transaction between two subsidiaries has been disclosed by one subsidiary, it need not be disclosed by the other subsidiary.)
(1) Parent company to subsidiaries. (2) Subsidiaries to parent company. (3) Inter-subsidiary
Note 3: Regarding the percentage of transaction amount to consolidated net revenue or total assets, it is computed based on the ending balance to consolidated total assets for balance sheet items and on interim accumulated amount to consolidated net revenue for profit or loss items.
Note 4: Agreed on by both parties based on market conditions.
Note 5: In Q417, the exchange rates for assets and profit or loss were USD:NTD=29.76 and USD:NTD=30.4099, respectively.
Note 6: The disclosure standard is more than NT$20 million for the transaction amount.
Note 7: Offset in consolidated statements.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Information on Invested Companies (not including investee companies in Mainland China)

For the Year Ended December 31, 2017

Table 7

Unit: NT$'000

(Unless otherwise specified)

Name of Investor Company	Name of Investee Company	Location	Main Businesses	Original Investment Amount (Note 2)		Shares Held as of December 31, 2017			Current Profit (Loss) Incurred by Investee Company (Note 3)	Current Investment Profit (Loss) Recognized (Note 3)	Note
				December 31, 2017	December 31, 2016	Number of Shares	Ratio	Carrying Amount (Note 3)			
Fulgent Sun International (Holding) Co., Ltd.	Capital Concord Enterprise Limited	Hong Kong	Holdings and production and sale of sports and outdoor shoes	$ 4,062,509	$ 4,078,835	1,028,878,368	100	$ 6,440,001	$ 808,855	$ 808,855	Subsidiary
Capital Concord Enterprise Limited	Lin Wen Chih Sunbow Enterprise Co., Ltd.	Cambodia	Production and sale of sports and outdoor shoes	1,241,603	1,241,603	-	100	1,138,731	87,910	87,910	Subsidiary
Capital Concord Enterprise Limited	Lin Wen Chih Sunstone Garment Enterprises Co.,Ltd.	Cambodia	Processing and sale of clothing	427,675	301,113	-	91.27	285,186	(56,046)	(49,386)	Subsidiary (Note4)
Lin Wen Chih Sunbow Enterprise Co., Ltd.	Lin Wen Chih Sunlit Enterprises Co.,Ltd.	Cambodia	Land lease	174,989	174,735	-	100	174,571	1,127	1,127	Subsidiary
Capital Concord Enterprise Limited	Fulgent Sun Footwear Co., Ltd.	Vietnam	Production of sports and outdoor shoes	375,080	311,425	-	100	364,684	67,763	67,763	Subsidiary
Capital Concord Enterprise Limited	NGOC Hung Footwear Co., Ltd.	Vietnam	Production of sports and outdoor shoes	778,293	568,178	-	100	577,835	19,475	11,739	Subsidiary
Capital Concord Enterprise Limited	Laya Outdoor Products Co., Ltd.	Hong Kong	Holdings	24,731	24,731	-	100	27,566	(763)	(763)	Subsidiary
Capital Concord Enterprise Limited	Laya Max Trading Co.,Ltd	Taiwan	Distribution and import and export trade	12,395	12,395	-	100	19,010	636	636	Subsidiary

Note 1: The company was established as a limited company with no shares issued.

Note 2: The historical exchange rate was adopted.

Note 3: In Q417, the exchange rates for assets and profit or loss were USD:NTD=29.76 and USD:NTD=30.4099,respectively.

Note 4: On August 31, 2017 and November 30, 2017, Capital Concord Enterprise Limited increased the capital of Lin Wen Chih Sunstone Garment Enterprises Co.,Ltd. by cash injections of US$2.75 million and US$2 million respectively, leading to an increase in shareholding ratio from 87.5% to 91.27%.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries

Information on Investments in Mainland China

For the Year Ended December 31, 2017

Table 8 Unit: NT$'000

(Unless specified otherwise)

Name of Investee Company in China	Main Businesses	Paid-in Capital (Note 3)	Investment Method	Accumulated Amount Remitted from Taiwan to Mainland China, Beginning of Current Period (Note 5)	Amount Remitted from Taiwan to Mainland China/Amount Remitted back to Taiwan (Note 5)		Accumulated Amount Remitted from Taiwan to Mainland China, End of Current Period (Note 5)	Current Profit (Loss) Incurred by Investee Company	Direct and Indirect Percentage of Ownership	Current Investment Profit (Loss) Recognized (Note 4)	Carrying Amount of Investment as of December 31, 2017	Accumulated Amount of Investment Income Remitted back to Taiwan as of December 31, 2017	Note
					Remitted to Mainland China	Remitted back to Taiwan							
Fujian Sunshine Footwear Co., Ltd.	Production and sale of sports and outdoor shoes	$ 723,826	Note 1	$ -	$ -	$ -	$ -	($ 39,586)	100	($ 18,661)	$ 1,921,142	$ -	Note 2
Hubei Sunsmile Footwear Co., Ltd.	Production and sale of sports and outdoor shoes	1,825,033	Note 1	-	-	-	-	38,418	100	47,142	1,738,266	-	-
Sunny Footwear Co., Ltd.	Production and sale of sports and outdoor shoes	130,680	Note 1	-	-	-	-	18,129	100	18,129	559,838	-	-
Fujian Laya Outdoor Products Co., Ltd.	Distribution and import and export trade	40,656	Note 1	-	-	-	-	18,684	100	18,684	124,260	-	-
Fujian Lasportiva Outdoor Products Co., Ltd.	Distribution and import and export trade	40,656	Note 1	-	-	-	-	(1,125)	60	(675)	26,814	-	-

Note 1: Invested by a company founded in a third area.

Note 2: On May 17, 2011, Fujian Sunshine Footwear Co., Ltd. obtained approval from the local regulator to merge Quanzhou Sunrise Footwear Co.,Ltd and Fujian Sunflower Footwear Co.,Ltd .The original investment amount includes US$4,000,000 (NT$120,000,000) used to invest in Heng Cheng Shoes Co., Ltd. and Yu Heng Cheng Shoes Co., Ltd.

Note 3: The historical exchange rate was adopted.

Note 4: In Q417, the exchange rates for assets and profit or loss were USD:NTD=29.76 and USD:NTD=30.4099, respectively.

Note 5: The Company was founded in Cayman Islands and thus is not subject to the limit prescribed in the Principles of Reviewing Investment or Technical Cooperation in Mainland China promulgated by the Ministry of Economic Affairs. The Group made investments amounting to NT$2,590,220,000 through Hong Kong.