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

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

Consolidated Financial Statement and Audit Report of Independent Accountants

For the Years Ended December 31, 2018 and 2017

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

Consolidated Financial Statement and Audit Report of Independent Accountants for 2018 and 2017

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Audit Report of Independent Accountants

To the Board of Directors and Shareholders of Fulgent Sun International (Holding) Co., Ltd.

Audit Opinion

We have audited the consolidated balance sheets for the years as of December 31 of 2018 and 2017, as well as the consolidated income statements, consolidated statements of changes in equity, consolidated cash flow statements and notes to the consolidated financial statements (including summary of significant accounting policies) for the years then ended of Fulgent Sun International (Holding) Co., Ltd. and its subsidiaries (hereinafter referred to as Fulgent Sun Group).

In our opinion, all the significant aspects of the abovementioned consolidated financial statements have been established in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations recognized by the Financial Supervisory Commission. Therefore, they sufficiently express the consolidated financial status of Fulgent Sun Group on the years as of December 31 of 2018 and 2017 and the Group's consolidated financial performance and consolidated financial flow for the years then ended.

Basis for Opinions

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 Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of this report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled other ethical responsibilities in accordance with these requirements. We are convinced that we have acquired sufficient and appropriate audit evidence to serve as the basis of our opinion.

Key Audit Matters

"Key audit matters" refer to those matters that, in our professional judgements, were of most significance in our audit of the consolidated financial statements of Fulgent Sun Group for 2018. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; hence, we do not express separate opinions on these matters.

Key audit matters of the consolidated financial statements of Fulgent Sun Group for 2018 are as follows:

Sales Revenue Recognition

<u>Matter Description</u>

Refer to Note 4 (27) of the consolidated financial statements for the accounting policy on sales revenue. The revenue of Fulgent Sun Group from January 1 to December 31, 2018 was NT$10,070,151 thousand.

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

Fulgent Sun Group recognizes sales revenue on the delivery date of the export goods. As the process of recognition involves manual controls, which may result in the incorrect period of recognition of sales revenue. Therefore, we have identified the time of sales revenue recognition as a key audit matter for the year.

Corresponding Audit Procedures

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

1. Reviewed the procedures for sales transactions and internal control to evaluate whether the management controlled the time of sales revenue recognition effectively.
2. Evaluated whether sales revenue derived from transactions before/after a certain period of balance sheet date was recognized in the correct period, and whether the changes in inventories and costs of sales had been recorded in the proper period to evaluate the reasonableness of revenue recognition.
3. For the accounts receivable at the end of the year, we conducted the substantive tests of the balance, 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

Refer to Note 4 (11) of the consolidated financial statements for the accounting policy on inventory valuation. For the uncertainties of accounting estimates and assumptions on inventory valuation, refer to Note 5 (2). For the description of allowance for inventory valuation losses, refer to Note 6 (4). The balance of Fulgent Sun Group's inventory as of December 31, 2018 was NT$1,863,144 thousand; allowance for inventory valuation losses was NT$84,752 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 identified the evaluation of the allowance for inventory valuation losses as a key audit matter for the year.

Corresponding Audit Procedures

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

1. Understood and evaluated the reasonableness of the subsequent inventory valuation and obsolescence loss for Fulgent Sun Group.
2. Reviewed the annual inventory plan and participated in the annual inventory check to assess the effectiveness of the management in differentiating and controlling obsolete inventories.
3. Obtained inventory report to verify the relevant supporting documents on the date of inventory change and confirmed the correctness of the inventory age groups and the compliance with its policy.
4. Acquired the statement of the net realizable value of various inventories to confirm the same computational logic is adopted; tested the estimated basis of the calculation of the net realizable value of various inventories, including the verification of the supporting documents of the sales price and inventory price; recalculated and evaluated the reasonableness of the allowance for falling price loss.

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

The responsibilities of the management were to prepare financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations recognized by the Financial Supervisory Commission to present fairly the Company's financial status and also to maintain necessary internal control with regard to the preparation of the consolidated financial statements to ensure such financial statements did 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 units of Fulgent Sun Group (including the Audit Committee) have the responsibility to oversee the procedures for financial reporting.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objective when auditing the consolidated financial statements is to obtain reasonable assurance about whether the consolidated financial statements as a whole contain any false contents as a result of fraudulence or mistakes and whether they are reasonably reliable and to issue the independent auditors' report. Reasonable assurance 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 misstatements in the consolidated financial statements. Misstatements could be caused by fraud or error. 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 skeptical. We have also executed the following tasks:

1. Identify and evaluate risks of misstatements derived from false contents or error in the consolidated financial statements; design and execute proper counter measures against the risks identified, and also obtain sufficient and appropriate audit evidence to serve as the basis of the auditors' opinions. As fraudulence can involve conspiracy, forgery, intentional omissions, false statements or transgressions of internal control, the risk of failing to detect misstatements resulting from fraudulence is higher than the risk of failing to identify those coming from errors.

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

3. Evaluate the appropriateness of the accounting policies adopted by the management and the reasonableness of the accounting estimates and related disclosures made accordingly.

4. Based on the audit evidence obtained, conclude 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 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 as of the date 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. Evaluate 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. Obtain 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' opinions on Fulgent Sun Group.

We communicated with the governing units about the planned audit scope 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 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 units, we determined the matters that are regarded as key audit matters when auditing the 2018 consolidated financial statements for Fulgent Sun Group. 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.

Hung Shu-Hua   Wang Yu-Chuan

for and on behalf of PricewaterhouseCoopers,Taiwan

March 8, 2019

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

Consolidated Balance Sheets

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Assets	Notes	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current assets					
1100	Cash and cash equivalents	6 (1)	$ 1,313,073	12	$ 1,068,037	12
1110	Financial assets at fair value through profit or loss - current	12	-	-	1,284	-
1150	Net Notes receivable	6 (3)	-	-	9	-
1170	Net accounts receivable	6 (3)	2,140,291	19	1,874,185	20
1200	Other receivables		190,803	2	120,445	1
130X	Inventories	6 (4)	1,863,144	17	1,516,150	16
1410	Prepayments		77,949	-	74,364	1
1470	Other current assets		18,734	-	19,200	-
11XX	**Total current assets**		5,603,994	50	4,673,674	50
	Non-current Assets					
1510	Financial assets at fair value through profit or loss - non-current	6 (2)	1,854	-	-	-
1523	Available-for-sale financial assets – non-current	12	-	-	2,908	-
1600	Property, Plant and Equipment	6 (5) and 8	4,930,269	44	4,319,269	46
1780	Intangible assets		16,970	-	18,581	-
1840	Deferred income tax assets	6 (22)	59,732	1	61,223	1
1900	Other non-current assets	6 (6) and 8	510,849	5	341,626	3
15XX	**Total Non-Current Assets**		5,519,674	50	4,743,607	50
1XXX	**Total assets**		$ 11,123,668	100	$ 9,417,281	100

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Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
For the Years Ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Liability and shareholder's equity	Notes	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities					
2100	Short-term loans	6 (7) (27)	$ 1,077,264	10	$ 871,857	9
2130	Contract liabilities – current	6 (17)	27,619	-	-	-
2150	Notes payable		-	-	4,642	-
2170	Accounts payable		1,010,680	9	901,815	10
2200	Other payables	6 (8)	931,344	8	665,571	7
2230	Current income tax liabilities	6 (22)	77,513	1	114,564	1
2300	Other current liabilities	6 (9) (11)	250,158	2	276,961	3
21XX	**Total current liabilities**		3,374,578	30	2,835,410	30
	Non-current Liabilities					
2500	Financial liabilities at fair value through profit or loss - non-current	6 (2)	5,500	-	-	-
2530	Corporate bonds payable	6 (9)	971,025	9	-	-
2540	Long-term loans	6 (10)(27)	10,000	-	90,000	1
2570	Deferred income tax liabilities	6 (22)	945	-	16,336	-
2600	Other non-current liabilities	6 (11)	224,004	2	231,902	3
25XX	**Total non-current liabilities**		1,211,474	11	338,238	4
2XXX	**Total Liabilities**		4,586,052	41	3,173,648	34
	Equity attributable to owners of parent company					
	Share Capital	6 (14)				
3110	Capital of common stock		1,462,735	13	1,461,973	15
3140	Capital collected in advance		65,886	1	-	-
	Capital surplus	6 (15)				
3200	Capital surplus		3,377,120	31	3,336,445	35
	Retained earnings	6 (16)				
3310	Legal surplus reserve		346,855	3	266,544	3
3320	Special surplus reserve		446,134	4	244,368	3
3350	Undistributed earnings		1,221,151	11	1,369,501	15
	Other equity					
3400	Other equity		(420,541)	(4)	(446,134)	(5)
3500	**Treasury stocks**	6 (14)	-	-	(32,824)	-
31XX	**Equity attributable to owners of the parent**		6,499,340	59	6,199,873	66
36XX	**Non-controlling Interests**		38,276	-	43,760	-
3XXX	**Total equity**		6,537,616	59	6,243,633	66
	Commitments and Contingent Liabilities	9				
	Significant subsequent events	11				
3X2X	**Total liabilities and equity**		$ 11,123,668	100	$ 9,417,281	100

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

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

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Except for earnings per share amounts)

	Item	Notes	2018 Amount	2018 %	2017 Amount	2017 %
4000	**Operating revenues**	6 (17)	$ 10,070,151	100	$ 10,388,151	100
5000	**Operating costs**	6 (4)	(8,257,132)	(82)	(8,333,008)	(80)
5950	**Net gross profit**		1,813,019	18	2,055,143	20
	Operating expenses	6 (21)				
6100	Selling expenses		(182,479)	(2)	(197,443)	(2)
6200	General and administrative expenses		(672,073)	(7)	(608,354)	(6)
6300	Research and development expenses		(124,079)	(1)	(118,496)	(1)
6000	**Total operating expenses**		(978,631)	(10)	(924,293)	(9)
6900	**Operating Income**		834,388	8	1,130,850	11
	Non-operating income and expenses					
7010	Other income	6 (18)	57,092	-	69,252	1
7020	Other gains and losses	6 (19)	61,240	1	(164,858)	(2)
7050	Finance costs	6 (20)	(22,898)	-	(15,421)	-
7000	**Total non-operating income and expenses**		95,434	1	(111,027)	(1)
7900	**Profit before tax**		929,822	9	1,019,823	10
7950	Income tax expense	6 (22)	(192,536)	(2)	(223,820)	(2)
8200	**Profit for the year**		$ 737,286	7	$ 796,003	8
	Other comprehensive income (net)					
	Items that may be reclassified subsequently to profit or loss					
8361	Foreign currency translation difference		$ 26,246	-	($ 203,912)	(2)
8362	Unrealized valuation gain (loss) on available-for-sale financial assets	12	-	-	727	-
8300	**Other comprehensive income (net)**		$ 26,246	-	($ 203,185)	(2)
8500	**Total comprehensive income**		$ 763,532	7	$ 592,818	6
	Net income attributable to:					
8610	Owners of parent company		$ 743,001	7	$ 803,113	8
8620	Non-controlling interests		($ 5,715)	-	($ 7,110)	-
	Total comprehensive income attributable to:					
8710	Owners of parent company		$ 769,016	7	$ 601,347	6
8720	Non-controlling interests		($ 5,484)	-	($ 8,529)	-
	Basic earnings per share	6 (23)				
9750	**Total basic earnings per share**		$ 5.10		$ 5.65	
	Diluted earnings per share					
9850	**Total diluted earnings per share**		$ 4.82		$ 5.51	

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

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

Consolidated Statement of Changes in Equity

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

		Equity attributable to owners of parent company												
		Share capital			Retained earnings			Other equity						
	Notes	Capital of common stock	Capital collected in advance	Capital surplus	Legal surplus reserve Reserves	Special surplus reserve Reserves	Undistributed earnings	Foreign currency translation difference	Available-for-sale finance Unrealized assets Profit or loss	Employee unearned remuneration	Treasury stocks	Total	Non-controlling interests	Total equity
2017														
Balance at 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
Profit for the year		-	-	-	-	-	803,113	-	-	-	-	803,113	(7,110)	796,003
Other comprehensive income		-	-	-	-	-	-	(202,493)	727	-	-	(201,766)	(1,419)	(203,185)
Total comprehensive income		-	-	-	-	-	803,113	(202,493)	727	-	-	601,347	(8,529)	592,818
Distribution of earnings	6 (16)													
Allocation to legal surplus reserve		-	-	-	70,226	-	(70,226)	-	-	-	-	-	-	-
Allocation to special surplus reserve		-	-	-	-	33,764	(33,764)	-	-	-	-	-	-	-
Allocation of cash dividends		-	-	-	-	-	(456,829)	-	-	-	-	(456,829)	-	(456,829)
Restricted employee shares compensation		-	-	(110)	-	-	-	-	-	731	-	621	-	621
Cancellation of restricted employee shares compensation		(42)	-	42	-	-	-	-	-	-	-	-	-	-
Common stock converted from convertible bonds		81,061	-	355,127	-	-	-	-	-	-	-	436,188	-	436,188
Buyback of treasury stocks		-	-	-	-	-	-	-	-	-	(32,824)	(32,824)	-	(32,824)
Recognized changes in ownership interests in subsidiaries		-	-	(9,130)	-	-	(7,196)	-	-	-	-	(16,326)	16,326	-
Balance at 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
2018														
Balance at January 1, 2018		$ 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
Effects of retrospective application and retrospective restatement	12 (4)	-	-	-	-	-	422	-	(422)	-	-	-	-	-
Adjusted balance as of January 1, 2018		1,461,973	-	3,336,445	266,544	244,368	1,369,923	(446,556)	-	-	(32,824)	6,199,873	43,760	6,243,633
Profit for the year		-	-	-	-	-	743,001	-	-	-	-	743,001	(5,715)	737,286
Other comprehensive income		-	-	-	-	-	-	26,015	-	-	-	26,015	231	26,246
Total comprehensive income		-	-	-	-	-	743,001	26,015	-	-	-	769,016	(5,484)	763,532
Distribution of earnings	6 (16)													
Allocation to legal surplus reserve		-	-	-	80,311	-	(80,311)	-	-	-	-	-	-	-
Allocation to special surplus reserve		-	-	-	-	201,766	(201,766)	-	-	-	-	-	-	-
Allocation of cash dividends		-	-	-	-	-	(599,554)	-	-	-	-	(599,554)	-	(599,554)
Capital increase by cash		-	65,886	7,731	-	-	-	-	-	-	-	73,617	-	73,617
Recognized equity components due to the issuance of convertible bonds - stock options	6 (9)	-	-	29,674	-	-	-	-	-	-	-	29,674	-	29,674
Common stock converted from convertible corporate bonds	6 (9)	762	-	3,270	-	-	-	-	-	-	-	4,032	-	4,032
Transfer of treasury stocks to employee		-	-	-	-	-	(10,142)	-	-	-	32,824	22,682	-	22,682
Balance at December 31, 2018		$ 1,462,735	$ 65,886	$ 3,377,120	$ 346,855	$ 446,134	$ 1,221,151	($ 420,541)	$ -	$ -	$ -	$ 6,499,340	$ 38,276	$ 6,537,616

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

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Notes	For the years ended December 31 2018	2017
Cash flows from operating activities			
Profit before tax		$ 929,822	$ 1,019,823
Adjustments			
Adjustments to reconcile profit (loss)			
Net gain (loss) on financial assets (liabilities) at fair value through profit or loss	6 (2) (19)	2,701	(2,572)
Discount provision		-	(448)
Depreciation expense	6 (5) (21)	518,911	465,878
Amortization expense	6 (21)	29,872	27,299
Bad debts expense provision	12	-	2,125
Expected credit loss provision	12	802	-
Rent expense reclassified from long-term prepayment of rent	6 (6)	6,474	6,285
Loss on disposal of property, plant and equipment	6 (19)	40,867	955
Loss on disposal of intangible assets		206	-
Interest income	6 (18)	(11,187)	(8,135)
Interest expense	6 (20)	22,898	15,421
Share-based payment remuneration cost	6 (13)	12,391	621
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		148	(594)
Notes receivable		9	(9)
Accounts receivable		(217,623)	(586,044)
Other receivables		(68,497)	(9,875)
Inventories		(325,636)	76,845
Prepayments		(17,220)	4,883
Other current assets		861	(3,234)
Net change in liabilities related to operating activities			
Contract liabilities		13,014	-
Notes payable		(4,791)	4,642
Accounts payable		108,391	178,009
Other payables		78,021	11,741
Other current liabilities		(1,998)	(29,021)
Other non-current liabilities		(3,179)	(3,236)
Cash inflow generated by operations		1,115,257	1,171,359
Interest received		11,008	8,432
Interest paid		(22,962)	(9,058)
Income tax paid		(230,574)	(212,819)
Net cash flows from operating activities		872,729	957,914

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Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Consolidated Statement of Cash Flows
For the Years Ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Notes	For the years ended December 31 2018	2017
Cash flows from investing activities			
Decrease in other financial assets		$ -	$ 24,064
Acquisition of property, plant and equipment	6 (26)	(965,385)	(703,594)
Disposal of property, plant and equipment		35,198	14,025
Acquisition of intangible assets		(1,851)	(303)
Increase in other non-current assets		(158,053)	(27,935)
Decrease in refundable deposits		(42)	(58)
Net cash flows used in investing activities		(1,090,133)	(693,801)
Cash flows from financing activities			
Increase in short-term loans	6 (27)	177,167	213,274
Issuance of convertible bonds payable		1,006,000	-
Repayment of convertible bonds payable		(9,865)	-
Proceeds from long-term loans	6 (27)	151,418	129,044
Repayments of long-term loans	6 (27)	(234,306)	(159,468)
Cash dividends distribution	6 (16)	(599,554)	(456,829)
Cost of redemption of treasury stocks	6 (14)	-	(32,824)
Receipts in advance for cash capital increase		65,886	-
Employees' subscription to treasury stock		18,020	-
Net cash flows (used in) from financing activities		574,766	(306,803)
Exchange differences		(112,326)	80,225
Increase in cash and cash equivalents for the year		245,036	37,535
Cash and cash equivalents at beginning of year		1,068,037	1,030,502
Cash and cash equivalents at end of year		$ 1,313,073	$ 1,068,037

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

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

Notes to the Consolidated Financial Statements

For the Years Ended 2018 and 2017

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

I. Company History

Fulgent Sun International (Holding) Co., Ltd. (hereinafter referred to as 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 (hereinafter referred to as the Group) is to produce and sell sports and outdoor shoes.

II. Authorization Date and Procedures of the Financial Statements

The consolidated financial statements were approved and issued on March 8, 2019, by the Board of Directors.

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

(I) Effects of new and revised International Financial Reporting Standards (IFRS) endorsed by the Financial Supervisory Commission (hereinafter referred to as the FSC)

The following table summarizes the new, revised, amended standards and interpretations endorsed by FSC in 2018:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IFRS 2, 'Classification and Measurement of Share-based Payment Transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9, Financial Instruments with IFRS 4 Insurance Contracts'	January 1, 2018
IFRS 9, 'Financial Instruments'	January 1, 2018
IFRS 15, 'Revenue from Contracts with Customers’	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'	January 1, 2018
Amendment to IAS 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

Except as described below, the above standards and interpretations have no significant impact on the financial position and financial performance of the Group after assessment.

When applying the IFRSs endorsed by FSC in 2018, the Group adopts the amended retrospective adjustment in IFRS 9 (hereinafter referred to as the "IFRS 9") and IFRS 15 (hereinafter referred to as the "IFRS 15"). The impact on the Company's financial statements on January 1, 2018 is summarized below:

1. The Group will reclassify the available-for-sale financial assets of NT$2,908 under IFRS 9 by increasing financial assets at fair value through profit or loss in the amount of NT$2,908, increasing the retained earnings by NT$422 and other equity by NT$422.
2. Please refer to Note 12 (4) for details on the disclosure of IFRS 9.
3. The presentation of contract liabilities is in compliance with the relevant provisions of IFRS 15, hence the Group revised some of its accounting items in the balance sheet as follows:
   (1) Liabilities in relation to expected volume discounts and refunds, under IFRS 15, are recognized as contract liabilities, but were presented as accounts receivable - reserve for sales and allowance in the past reporting period. The balance as of January 1, 2018 was NT$319.
   (2) According to IFRS 15, contract liabilities recognized in relation to product sales contracts were presented as receipts in advance in the past reporting period, and the balance as of January 1, 2018 was NT$14,247.
4. Please refer to Note 12 (5) for other disclosures in relation to the initial application of IFRS 15.

(II) Effects of new and revised IFRSs endorsed by FSC not yet adopted by FSC

The following table summarizes the new, revised, and amended standards and interpretations of IFRSs endorsed by the FSC that are applicable in 2019:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IFRS 9, 'Prepayment Features with Negative Compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan Amendment, Curtailment or Settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term Interests in Associates and Joint Ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over Income Tax Treatments'	January 1, 2019
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019

The Group assessed the effects of adopting the aforementioned standards and interpretations and found no significant impacts on the Group's financial position and financial performance, except for items as stated below. The relevant amount that is affected will be disclosed once the assessment is completed.

IFRS 16, 'Leases'

IFRS 16, 'Leases' replaces IAS 17 'Leases' and its related interpretations and interpretations. The standard requires lessees to recognize a right-of-use asset and a lease liability (other than leases with terms of less than 12 months or lower value); the accounting remains the same for lessors, which is to classify as either an operating lease or a finance lease, depending on the purpose for which the relevant disclosures will be made, except that additional disclosures are required.

The Group handles the lease contracts of lessees under IFRS 16 without restating the financial statements of the previous period (hereinafter referred to as the "modified retrospective approach"). Right-of-use assets and the lease liability are increased by NT$651,037 and NT$235,140, respectively, as of January 1, 2019, and other non-current assets is decreased in the amount of NT$415,897.

(III) Impact of IFRSs Issued by IASB but not yet endorsed by the FSC

The following table summarizes the new, revised, amended standards and interpretations that have been issued by the IASB but not yet endorsed by the FSC.

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative - Definition of Material'	January 1, 2020
Amendment to IFRS 3, 'Definition of Business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance Contracts'	January 1, 2021

The above standards and interpretations have no significant impact on the Group's financial position and financial performance after the assessment by the Group.

IV. Summary of Significant Accounting Policies

Principal accounting policies applied in preparing these consolidated financial statements are listed below. Unless otherwise stated, the policies shall be applicable to all reporting periods presented.

(I) Compliance statement

The consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, as well as the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC interpretations and SIC interpretations (collectively referred to as "IFRSs" hereinafter) endorsed by the FSC.

(II) Basis of preparation

1. Except for the following important items, the consolidated financial statements have been prepared on the historical cost basis:

   Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2. Critical accounting estimates are required when preparing financial statements in compliance with IFRSs. When the Group adopts the accounting policies, the management is required to exercise judgments on highly judgmental or complex items or significant assumptions and estimates with regards to this consolidated financial reports. Please refer to Note 5 for details.

3. The Group applied IFRS 9 and IFRS 15 on January 1, 2018. The modified retrospective approach was adopted to recognize transitional differences to retained earnings and other equity as of January 1, 2018. The Company did not restate the notes to the financial statements for the year 2017. 2017 consolidated financial statements are in compliance with the International Accounting Standards 39 ("IAS39" hereinafter), International Accounting Standards 11 ("IAS 11") hereinafter, International Accounting Standards 18 ("IAS 18" hereinafter), and their related IFRIC Interpretations and SIC interpretations for the year 2017. For the critical accounting policies adopted, please refer to Note 12 (4) and (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 refer to entities (including structured entities) controlled by the Group. Control is achieved 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. Subsidiaries are included in the consolidated financial statements from the date on which the Group obtains control, and are excluded from the consolidated financial statements from the date when such control ceases.

(2) Transactions, balances and unrealized gains and 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) The profit or loss and each component of other comprehensive income is attributed to the owners of the parent company and to the non-controlling interest. Total comprehensive income is also attributed to the owners of the parent company and non-controlling interest even if this results in the non-controlling interests having a deficit balance.

(4) A change in the ownership interest of a subsidiary without a loss of control (transactions with non-controlling interests) is accounted for as an equity transaction, 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, any investment retained in the former subsidiary should be remeasured at fair value and be regarded as the fair value on initial recognition of a financial asset or, when appropriate, as the cost on initial recognition of an investment in an associate or a joint venture. difference between fair value and carrying amount should be recognized in profit or loss. All amounts recognized in other comprehensive income in relation to that subsidiary should be accounted for on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when it loses control on that subsidiary.

2. Subsidiaries included in the consolidated financial statements:

Investee Company	Name	Nature of business	% of Ownership		
			December 31, 2018	December 31, 2017	Description
The Company	Capital Concord Enterprises Limited (Capital Concord Enterprises Limited, (HK))	Holdings and production and sale of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited, (HK)	Fujian Laya Outdoor Products Co., Ltd. (Fujian Laya Electronics Co., Ltd.)	Distribution and import and export trade	100	100	
Capital Concord Enterprises Limited, (HK)	Laya Max Trading Co., Ltd. (Taiwan Laya)	Distribution and import and export trade	100	100	
Capital Concord Enterprises Limited, (HK)	Laya Outdoor Products Limited (Hong Kong Laya)	Holding company	100	100	
Capital Concord Enterprises Limited, (HK)	Fujian Sunshine Footwear Co., Ltd. (Sunshine)	Production and sale of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited, (HK)	Sunny Footwear Co., Ltd. (Sunny)	Production and sale of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited, (HK)	Hubei Sunsmile Footwear Co., Ltd. (Sunsmile)	Production and sale of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited, (HK)	Fulgent Sun Footwear Co., Ltd. (Fulgent Sun)	Production of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited, (HK)	Lin Wen Chih Sunbow Enterprises Co., Ltd. (Sunbow)	Production and sale of sports and outdoor shoes	100	100	
Capital Concord Enterprises Limited, (HK)	Lin Wen Chih Sunstone Garment Enterprises Co., Ltd. Garment Co., Ltd. (Sunstone)	Processing and sale of clothing	91.27	91.27	Note
Capital Concord Enterprises Limited, (HK)	NGOC HUNG Footwear Co., Ltd. (NGOC HUNG)	Production of sports and outdoor shoes	100	100	
Sunbow	Lin Wen Chih Sunlit Enterprises Co., Ltd. (Sunlit)	Land lease	100	100	
Hong Kong Laya	Fujian La Sportiva Co., Ltd. (La Sportiva)	Distribution and import and export trade	60	60	

Note: 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%.

3. Subsidiaries not included in the consolidated financial statements: None.
4. Different adjustments and treatment methods for subsidiaries' accounting period: None.
5. Significant restrictions: None.
6. Subsidiaries with significant non-controlling interests: None.

(IV) Foreign currency translation

The functional currency of the Group’s subsidiaries in the R.O.C., the P.R.C., and its subsidiaries in the region of southeast Asia is New Taiwan Dollars, RMB, Vietnamese Yuan and United States dollars respectively, and the consolidated financial statements are presented in New Taiwan Dollar.

1. Foreign Currency Transaction and Balance
   (1) Foreign currency transaction is translated to the functional currency by using the spot exchange rate on the trade date or measurement date. Any translation differences occurred are to be recognized in the current profit or loss.
   (2) Foreign currency monetary assets and liabilities are re-translated at the spot exchange rate at the balance sheet date. Exchange differences arising from re-translations are recognized in profit or loss.
   (3) For non-monetary assets and liabilities denominated in foreign currency, if they are measured at FVTPL, they are adjusted using the spot exchange rate prevailing at the balance sheet date and any exchange differences arising therefrom are recognized in profit or loss; if they are measured at FVOCI, they are adjusted using the spot exchange rate prevailing at the balance sheet date and any exchange differences arising therefrom are recognized in other comprehensive income; and if they are not measured at fair value, they are measured at the historical exchange rates on initial transaction dates.
   (4) all other exchange gains and losses are presented in the statement of profit or loss 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 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) Classification of Current and Non-current Assets and Liabilities

1. Assets that meet one of the following criteria are classified as current assets:
   (1) Assets that are expected to be realized within normal operating cycle or are intended to be sold or consumed.
   (2) Assets held mainly for trading purposes.
   (3) Assets that are expected to be realized within twelve months after the balance sheet date;
   (4) Cash and cash equivalents, excluding those that are restricted, or to be exchanged or used to settle liabilities at least twelve 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 conditions are classified as current liabilities:
   (1) Liabilities that are expected to be settled within the normal operating cycle.
   (2) Liabilities arising mainly from trading activities.
   (3) Liabilities that are expected to be settled within twelve months after the balance sheet date.

   (4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. 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 and highly liquid investments that are readily convertible into known amounts of cash and subject to insignificant risk of changes in value. Time deposits satisfying the afore-mentioned definition and for which the objective of holding is to meet the short-term operating cash commitment are classified as the cash equivalent.

(VII) Financial assets at fair value through profit or loss

1. Financial assets not measured at amortized cost or financial assets at fair value through other comprehensive income.
2. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized using trade date accounting.
3. Financial assets at FVTPL are initially recognized at fair value with related transaction costs recognized in profit or loss, and subsequently measured at fair value with related gains or losses recognized in profit or loss.
4. The Group recognizes dividends income when the rights of shareholders to receive payment are established, provided that the economic benefits related to such dividends are probable to flow to the Group and the amount of such benefits can be reliably measured.

(VIII) Accounts receivables and notes receivables

1. Accounts receivables and notes receivables are accounts and notes of which the contractual right to consideration for goods sold or services rendered is unconditional.
2. Short-term accounts and notes that are unpaid as interest-bearing, and the impact of discounting is not significant, the Group will measure the amount of the original invoice amount.

(IX) Impairment of financial assets

The Group measures the loss allowance for financial assets measured at amortized cost after taking into account all reasonable and proving information (including foreseeing information) at each balance sheet date; where the credit risk has not significantly increased since initial recognition, the loss allowance is measured at the twelve-month expected credit losses; where the credit risk has increased significantly since initial recognition, the loss allowance is measured at full lifetime expected credit losses; and where they are accounts receivables or contract assets that do not comprise any significant financing components, the loss allowance is measured at full lifetime expected credit losses.

(X) Derecognition of financial assets

The Group derecognizes an asset when its contractual rights to receive cash flows from the financial asset expire.

(XI) Inventories

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 production-related overheads (allocated based on normal operating capacity), excluding borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(XII) Property, Plant and Equipment

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 book value 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. While land is not depreciated, other property, plant and equipment that apply cost model are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each component of property, plant and equipment is significant in relation to the total cost of the item, it must be depreciated separately.
4. The Group reviews each assets' residual values, useful lives and depreciation methods at the end of each financial year. 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 equipment	3~15 years
Transportation equipment	3~15 years
Office equipment	3~11 years
Other equipment	1~21 years

(XIII) Leased assets/Operating leases (lessee)

For operating leases, lease payments (excluding incentives from the lessor) are amortized on a straight-line basis over the lease term and recognized in profit or loss.

(XIV) Intangible Assets

Computer software is amortized on a straight-line basis over the period of the cost recognition and is amortized over the period of 2 to 15 years.

(XV) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which 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 periods 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 amortised historical cost would have been if the impairment had not been recognised.

(XVI) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, borrowing expenses are recognized in profit or loss based on the difference amounts between the proceeds (net of any transaction costs) and the redemption value that are amortized over the lives of borrowings using the effective interest method.

(XVII) Accounts and notes payables

1. The amount of liabilities incurred as a result of purchases of raw materials, commodities or services, and notes payable arising from business and non-operating activities.
2. Short-term accounts and notes payable that are unpaid as interest-bearing, and the impact of discounting is not significant, the Group will measure the amount of the original invoice.

(XVIII) Financial liabilities at fair value through profit or loss

1. The main purpose of the occurrence is that the financial liabilities held for trading is sold or re-sold in the near future.
2. The Group recognizes the fair value of the related transaction costs on initial recognition, and the transaction costs are recognized in profit or loss, and the gains or losses are recognized in profit or loss.

(XIX) Financial assets and liabilities offsetting

Financial assets and financial 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.

(XX) Convertible 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 liabilities at fair value through profit or loss". They are subsequently remeasured and stated at fair value on each balance sheet date; the differences are recognized as "gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss".
2. The main contract of payable convertible corporate bonds is 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 liabilities and presented as an addition to or deduction from bonds payable liabilities, 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 liabilities at fair value through profit or loss" and "corporate bonds payable—net" as stated above. Conversion options are not subsequently remeasured
4. Transaction costs that are directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to their original carrying amounts.
5. When bondholders exercise conversion options, the liability component of the bonds (including "corporate bonds payable" and "financial assets or 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.

(XXI) Non-hedging Derivatives

Non-hedging derivatives are initially measured at the fair value of the date when contracts are executed and presented as financial assets or liabilities measured at FVTPL. Subsequently, they are measured at fair value with gains or losses recognized in profit or loss.

(XXII) Employee Benefits

1. Short-term employee benefits

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

2. Pensions

   For defined contribution plans, the contributions are recognized as pension costs in the period in which they are incurred. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

   Employees' Compensation and Directors' and Supervisors' Remuneration are recognized as expenses and liabilities when the legal or constructive obligations are reasonably estimated and the amount can be reasonably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee bonus 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.

(XXIII) 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 remuneration cost over the vesting period, with a corresponding adjustment to equity. The fair value of equity instruments that reflect market vesting conditions and non-vesting conditions. The recognized remuneration costs are adjusted as the number of awards that are expected to meet the service conditions and non-market price vesting conditions, and the final amount recognized is recognized on the vesting amount on the vesting day.

2. Restricted employee shares:

   (1) Remuneration costs recognized in the vesting period in which the fair value of the equity instruments at the grant date.

   (2) The Company does not impose restrictions on employees’ right to participate in the dividend distribution and employees that depart within the vesting period do not have to repay dividends they have received. The dividends that are expected to be distributed to departing employees within the vesting period on the dividend announcement date shall be recognized as remuneration cost through fair value 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.

(XXIV) Income tax

1. Income tax expense comprises current and deferred income 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 income tax expenses are 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 which applicable tax regulation is subject to interpretation and establishes tax liability where appropriate on the basis of amounts expected to be paid to the tax authorities. Tax is levied on the undistributed earnings that are subject to income tax laws. If the distribution of earnings is approved by the shareholders' meeting in the year following the earnings are generated, the income tax expense shall be recognized in accordance to the actual distribution of earnings.

3. Deferred income tax adopts the balance sheet approach, and is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheets. 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 tax assets are recognized for temporary differences arising from investments in subsidiaries, 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 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 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 income tax assets and liabilities are offset 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.

(XXV) Share Capital

1. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of income tax, from the proceeds.

2. When the Company bought back the issued stocks, the consideration paid includes any directly attributable incremental costs, net of tax, to be recognized as deduction of shareholders’ equity. When the shares are subsequently reissued, the difference between the consideration received net of any directly attributable incremental costs and the carrying amount is adjusted for the difference between shareholders’ equity and the carrying amount.

(XXVI) Dividend distribution

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 are reclassified to ordinary shares on the effective date of new shares issuance.

(XXVII) Revenue recognition

1. Sales of goods

   (1) The Group operates in outdoor shoes production and sales, and revenue from sales of goods is recognized when control of the product is transferred to the customer. Goods are deemed delivered when the risk of delivery, obsolescence and loss is transferred to customers and customers has accepted the goods in accordance with the contractual terms, or when any objective evidence suggests that all criteria for acceptance have been satisfied.

   (2) The Group's sales of outdoor shoes, which are recognized as a deduction from the net sales discount, after deducting the estimated sales discount. Sales discount to customers is normally calculated based on the cumulative sales volume of the Group's for a period of 12 months, and the sales discount is based on historical experience, and is not expected to be significantly reversed, and is updated on each balance sheet date. Sales discount payable to customers as at the balance sheet date is recognized as contract liabilities. The terms of sales transactions are the 30-75 days after the date of shipment and are consistent with the market practice and therefore the judgment is the contract does not contain significant financial component.

   (3) Accounts receivable is recognized when goods are delivered to customers because at which time the Group's right to the consideration for contracts from customers is unconditional, except for passage of time.

2. Financial composition

   When the Group enters into a contract with its customers, the Group has transferred the promised goods or services to the customer, the time of payment from the customers is less than a year, and the Group has not adjusted the transaction price to reflect the time value of money.

(XXVIII) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants 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.

(XXIX) Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the 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 decisions about the Group's major operating decisions.

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

When preparing the consolidated financial statement, management of the Group had determined its accounting policies based on its judgments and made accounting estimates and assumptions based on a rational expectation of future events depending on the circumstances at the balance sheet date. If there is any difference between any critical accounting estimates and assumption made and actual results, the historical experience, and other factors will be taken into account in order to continue assessment and adjustment. Such estimates and assumptions may result in a risk of a material adjustment to the carrying amount of assets and liabilities in the next financial year. The related information is addressed below:

(I) Critical judgments in applying accounting policies

None.

(II) Critical accounting estimates and assumptions

Inventory valuation

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgments and estimates. Due to the rapid technological changes, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on the balance sheet date, and writes down the cost of inventories to the net realizable value. Since the inventory valuation is estimated based on demands for products in a specific future period, it may be subject to significant changes.

VI. Details Of Significant Accounts

(I) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and revolving funds	$ 3,582	$ 6,601
Checking accounts and demand deposits	845,574	838,850
Time deposits	463,917	222,586
Total	$ 1,313,073	$ 1,068,037

1. The Group deals with financial institutions with good credit quality. The Group also deals with various financial institutions in order to disperse credit risks. Therefore, the expected risk of default is low.

2. The Group presents time deposits with original maturity of over three months and non-satisfying short-term cash commitment to the "other circulating assets", which the amount of the years ended December 31, 2018 and 2017 is NT$0.

(II) Financial assets (liabilities) measured at fair value through profit or loss

Item	December 31, 2018
Non-current items:	
Financial assets mandatorily measured at FVTPL	
- Stocks of listed companies	$ 1,854
Financial liabilities designated as measured at FVTPL	
Redemption of convertible bonds and put options	($ 5,500)

1. The Group has no transaction contracts for derivative financial assets that are not hedging as of December 31, 2018.

   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 2018, the Company recognized loss NT$832.

2. Redemption and reverse repurchase of convertible corporate bonds held by the Group were loss NT$815 in 2018.

3. The Group has listed stocks in listed companies as a loss of NT$1,054 for 2018.

4. The Group did not pledge the financial assets at fair value through profit or loss as collateral.

(III) Notes and net accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	$ -	$ 9
Accounts receivable	$ 2,143,921	$ 1,877,253
Less: allowance for uncollectible accounts	(3,630)	(2,749)
Less: Allowance for sales returns and allowances	-	(319)
	$ 2,140,291	1,874,185

1. The aging analysis of notes and accounts receivable is as follows:

	December 31, 2018	December 31, 2017
Not past due	$ 2,030,828	$ 1,777,883
0~90 days past due	110,491	92,542
91~180 days past due	139	3,910
181~365 days past due	474	1,329
Over 365 days past due	1,989	1,598
Total	$ 2,143,921	$ 1,877,262

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

2. For related credit risk information, please refer to Note 12 (2).

(IV) Inventories

	December 31, 2018		
	Cost	Allowance for inventory valuation and obsolescence loss	Carrying Amount
Merchandise inventory	$ 75,803	($ 15,114)	$ 60,689
Raw materials	467,776	(36,302)	431,474
Work in process	475,770	(6,436)	469,334
Finished goods	725,356	(26,900)	698,456
Inventory in transit	203,191	-	203,191
Total	$ 1,947,896	($ 84,752)	$ 1,863,144

	December 31, 2017		
	Cost	Allowance for inventory valuation and obsolescence loss	Carrying Amount
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

The cost of inventories recognized as expense for the period:

	2018	2017
Cost of inventories sold	$ 8,249,459	$ 8,367,634
Inventory valuation loss (recovery gain)	1,902	(35,432)
Loss for inventory obsolescence	1,805	4,274
loss(gain) on physical inventory	5,883	(6,892)
Recognition as an expense	(1,786)	(962)
Effect of Exchange	(131)	4,386
	$ 8,257,132	$ 8,333,008

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) <u>Property, Plant and Equipment</u>

	2018					
Cost	Opening Balance	Increase in the Period	Decrease in the period	Transfer in the period	Effect of Exchange	Ending Balance
Land	$ 292,662	$ -	$ -	$ -	$ 9,392	$ 302,054
Buildings	2,814,015	109,918	(2,495)	258,072	34,815	3,214,325
Machinery equipment	2,211,674	476,775	(228,662)	910	23,256	2,483,953
Transportation equipment	91,078	3,773	(7,847)	-	5,159	92,163
Office equipment	39,559	1,620	(674)	(49)	134	40,590
Others	1,057,092	108,995	(33,516)	45,817	9,918	1,188,306
Leased assets	5,560	-	(5,560)	-	-	-
Construction in progress	408,868	402,241	-	(307,411)	17,643	521,341
	$ 6,920,508	$ 1,103,322	($ 278,754)	($ 2,661)	$ 100,317	$ 7,842,732
Accumulated depreciation	Opening Balance	Increase in the Period	Decrease in the period	Transfer in the period	Effect of Exchange	Ending Balance
Buildings	($ 754,074)	($ 138,555)	$ 1,963	($ 7)	$ 3,206	($ 887,467)
Machinery equipment	(1,199,008)	(196,194)	158,576	656	3,261	(1,232,709)
Transportation equipment	(48,850)	(9,750)	5,636	7	(2,066)	(55,023)
Office equipment	(33,463)	(1,961)	662	49	114	(34,599)
Others	(563,342)	(172,358)	33,257	141	(363)	(702,665)
Leased assets	(2,502)	(93)	2,595	-	-	-
	($ 2,601,239)	($ 518,911)	$ 202,689	$ 846	$ 4,152	($ 2,912,463)
	$ 4,319,269					$ 4,930,269

Cost	2017 Opening Balance	Increase in the Period	Decrease in the period	Transfer in the period	Effect of Exchange	Ending Balance
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	Opening Balance	Increase in the Period	Decrease in the period	Transfer in the period	Effect of 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

As of December 31, 2018 and 2017, the Group's information on property, plant and equipment pledged as collateral, please refer to Note 8 for details.

(VI) Other non-current assets

Item	December 31, 2018	December 31, 2017
Non-current:		
Long-term prepaid rent	$ 415,897	$ 259,190
Prepayments for equipment	52,090	38,530
Refundable Deposits	5,294	5,226
Others	37,568	38,680
Total	$ 510,849	$ 341,626

1. According to the contract signed by the Group, the term of the lease on land is 35 to 50 years, and the rent was paid in full when the contract was signed. For the years ended December 31, 2018 and 2017, the Group recognized NT$6,474 and NT$6,285 in rental expense respectively.

2. For other non-current assets pledged as collateral by the Group for the years ended December 31, 2018 and 2017, refer to Note 8.

(VII) Short-term loans

Loan type	December 31, 2018	Interest range	Collateral
Credit loans	$ 1,077,264	0.70%~2.93%	Note

Loan type	December 31, 2017	Interest range	Collateral
Credit loans	$ 871,857	0.78%~2.06%	Note

Note: For the information about property, plant and equipment pledged as collateral by the Group, please refer to Note 8 for details.

(VIII) Other payables

	December 31, 2018	December 31, 2017
Accrued salaries	$ 449,902	$ 398,801
Payables on equipment	267,378	117,696
Others	214,064	149,074
	$ 931,344	$ 665,571

(IX) Corporate bonds payable

	December 31, 2018	December 31, 2017
Third issuance of unsecured convertible corporate bonds in Taiwan	$ 237,600	$ 251,700
Fourth issuance of unsecured convertible corporate bonds in Taiwan	1,000,000	-
Less: Discounts for corporate bonds payable	(30,080)	(4,478)
Subtotal	1,207,520	247,222
Less: Portion due within one year	(236,495)	(247,222)
Total	$ 971,025	$ -

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

   (1) The Company's issuance conditions for the third unsecured convertible corporate bonds are as follows:

A. For the issuance of the third domestic unsecured convertible corporate bonds as approved by the authority in charge, the total issuance is NT$700,000 with a par value of NT$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.

B. 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.

C. 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.

D. The bond holders may request the Company to redeem the converted corporate bonds in cash at 101.0025% of the par value of the bonds, within 40 days before the issuance of the corporate bonds of two years.

E. 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.

F. According to the regulations of the conversion, all the Company's collection (including repurchase of securities from the securities firm), repayment or conversion of convertible corporate bonds that have been converted will be registered and the conversion rights are extinguished and issued.

(2) As of December 31, 2018, the Company's corporate bonds for the nominal amount of NT$452,400 were converted into 8,188 thousand ordinary shares. 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$50.2 per share in accordance with the formula set out in the terms of issuance.

(3) Regarding the issuance of convertible corporate bonds, the equity conversion options amounting to NT$8,481 as of December 31, 2018

separated from the liability component and were recognized in "capital surplus – stock warrants" in accordance with IAS 32. In addition, the embedded call and put options are in accordance with IFRS 9 requirements, since the economic characteristics and risks of the principal contract are not closely related, it is separated and accounted for as a net amount of "financial assets and liabilities at fair value through profit or loss". The effective interest rate on the principal contract debts after separation is 1.330%.

(4) In part of the corporate bond, the Company's corporate bond holders have exercised the right to sell the bonds repurchased at par value of NT$10,100 at 101.0025% on April 30,2017, and the recovery of the bonds is NT$243.

2. The Board of Directors adopted the issuance of the fourth domestic unsecured convertible corporate bonds within the R.O.C on August 6, 2017. Detailed information is described below:

(1) The following is the Company's issuance conditions for the fourth unsecured convertible corporate bonds:

A. For the issuance of the third domestic unsecured convertible corporate bonds as approved by the authority in charge, the total issuance is NT$1,000,000 with a par value of NT$100,000 per coupon. The coupon rate is 0%, and the duration of issuance is 3 years. The period of circulation is from October 2, 2018 to October 2, 2021 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 October 2, 2018.

B. 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.

C. The conversion price was NT$54.5 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.

D. The bond holders may request the Company to redeem the converted corporate bonds in cash at 101.0025% of the par value of the bonds, within 40 days before the issuance of the corporate bonds of two years.

E. 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.

F. According to the regulations of the conversion, all the Company's collection (including repurchase of securities from the securities firm), repayment or the convertible corporate bonds that have been converted will be registered and the conversion rights are extinguished.

(2) As of December 31, 2018, the nominal value of the convertible corporate bonds is NT$1,000,000 not converted into ordinary shares. 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$54.1 per share in accordance with the formula set out in the terms of issuance.

(3) Regarding the issuance of convertible corporate bonds, the equity conversion options amounting to NT$29,674 as of December 31, 2018 separated from the liability component and were recognized in "capital surplus – stock warrants" in accordance with IAS 32. In addition, the embedded repurchase option and the reverse option are in accordance with IFRS 9 requirements, since the economic characteristics and risks of the principal contract are not closely related, it is separated and accounted for as a net amount of "financial assets and liabilities at fair value through profit or loss". The effective interest rate on the principal contract debts is 1.066%.

(X) Long-term loans

Loan type	Loan Period and Repayment Method	Interest range	Collateral	December 31, 2018
Long-term bank loans				
Credit loans	From 3 August 2018 to 3 August 2020, the principal and the principal amount of the Loan can be repaid on a monthly basis.	0.9378%	None	$ 10,000

Loan type	Loan Period and Repayment Method	Interest range	Collateral	December 31, 2017
Long-term bank loans				
Credit loans	From 26 December 2017 to 26 December 2019, the principal amount of the Loan can be repaid on a monthly basis.	0.9362%	None	$ 90,000

(XI) Other current liabilities and other non-current liabilities

Item	December 31, 2018	December 31, 2017
Current:		
Corporate bonds payable	$ 236,495	$ 247,222
Other current liabilities – Others	13,663	15,492
Advance receipts	-	14,247
Total	$ 250,158	$ 276,961

Item	December 31, 2018	December 31, 2017
Non-current:		
Deferred government grant income	$ 129,924	$ 135,870
Other non-current liabilities – others	94,080	96,032
Total	$ 224,004	$ 231,902

(XII) Pension

1. Starting from July 1, 2005, the subsidiary of the Group, Capital Concord Enterprises Limited Taiwan Branch (H.K.) and the Laya Max Trading Co.,Ltd, formulated defined contribution pension plans in accordance with the Labor Pension Act, which is applicable to employees who are bound by the nationality. For employees who chose to adopt the retirement system provided by the Labor Pension Act, the Company contributes an amount no less than six percent of the worker's monthly wage to the personal retirement pension account set up by the Bureau of Labor Insurance. The retirement pension shall be calculated based on the principal and accrued dividends from an employee's individual account of labor pension and paid on a monthly or lump-sum basis. The pension costs recognized by the Group in accordance with the pension regulations above for 2018 and 2017 were NT$5,018 and NT$4,765 respectively.
2. The Group's subsidiaries of subsidiary in Mainland China are required to contribute a pension insurance fund of 18% to 20% of the total local employees' salaries and wages according to the pension insurance system stipulated by the government of the P.R.C. (Sunny and SunShine is 18%, SunSmile is 19%, Fujian Laya and La Sportiva is 18%~20%). The pension for each employee is managed by the government, hence the Group doesn't have further obligation except for making a monthly contribution. The pension costs recognized by the Group's subsidiaries of subsidiaries according to the said regulations were NT$65,893 and NT$60,859 for the years ended December 31, 2018 and 2017 respectively.
3. The subsidiaries of the Group, Fulgent Sun Footwear Co. and NGOC HUNG Footwear Co., have been bound by the local regulations. A certain percentage of total wage is set aside as pension fund to relevant competent authorities in accordance with the regulations of the local government. The Group has no further obligations beyond the monthly contributions. The pension costs recognized by the Group in accordance with the pension regulations above were NT$81,137 and NT $65,133 for the years ended December 31, 2018 and 2017, respectively.

(XIII) Share-based payment - employee compensation

1. For the years ended December 31, 2018 and 2017, the Group's share-based payment transaction were as follows:

Type of agreement	Grant date	Quantity (thousand shares)	Contract period	Vesting Conditions
First restricted employee shares in 2014	2014.3.21	1,200 units	3 years	Note
Treasury stock transferred to employees	2018.11.08	500 units	-	Vested immediately
Cash capital increase reserved for employee subscription	2018.11.19	900 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:

First restricted employee shares in 2014

	2018	2017
	Quantity (1000 Shares)	Quantity (1000 Shares)
Restricted employee shares, beginning of year	-	1,012
Vesting in the period	-	(1,008)
Cancellation of restricted employee shares	-	(4)
Restricted employee shares, end of year	-	-

3. For the share-based payment transaction 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: NT$

Type of agreement	Grant date	Weighted average share price	Exercise price	Expected price volatility	Expected lifetime	Expected dividends	Risk-free interest rate	Fair value per unit
Plan of new restricted employee shares	2014.03.21	$ 37.2	$ 37.2	27.50% ~42.19% (Note)	1~3 years	-	0.55% 0.82%	33.24 28.76 27.82
Treasury stock transferred to employees	2018.11.08	45.35	36.04	23.82% (Note)	0.04 years	-	0.43%	9.32
Cash capital increase reserved for employee subscription	2018.11.19	47.05	38.5	23.92% (Note)	0.14 years	-	0.42%	8.59

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 transaction is as follows:

	2018	2017
Equity delivery	$ 12,391	$ 621

(XIV) Share Capital

1. As of December 31, 2018, the Company's authorized capital was NT$2,000,000 and divided into 200,000 thousand shares. Paid-in capital was NT$1,462,735 and the face value per share was NT$10.

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

Unit: thousand shares

	2018	2017
January 1	146,197	138,095
Cancellation of restricted employee shares	-	(4)
Convertible corporate bonds exercised	77	8,106
December 31	146,274	146,197

2. Treasury stock

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

		December 31, 2017	
Name of company holding shares	Reason for reclamation Shares	Number of shares (thousand shares)	Carrying Amount
The Company	Transferred 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) The treasury stock held by the Company shall not be pledged as collateral under the Securities and Exchange Act, and shall not be entitled to shareholders’ right before the transfer.

(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.

(XV) Capital Surplus

1. According to the Company Act, surplus from issuance of shares in excess of the par value and the capital surplus received from gifts, except for covering deficit, when there is no accumulated deficit, the Company shall issue new shares or cash in proportion to the shareholders' original shares. According to the relevant provisions of the Securities Exchange Act, for allocated capital

from additional paid-in capital surplus, its maximum not exceed the limit of 10% of the paid-up capital each year. The Company shall not offset the loss from capital surplus when the Company is not in a surplus reserve.

2. Movements of capital surplus are as follows:

	2018				
	Share Premium	Share Options	Restricted employee shares	Others	Total
January 1	$ 3,308,664	$ 8,985	$ 18,796	$ -	$ 3,336,445
Capital increase by cash	-	7,731	-	-	7,731
Common stock converted from convertible bonds	3,417	(147)	-	-	3,270
Recognized equity components due to the issuance of convertible corporate bonds - stock options	-	29,674	-	-	29,674
Reversal of share options lapsed	-	(357)	-	357	
December 31	$ 3,312,081	$ 45,886	$ 18,796	$ 357	$ 3,377,120

	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 compensation	-	-	(110)	-	(110)
Cancellation of restricted employee shares compensation	-	-	42	-	42
Common stock converted from convertible bonds	371,118	(15,991)	-	-	355,127
Recognized Changes in ownership interests in subsidiaries	-	-	-	(9130)	(9,130)
December 31	$ 3,308,664	$ 8,985	$ 18,796	$ -	$ 3,336,445

(XVI) 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 for the Company and its subsidiaries.

2. The allocation of dividends to shareholders shall not be less than 2% of the remaining balance of the current year after deducting item (1) and (2), and the cash dividends shall not be less than 10% of the dividend for the current year.

3. According to the Company's Articles of Incorporation, except for realized or unrealized profit, share issue premium account, or other distribution or amounts as permitted by the Cayman Islands Law, the Company shall not distribute dividends or other amounts as a distribution. However, if the legal surplus reserve exceeds 25% of the paid-in capital, only legal reserve is allowed for the above distribution, and is only limit to legal surplus reserve that exceeds 25% of the paid-in capital.

4. (1) 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.

   (2) 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 2017 earnings was adopted in the shareholders' meeting on June 8, 2018 and the distribution of 2016 earnings was adopted in the shareholders' meeting on June 15, 2017. Details are summarized below:

	2017		2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Statutory surplus reserve	$ 80,311		$ 70,226	
Special surplus reserve	201,766		33,764	
Cash Dividends	599,554	$ 4.1	456,829	$ 3.3
Total	$ 881,631		$ 560,819	

6. The Company's earnings per share for 2017 and 2016 were not affected by the Company's convertible corporate bonds, and the Company has not transferred the shares to employees and the employees who were yet to be transferred to the new restricted employee shares. The Board of Directors resolved to adjust the shareholders' dividend payout ratio of NT$4.11 and NT$3.19 per share on June 8, 2018 and June 8, 2017, respectively.

   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 employee bonus and directors' remuneration, please refer to Note 6 (21).

(XVII) Operating Revenue

	2018
Revenue from Contracts with Customers	$ 10,070,151

1. Breakdown of revenue from contracts with customers

   The Group's revenue is derived from the merchandise transferred at a point of time, and revenue is subject to the business breakdown and the relevant information for disclosure is detailed in Note 14 (2).

2. Contract liabilities

The contract liabilities in relation to contract with customers recognized by the Group are as follows:

	December 31, 2018
Contract liabilities – advance from customers	$ 27,619

3. Please refer to Note 12 (5) for disclosure of the Company's operating revenue in 2017. Adopt IFRS 15 to streamline transitional requirements.

(XVIII) Other income

	2018	2017
Interest income: bank deposit interest	$ 11,187	$ 8,135
Government grants	11,717	14,821
Other income – Others	34,188	46,296
	$ 57,092	$ 69,252

(XIX) Other gains and losses

	2018	2017
Loss on disposal of property, plant and equipment	($ 40,867)	($ 955)
Foreign exchange gains (losses)	115,884	(162,078)
Loss (gain) on financial assets and liabilities at fair value through profit or loss	(2,701)	2,572
Other losses	(11,076)	(4,397)
	$ 61,240	($ 164,858)

(XX) Finance cost

	2018	2017
Interest expenses:		
Bank loans	$ 17,173	$ 9,226
Convertible corporate bonds	5,725	6,195
	$ 22,898	$ 15,421

(XXI) Expenses expressed in nature

	2018	2017
Employee benefits expense		
Salary costs	$ 3,197,368	$ 2,887,223
Labor and health insurance premiums	106,169	85,645
Pension expense	152,048	130,757
Other personnel cost	61,023	52,790
	3,516,608	3,156,415
Depreciation expense	518,911	465,878
Amortization expense	29,872	27,299
	$ 4,065,391	$ 3,649,592

1. According to the Articles of Incorporation, the Company may make appropriation to no more than 3% of the remaining balance as a director's remuneration and no more than 3% of the remaining profits as employee bonus in distribution of earnings.

2. The Company's employee bonus estimates for 2018 and 2017 were NT$10,000 and NT$5,000 respectively; the estimated amount of directors' compensation was NT$10,000 and 5,000, respectively, and the amounts stated above were recognized in the operating expenses account. The above-mentioned employee bonus and directors' remuneration are calculated based on the net profit after tax as of the current period. After taking into account factors such as statutory surplus reserve, the percentage of the prescribed surplus shall be based on the percentage of the prescribed earnings.

The Company's 2017 employee bonus and directors' remuneration are consistent with the amounts recognized in the financial statements for the year ended December 31, 2017.

Information on employee bonus and directors' remuneration as approved by the Board of Directors can be found on the Market Observation Post System (MOPS).

(XXII) Income tax

1. Income tax expense

(1) Components of income tax expense:

	2018	2017
Current income tax:		
Income tax incurred during the period	$ 208,723	$ 182,345
Tax on undistributed surplus earnings	57	59
Underestimation(Overestimation) of prior year's income tax	(2,344)	14,240
Total income tax in the period	206,436	196,644
Deferred income tax:		
Originatio006E and reversal of temporary differences	(13,438)	27,176
Effect of tax rate changes	(462)	-
Total deferred income tax	(13,900)	27,176
Income tax expense	$ 192,536	$ 223,820

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

	2018	2017
Income tax expense at the statutory rate(Note)	$ 288,771	$ 204,525
Tax effect of project income tax deduction from project	2,116	19,113
Tax exempted income by tax regulation	(90,198)	(33,127)
Underestimation(Overestimation) of prior year's income tax	(2,344)	14,240
Tax effect of unrecognized deferred income tax assets	(5,404)	19,010
Tax on undistributed surplus earnings 10%	57	59
Effect of tax rate changes	(462)	-
Income tax expense	$ 192,536	$ 223,820

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

2. The amounts of deferred tax assets or liabilities arising from temporary differences and taxable loss are as follows:

	2018		
	January 1	Recognized in profit or loss (Note)	December 31
Temporary differences:			
– Deferred income tax assets:			
Allowance for inventory valuation and obsolescence loss	12,921	2,124	15,045
Deductible loss	12,954	(3,642)	9,312
Deferred income tax paid	29,904	382	30,286
Others	5,444	(355)	5,089
Subtotal	$ 61,223	($ 1,491)	$ 59,732
– Deferred income tax liabilities			
Foreign long-term investment income	($ 15,255)	$ 15,255	$ -
Unrealized selling gross profit	(67)	67	-
Others	(1,014)	69	(945)
Subtotal	($ 16,336)	$ 15,391	($ 945)
Total	$ 44,887	$ 13,900	$ 58,787

Note: Includes the impact of tax rate changes.

	2017		
	January 1	Recognized in Profit or Loss	December 31
Temporary differences:			
– Deferred income tax assets:			
Allowance for inventory valuation and obsolescence loss	$ 21,457	($ 8,536)	$ 12,921
Deductible loss	18,725	(5,771)	12,954
Deferred income tax paid	30,955	(1,051)	29,904
Others	5,340	104	5,444
Subtotal	$ 76,477	($ 15,254)	$ 61,223
– Deferred income tax liabilities			
Foreign long-term investment income	$ -	($ 15,255)	($ 15,255)
Unrealized exchange gains	(2,201)	2,201	-
Unrealized selling gross profit	(1,124)	1,057	(67)
Others	(1,089)	75	(1,014)
Subtotal	($ 4,414)	($ 11,922)	($ 16,336)
Total	$ 72,063	($ 27,176)	$ 44,887

3. Deferred tax liabilities have not been recognized in respect of the temporary differences associated with investments in subsidiaries and deferred tax liabilities of NT$1,300,035 and NT$1,073,089 as of December 31, 2018 and 2017, respectively.

4. The subsidiary - Capital Concord Enterprises Limited Taiwan Branch(H.K.) and the second-tier subsidiary - Laya Max Trading Co., Ltd, which applied for business income tax settlement and are approved by the tax authority to 2016.

5. The amendments to the Income Tax Act of Taiwan have become effective on February 7, 2018, which amendments raise the profit-seeking enterprise income tax rate from 17% to 20% and are applicable from 2018. The Group has assessed the impact on income tax from such tax rate changes.

(XXIII) Earnings Per Share

	2018		
	Income after tax	Weighted average number of common shares outstanding (shares in thousands)	Earnings per Share (NT$)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent company	$ 743,001	$ 145,787	$ 5.10
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent company	743,001	145,787	
Assumed conversion of all dilutive potential ordinary shares convertible bond	5,725	9,392	
Employees' compensation	-	265	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 748,726	$ 155,444	$ 4.82

	2017		
	Income after tax	Weighted average number of common shares outstanding (shares in thousands)	Earnings per Share (NT$)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent company	$ 803,113	$ 142,051	$ 5.65
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent company	803,113	142,051	
Assumed conversion of all dilutive potential ordinary shares			
convertible bond	6,195	4,678	
Restricted employee shares compensation	-	52	
Employees' compensation	-	102	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 809,308	$ 146,883	$ 5.51

(XXIV) Transactions with non-controlling interests

1. Cash capital increase by the subsidiary, the Group failed to subscribe for the shares in proportion to its shareholding percentage

   The Group's subsidiary - Chi Long Co., Ltd. issued new shares on August 31, 2017 and November 30, 2017. The Group did not subscribe for the shares in proportion to its shareholding ratio, thereby increasing 3.77% of the equity interest. The transaction increased the non-controlling interests of NT$16,326 and the equity attributable to owners of the parent company decreased by NT$16,326. The impact of interest changes of Chi Long Co., Ltd. on the equity attributable to the owner of the parent company in the year 2017 is as follows:

	2018	2017
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 has not transacted with its non-controlling interests for the year 2018.

(XXV) Operating leases

Based on the Group' subsidiary operating lease, the future accrued rent payable under the lease is:

	December 31, 2018	December 31, 2017
Less than 1 year	$ 25,939	$ 24,508
More than 1 year but no more than 5 years	91,267	89,401
Over 5 years	135,785	136,793
	$ 252,991	$ 250,702

(XXVI) Supplementary Information on Cash Flow

1. Investing activities with partial cash payments:

	2018	2017
Additions to property, plant and equipment	$ 1,101,507	$ 742,789
Less: Prepayments for equipment at the beginning of the period	(38,530)	(37,642)
Add: Prepayments for equipment at the end of the period	52,090	38,530
Add: Payables for equipment at the beginning of the period	117,696	77,613
Less: Payables for equipment at the end of the period	(267,378)	(117,696)
Cash paid in the period	$ 965,385	$ 703,594

2. Financing activities that do not affect cash flow:

	2018	2017
Share capital converted from convertible corporate bonds	$ 762	$ 81,061

(XXVII) Changes in liabilities arising from financing activities

	Short-term loans	Long-term loans	Convertible corporate bonds (Note)	Total liabilities from financing activities
January 1, 2018	$ 871,857	$ 90,000	$ 247,222	$ 1,209,079
Changes in cash flows from financing activities	177,167	(82,888)	996,135	1,090,414
Other non-cash current	-	-	(35,837)	(35,837)
Effect of foreign exchange rate changes	28,240	2,888	-	31,128
December 31, 2018	$ 1,077,264	$ 10,000	$ 1,207,520	$ 2,294,784

Note: including portion due within one year

VII. Related Party Transactions

Key management compensation

	2018	2017
Short-term employee benefits	$ 70,675	$ 38,662
Share-based payment	6,299	368
Total	$ 76,974	$ 39,030

VIII. Pledged Assets

	Carrying Amount		
Assets	December 31, 2018	December 31, 2017	Guarantee use
Land	$ 109,809	$ 106,394	Short-term loans
Buildings	175,252	174,217	Short-term loans
Other financial assets (listed other non-current assets)	412	370	Deposits for leased land
Refundable deposits (listed other non-current assets)	5,294	5,226	Deposits for leased land and other
	$ 290,767	$ 286,207	

IX. Significant Contingent Liabilities and Unrecognized Contract Commitments

Commitments

(I) Capital expenditure contracted but not yet incurred:

	Contract Price	
	December 31, 2018	December 31, 2017
Property, Plant and Equipment	$ 939,180	$ 531,592

	Unpaid Price	
	December 31, 2018	December 31, 2017
Property, Plant and Equipment	$ 560,348	$ 103,512

(II) For operating lease agreements, please refer to Note 6 (25).

X. Significant Disaster Losses

None.

XI. Significant Events After The Balance Sheet Date

The Company issued 6,000 thousand stocks for capital increase in 2018. The Company decided to issue NT$38.5 per share on November 19, 2018. The total amount of the issue was NT$231,000 thousand. The entire issued share capital has been fully received by the Company on 11 January 2019. The base date for the capital increase was set on January 11, 2019.

XII. Others

(I) 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 and uphold the interests of related parties, and maintain the best capital structure to increase shareholder's value for long period. 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 its funds by regularly reviewing its asset-to-debt ratio. The Group's capital is the "total equity" as shown in the balance sheet and is also equal to total assets less total liabilities. The Group's asset-to-debt ratios as at December 31, 2018, and 2017 are stated as below:

	December 31, 2018		December 31, 2017	
Total Liabilities	$	4,586,052	$	3,173,648
Total Assets	$	11,123,668	$	9,417,281
Debt ratio		41.23%		33.70%

(II) Financial Instruments

1. Categories of financial instruments

	December 31, 2018		December 31, 2017	
Financial assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at FVTPL	$	1,854	$	-
Financial assets held for trade	$	-	$	1,284
Financial assets available for sale				
Financial assets available for sale	$	-	$	2,908
Financial assets/loans and receivables measured at amortized cost				
Cash and cash equivalents	$	1,313,073	$	1,068,037
Notes receivable		-		9
Accounts receivable		2,140,291		1,874,185
Other receivables		190,803		120,445
	$	3,644,167	$	3,062,676

	December 31, 2018	December 31, 2017
Financial liabilities		
Financial liabilities at fair value through profit or loss		
Financial liabilities designated as measured at fair value through profit or loss	$ 5,500	$ -
Financial liabilities measured at amortized cost		
Short-term loans	$ 1,077,264	$ 871,857
Notes payable	-	4,642
Accounts payable	1,010,680	901,815
Corporate bonds payable (including one year or one operating cycle)	1,207,520	247,222
Long-term borrowings (including one year or one operating cycle)	10,000	90,000
	$ 3,305,464	$ 2,115,536

2. Risk management Policies

(1) The Group's financial risk management objectives are to manage exchange rate risk, price risk, interest rate risk, credit risk and liquidity risk related to its operating activities. In order to minimize the relevant financial risks, the Group is committed to identify, assess and avoid market uncertainties in order to minimize the potential adverse effects on the financial performance of the Company.

(2) The Group's important financial activities are reviewed by the Board of Directors and the Audit Committee according to relevant regulations and the internal control system. During the financial plan, the Group must comply with the relevant financial operations procedures in relation to the overall financial risk management and segregation of duties.

(3) For the information on derivative instruments to avoid financial risks, please refer to Note 6 (2).

3. Nature and degree of significant financial risks

(1) Market risk

Exchange rate risk

A. The Group is a multinational operation and is exposed to exchange rate risk arising from transactions with different functional currencies by the Company and its subsidiaries, which is mainly the United States dollars and RMB, and is the Vietnamese Dong. The relevant exchange rate risk arises from future commercial transactions and recognized assets and liabilities and net investments in foreign operations.

B. To avoid the decrease in foreign currency assets and future fluctuations in cash flows caused by exchange rate movements, the

Group uses derivative financial instruments to hedge the exchange rate risk. This kind of derivative financial instruments can be used to assist the Group in reducing but not entirely eliminate the impact of foreign currency exchange rate movements, please refer to Note 6 (2).

C. The Group’s business involves the use of various non-functional currencies (the Company and some subsidiaries’ functional currency is NTD, whereas some subsidiaries’ functional currency is RMB or USD and VND); as a consequence, it is subject to exchange rates fluctuation. Assets and liabilities that are denominated in foreign currencies and significantly affected by exchange rates fluctuation and market risk are as follows:

(Foreign currency: functional currency)	December 31, 2018 Foreign currency (in thousands)	Exchange rate	Carrying Amount	Sensitivity Analysis Range of change	Impact on Profit and Loss	Impact on Other Comprehensive Income
Financial assets						
Monetary items						
US$: RMB	$ 6,431	6.8683	$ 197,814	5%	$ 9,891	$ -
RMB: US$	27,999	0.1456	125,210	5%	6,261	-
Financial liabilities						
Monetary items						
US$: RMB	$ 2,988	6.8683	$ 91,925	5%	$ 4,596	$ -
NT$: US$	912,348	0.0326	912,348	5%	45,617	-

(Foreign currency: functional currency)	December 31, 2017 Foreign currency (in thousands)	Exchange rate	Carrying Amount	Sensitivity Analysis Range of change	Impact on Profit and Loss	Impact on Other Comprehensive Income
Financial assets						
Monetary items						
US$: RMB	$ 11,201	6.5067	$ 332,694	5%	$ 16,635	$ -
NT$: US$	31,310	0.0336	31,310	5%	1,566	-
Financial liabilities						
Monetary items						
US$: RMB	$ 3,436	6.5067	$ 102,046	5%	$ 5,102	$ -
NT$: US$	644,997	0.0336	644,997	5%	32,250	-

D. The Group's monetary items have significant influence on the recognized exchange gains and losses in 2018 and 2017 due to exchange rate fluctuation (including realized and unrealized), The aggregate amount is gains of NT$115,884 and losses of NT$162,078 respectively.

Price risk

A. The Group’s equity instruments that are exposed to price risk are those that are held at fair value through profit or loss and available-for-sale financial assets. To manage the price risk of investments in equity instruments, the Group diversifies its portfolio with its diversification method based on limits set by the Group.

B. The Group’s investments in equity instruments comprise domestic publicly quoted entity and the price of these equity instruments are affected by uncertainties in the future value of the investment target. If the price of these equity instruments had been 5% higher or lower, and all other variables were held constant, the Group’s profit after tax for 2018 would increase or decrease by NT$93 from equity instruments measured at fair value through profit or loss, respectively. For 2017, the impact of shareholders' equity that were classified as available-for-sale equity instruments increased or decreased by NT$145, respectively.

Cash flow and fair value interest rate risk

A. The Group’s interest rate risk arises primarily from short-term borrowings and long-term borrowings issued at variable rates, which expose the Group to cash flow interest rate risk. For the 2018 and 2017, the Group’s borrowings issued at variable interest rates were mainly denominated in NTD and USD.

B. The Group's borrowings are measured at amortized cost and are re-priced according to the contractual interest rates and therefore the Group is exposed to the risk of changes in future market interest rates.

C. If the loan interest rate has been increased or decreased by 0.1%, the profit after tax for 2018 and 2017 will be reduced or increased by NT$866 and NT$792, respectively, due to the changes in interest expenses caused by the floating interest rate borrowings.

(2) Credit risk

A. The Group's credit risk is primarily attributable to the Group's financial loss from customers or financial instruments' counterparty is unable to fulfill contractual obligation. The main reason is that the counterparty is unable to settle the accounts receivable paid on receiving condition.

B. The Group has established a management and credit risk analysis for each new customer, before making the payment and delivery of the Company's individual business within the stipulated payment and delivery of delivery policies according to the internal defined credit policy. Internal risk control is evaluated by considering its financial position, past experience and other factors to assess the credit quality of customers. Limits on individual risks are formulated by the Board of Directors based on internal or external ratings, and the utilization of credit line is regularly monitored. The principal credit risk arises 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 receivable. For banks and financial institutions, only institutions with a good credit rating will be accepted as trading partners.

C. The following assumptions are made based on IFRS 9 as to determine whether the credit risk of financial instruments since initial recognition has increased significantly by the following:

Where the contract payments are overdue for more than 30 days in accordance with stipulated payment terms, the credit risk is significantly increased after the financial assets are initially recognized.

D. When the investment target for the independent credit rating has been lowered for two grades, the Group has determined that the credit risk of the investment target is significantly increased.

E. Based on the assumptions made according to IFRS 9, it is deemed as contract violation when the contractual payments are overdue for more than 365 days in accordance with stipulated payment terms.

F. The Group has classified customers' accounts receivable on the characteristics of customers' ratings and adopts simplified approach to estimate expected credit losses based on reserve matrix.

G. After the recourse process, the Group writes off the recoverable financial assets that cannot be reasonably expected; nonetheless, the Group will keep legal recourse to secure its creditor’s rights. The Group has no creditors' rights that has been written off but still can be recoursed as of 31 December 2018 and 2017.

H. The Group adjusted the loss rate that is established on the history of certain period and current information for perspective consideration in order to estimate the loss allowance for accounts receivable. The reserve matrix as of December 31, 2018 was as follows:

December 31, 2018	Expected loss rate	Total carrying amount	Loss allowance
Not past due	0.00%	$ 2,030,828	$ -
0~90 days past due	1.12%	110,491	1,237
90~180 days past due	25.90%	139	36
181~365 days past due	77.64%	474	368
Over 365 days past due	100.00%	1,989	1,989
Total		$ 2,143,921	$ 3,630

I. Changes in loss allowance for accounts receivables using the simplified approach are stated as follows:

	2018
	Accounts receivable
At January 1_IAS 39	$ 2,749
Adjustments under new standards	-
At January 1_IFRS 9	2,749
Provision of impairment loss	802
Effect of Exchange	79
December 31	$ 3,630

(3) Liquidity risk

A. 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.

B. 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.

C. For the years ended December 31, 2018 and 2017, the Group has unused borrowing facilities of NT$ 2,332,099 and $2,057,494 respectively.

D. The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and the remaining period at the balance sheet date to the expected maturity date for derivative financial liabilities. The amounts of contractual cash flows disclosed in the table below are the undiscounted amount.

Non-derivative financial liabilities:

December 31, 2018	Less than 6 Months	7~12 months	1~2 Year(s)	2~5 Year(s)	More than 5 years
Short-term loans	$ 828,944	$ 251,675	$ -	$ -	$ -
Accounts payable	1,010,680	-	-	-	-
Other payables	878,180	42,568	10,596	-	-
Corporate bonds payable	237,600	-	-	1,000,000	-
Long-term loans	-	-	10,094	-	-

Non-derivative financial liabilities:

December 31, 2017	Less than 6 Months	7~12 months	1~2 Year(s)	2~5 Year(s)	More than 5 years
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	-	-

(III) Fair value information

1. Below states the definition of different levels of valuation techniques used to measure the fair value of financial and non-financial instruments:

   Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. An active market is a market in which transactions for the asset or liability take 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.

2. Financial instruments not measured at fair value

   (1) The carrying value of the cash and cash equivalents, bills receivable, accounts receivable, other receivables, short-term loans, bills payable, accounts payable and other payables is reasonable approximation of their fair value (except those stated in the following table), the interest rate of long-term loans (including those overdue within one year or one the operating cycle) is close to the market interest rate. Hence, the carrying amount should be a reasonable basis for estimating fair value:

	December 31, 2018	
	Carrying Amount	Fair value Level 3
Corporate bonds payable	$ 1,207,520	$ 1,210,950
	December 31, 2017	
	Carrying Amount	Fair value Level 3
Corporate bonds payable	$ 247,222	$ 248,507

   (2) The methods and assumptions used for estimating fair values 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.

3. The Group categorizes financial and non-financial instruments measured at fair value on the basis of the nature, characteristics, risks and fair value of the assets and liabilities. The related information is as follows:

December 31, 2018	Level 1	Level 2	Level 3	Total
Asset				
Recurring fair value				
Financial assets (liabilities) measured at fair value through profit or loss				
- Stocks of listed companies	$ 1,854	$ -	$ -	$ 1,854
Redemption right of convertible corporate bonds	-	-	(5,500)	(5,500)
Total	$ 1,854	$ -	($ 5,500)	($ 3,646)

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 right of convertible corporate bonds	-	-	327	327
Financial assets available for sale				
-Equity securities	2,908	-	-	2,908
Total	$ 2,908	$ 957	$ 327	$ 4,192

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

   (1) 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.

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

5. There were no transfers between Level 1 and Level 2 in 2018 and 2017.

6. The following table presents changes in Level 3 in 2018 and 2017:

	2018 Non-derivative Equity Instruments	2017 Non-derivative Equity Instruments
January 1	$ 327	$ 420
Gain or loss on the recognized profit or loss (Note)	(815)	869
Transferred in the period	(12)	(962)
Issued in the period	(5,000)	-
December 31	($ 5,500)	$ 327

Note: Recognized in other gains and losses.

7. Valuation process regarding fair value Level 3 is conducted by the Group's treasury, by which the independence of fair value of financial instruments is verified though use of independent data source in order that such valuation results are close to market conditions, and that the data source is independent, reliable, consistent with other resources, and representative of the exercisable price. In addition, multiple actions are regularly taken to ensure the reasonableness of the fair value valuation, e.g. calibrating the valuation model, conducting retrospective testing, updating the inputs and data for the valuation model, and making any necessary fair value adjustments.

8. Below states the quantitative information about the significant unobservable inputs of the valuation model used in the measurements categorized within Level 3 of the fair value hierarchy, as well as the sensitivity analysis of changes in significant unobservable inputs:

	Fair value as of December 31, 2018	Valuation technique	Significant unobservable input	Interval (weighted average)	Relationship of inputs to fair value
Hybrid Instruments: Corporate bond redemption right	($ 5,500)	Binomial Tree Valuation Model	Volatility	24.23%	The higher the volatility, the higher the fair value

	Fair value as of December 31, 2017	Valuation technique	Significant unobservable input	Interval (weighted average)	Relationship of inputs to fair value
Hybrid Instruments: Corporate bond redemption right	$ 327	Binomial Tree Valuation Model	Volatility	23.66%	The higher the volatility, the higher the fair value

9. The Group elects to adopt the valuation model and valuation parameters through cautious assessment. Nonetheless, using different valuation models or valuation parameters may lead to different valuation results. 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:

			December 31, 2018	
			Recognized in Profit or Loss	
	Input	Change	Favorable change	Unfavorable change
Financial liabilities Hybrid instruments	Volatility	±5%	$ 600	($ 900)

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

(IV) Effects of initial application of IFRS 9 and information on application of IAS 39 in 2017

1. The significant accounting policies adopted in 2017 are set out below:

(1) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss refer to financial assets held for trading or financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the short-term.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognized at fair value, and 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

(2) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

B. The Group adopts trade date accounting to available-for-sale financial assets that are purchased or sold in a regular way.

C. Financial assets available for sale are initially recognized at their fair value plus transaction costs and subsequently remeasured and stated at fair value, and changes in fair value are recognized in other comprehensive income.

(3) Accounts receivable

Accounts receivable that are originally incurred are receivables from customers for merchandise sold or services rendered 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 receivables without interest payment, given insignificant effects of their discount, are subsequently measured at the original invoice price.

(4) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events (loss events) that has occurred after the initial recognition of the asset and that the impact from those loss events on the estimated future cash flows of the financial assets can be estimated reliably.

B. The Group uses the following policies for determining whether objective evidence of impairment loss exists:

(A) Significant financial difficulty of the issuer or debtor;

(B) A breach of contract, such as a default or delinquency in interest or principal payments;

(C) The Group grants the debtor a concession that cannot be otherwise considered due to the economic or legal reasons relating to the financial difficulty of the debtor;

(D) The probability that the debtor will enter bankruptcy or other financial reorganization;

(E) The disappearance of an active market for that financial asset because of financial difficulties;

(F) 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 debtors in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(G) Information about significant changes with an adverse effect that have taken place in the technology, 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

(H) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. 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 in accordance with the category of financial assets:

(A) Financial assets measured at amortized cost

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.

(B) 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 losses recognized in profit or loss for equity instruments are not reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset.

(5) Derivative financial instruments

Derivatives are initially recognized at the fair value on the date when contracts are signed and subsequently measured at fair value with fair value changes recognized in profit or loss.

2. The reconciliation of financial assets book value prepared under IAS 39 since December 31, 2017 is transferred to the amount under IFRS 9 starting from January 1, 2018 is stated as follows:

	At fair value through profit or loss	Available-for-sale - equity	Retained Earnings	Other Equity
IAS39	$ -	$ 2,908	$ -	$ 422
Transfer through profit or loss				
At fair value	2,908	(2,908)	422	(422)
IFRS 9	$ 2,908	$ -	$ 422	$ -

Equity instruments classified as available-for-sale financial assets in IAS 39 were NT$2,908, the financial assets at fair value through profit or loss (equity instruments) were increased to NT$2,908; Retained earnings increased NT$422 and other equity decreased NT$422.

3. The important accounting projects as of December 31, 2017 are described below:

(1) Financial assets (liabilities) measured at fair value through profit or loss

Item	December 31, 2017
Current item:	
Financial assets held for trade	
Redemption of convertible corporate bonds and trading of options (Note 6(9))	$ 327
-Forward exchange contracts	957
	$ 1,284

A. Transactions and contract information relating to non-hedging derivative financial assets are described below:

	December 31, 2017	
Derivative financial assets	Contract Amount (Nominal Principal)	Maturity
Forward foreign exchange contracts	US$1,000,000	2018.2.22

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. In 2017, the profit and loss recognized on gain was NT$1,703.

B. Redemption of convertible corporate bonds held by the Group and the put option recognized as gain on the sale of the option in 2017 were NT$869.

C. The Group did not pledge the financial assets at fair value through profit or loss as collateral.

(2) Available-for-sale financial assets

Item	December 31, 2017
Non-current item:	
Shares of publicly listed companies	$ 2,486
Adjustment of valuation	422
Total	$ 2,908

The Group recognized the gain and loss on available-for-sale financial assets for the 2017 at the fair value through other comprehensive income were NT$727.

4. The following is a summary of the credit risk information as of December 31, 2017:

   (1) Credit risk refers to the risk of financial loss to the Company arising from default by customers or counterparties of financial instruments on the contract obligations. The Group has established a specific internal credit policy, which requires entities within the Group to manage and conduct a credit analysis on every new customer before stipulating the terms and conditions for payments and delivery. Internal risk control is evaluated by considering its financial position, past experience and other factors to assess the credit quality of customers. Limits on individual risks are formulated by the Board of Directors based on internal or external ratings, and the utilization of credit line is regularly monitored. The principal credit risk arises 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 receivable. For banks and financial institutions, only institutions with a good credit rating will be accepted as trading partners.

   (2) The credit limit had not been exceeded in 2017, and management didn't expect any significant loss resulting from the default of a counter party.

5. The Group's accounts receivable is not overdue or impaired. The credit quality of the Group based on the credit standards is as follows:

	December 31, 2017
Group A	$ 1,145,388
Group B	499,647
Group C	132,839
	$ 1,777,874

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.

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

	December 31, 2017
≦90 days	$ 92,542
91-120 days	130
121-180 days	3,780
181-365 days	1,329
>365 days	1,598
Total	$ 99,379

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

7. The changes of allowance for bad debts for the Group's accounts receivable of 2017 is as follows:

	2017		
	Impairment loss on individual assessment	Impairment loss on group assessment	Total
January 1	$ -	$ 715	$ 715
Provision for impairment loss	-	2,125	2,125
Effect of Exchange	-	(91)	(91)
December 31	$ -	$ 2,749	$ 2,749

(V) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

1. Critical accounting policies regarding revenue recognition for the annual period ended 2017 are states as follows:

   Sales Revenue

   The Group produces and sells outdoor shoes and sports shoes and related products. 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 is recognized when the goods are delivered to the buyer, the amount of sales can be measured reliably and the future economic benefits are expected to flow to the enterprise. Goods are deemed delivered only when significant risks and rewards of ownership of the goods are transferred to customers, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and customers accept the goods in accordance with the selling contract, or when any objective evidence suggests that all acceptance clauses have been satisfied.

2. The revenue recognized in the above accounting policy of the Group 2017 was NT$10,388,151.

3. If the Group continues to apply the above accounting policies in 2018, the impact on any single item of the balance sheet and the statement of comprehensive income of the current period are as follows:

	December 31, 2018		
Balance sheet item	Balance recognized in IFRS 15	Balance recognized in the original accounting policy	Effect of changes in accounting policy
Liabilities:			
Unearned sales revenue	-	27,619	(27,619)
Contract liabilities	27,619	-	27,619

Note: There is no impact on the statement of comprehensive income.

XIII. Supplementary Disclosures

(I) Information on Significant Transactions

1. Capital loans to others: None.
2. Endorsements and guarantees: Please refer to Appendix Table 1.

3. Marketable securities held at the end of the period (excluding investment in subsidiaries, associates, and joint ventures): Please refer to Appendix Table 2.

4. Acquisition or sale of the same securities with the accumulated cost reaching NT$300 million or 20% of paid-in capital or more: Please refer to Appendix 3.

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

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

7. Purchases from and sales to related parties reaching NT$ 100 million or 20% of paid-in capital: Please refer to Appendix Table 4.

8. Receivable from related parties reaching NT$ 100 million or 20% of the paid-in capital: Please refer to Appendix Table 5.

9. For derivatives transactions: Please refer to Note 6 (2) and Note 12 (3).

10. Parent-subsidiary and subsidiary-subsidiary business relations and significant transactions and amounts thereof: Please refer to Appendix Table 6.

(II) Information of business re-invested

Name, Location, and Information on Investee Companies (not Including Investee Companies in China): Please refer to Appendix Table 7.

(III) Information on investment in Mainland China

1. Basic information: Please refer to Appendix Table 8.

2. Significant transactions between the Company and investees in Mainland China directly or indirectly through entities in a third area: Please refer to Note 13 (1).

XIV. Operating segment information

(I) General Information

The principal business of the Company and its subsidiaries is the production and sales of sports and leisure 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.

(II) Department information

The financial information of reportable segments provided to chief operating decision maker is as follows:

	2018			
	Production and sale of shoes	Retail business	Other businesses	Total
Revenue				
Revenue from external customers	$ 9,999,809	$ 68,657	$ 1,685	$ 10,070,151
Inter-segment revenue	7,837,162	766,358	1,373	8,604,893
Total revenue	$ 17,836,971	$ 835,015	$ 3,058	$ 18,675,044
Segment profit (loss)	$ 1,459,715	$ 49,911	$ 686,029	$ 2,195,655
Segment total assets (Note)	$ -	$ -	$ -	$ -
Segment total liabilities (Note)	$ -	$ -	$ -	$ -

	2017			
	Production and sale of shoes	Retail business	Other businesses	Total
Revenue				
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 total assets (Note)	$ -	$ -	$ -	$ -
Segment total liabilities (Note)	$ -	$ -	$ -	$ -

(Note) Since the Group has not provided the measured amount of assets and liabilities to the chief operating decision maker, the segment information of total assets and liabilities is not disclosed.

(III) Reconciliation of segment revenue and profit or loss

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

	2018	2017
Revenue after adjustment from reportable operating segments	$ 18,671,986	$ 18,591,985
Revenue after adjustment from other operating segments	3,058	48,007
Total income before tax from operating segments	18,675,044	18,639,992
Elimination of intersegment revenue	(8,604,893)	(8,251,841)
Total consolidated operating revenue	$ 10,070,151	$ 10,388,151

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

	2018	2017
Revenue after adjustment from reportable operating segments	$ 1,509,626	$ 1,060,609
Revenue after adjustment from other operating segments	686,029	763,695
Total income before tax from operating segments	2,195,655	1,824,304
Elimination of intersegment revenue	(1,265,833)	(804,481)
Income before tax from continuing operations	$ 929,822	$ 1,019,823

(IV) Information on product and service

The principal business of the Company is production and sales of sports and leisure 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.

(V) Geographical information

The Company’s revenue is calculated based on the country in which the sales is located. 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.

	2018		2017	
	Revenue	Non-current Assets	Revenue	Non-current Assets
USA	$ 2,470,219	$ -	$ 2,430,694	$ -
Germany	1,587,343	-	1,596,350	-
Italy	894,463	-	1,034,392	-
France	737,419	-	442,539	-
China	683,728	1,767,858	859,253	1,856,189
Belgium	603,740	-	587,831	-
Others	3,093,239	3,690,230	3,437,092	2,823,287
Total	$ 10,070,151	$ 5,458,088	$ 10,388,151	$ 4,679,476

(VI) Important customer information

The Company's important customer information for 2018 and 2017 are as follows:

	2018			2017	
	Revenue	Department		Revenue	Department
A	$ 1,640,527	Production and sale of shoes	A	$ 1,947,026	Production and sale of shoes
B	1,290,287	Production and sale of shoes	B	1,070,156	Production and sale of shoes
C	1,104,294	Production and sale of shoes		$ 3,017,182	
D	1,003,473	Production and sale of shoes			
	$ 5,038,581				

(Blank Below)

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

Provision of endorsements and guarantees to others

January 1 to December 31, 2018

Table 1

Unit: NT$1,000
(Unless specified otherwise)

No. (Note 1)	Endorser/ Guarantor	Party being endorsed/guaranteed: CompanyName	Party being endorsed/guaranteed: Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of Decembr 31, 2018	Outstanding endorsement/ guarantee amount at December 31, 2018	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company(%)	Ceiling on total amount of endorsements/ guarantees provided (Note 4)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland	Note
1	Capital Concord Enterprises Limited	Hubei Sunsmile Footwear Co., Ltd.	Subsidiary	$ 4,566,198	$ 76,788	$ 76,788	$ 76,788	$ -	1.18%	$ 6,088,264	Y	N	Y	Note 3

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: Relationship between the endorser/guarantor and the Company is classified into the following seven categories (just mark the category number):
(1) Companies with whom the Company conducts business.
(2) A Company directly, and indirectly ,holds more than 50% of the voting shares.
(3) A company in which the Company directly, and indirectly, holds more than 50% of the voting shares.
(4) A company in which the Company directly, and indirectly, holds more than 90% of the voting shares.
(5) Companies with the same industry or mutual project undertakers that have mutual guarantee based on contract agreements due to contractual project needs
(6) Shareholders make endorsements/guarantees for their jointly invested company in proportion to their shareholding percentages.
(7) The performance guarantee of the pre-sale house sales contract in the inter-bank business in accordance with the Consumer Protection Law is jointly guaranteed
Note 3: The limit of endorsements/guarantees provided for a single party is 60% of the net worth of Capital Concord Enterprise Limited.
Note 4: The maximum amount available for endorsements/guarantees is 80% of the net worth of Capital Concord Enterprise Limited.
Note 5: The joint guarantor of the endorsement/guarantee is Lin, Wen-Chih.
Note 6: In Q418, the exchange rates for assets and profit or loss were USD:NTD=30.715 and USD:NTD=30.1751, respectively.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Holding of marketable securities (not including subsidiaries, associates and joint ventures)
December 31, 2018

Unit: NT$1,000
(Unless specified otherwise)

Table 2

Securities Held by	Marketable securities (Note 1)	Relationship with the securities issuer	General ledge r account	As of December 31, 2018				Note
				Number of Shares	Book value	Ownership	Fair value	
Fulgent Sun International (Holding) Co., Ltd.	Stock – Tainan Enterprises (CAYMAN)	None	Financial Assets at Fair Value through Profit or Loss - Non-current	181,774	$ 1,854	0.61	$1,854	-

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates, and other related derivative marketable securities within the scope of IFRS 9: Financial instruments.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Acquisition or Sale of the Same Security with the Accumulated Cost Reaching NT$300 million or 20% of Paid-in Capital or More
For the year ended December 31, 2018

Unit: NT$1,000
(Unless specified otherwise)

Table 3

Investor	marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Beginning of the period: Number of Shares	Beginning of the period: Amount	Acquisition (Note 3): Number of Shares	Acquisition (Note 3): Amount	Disposal (Note 3): Number of Shares	Disposal (Note 3): Selling price	Disposal (Note 3): Book Value	Disposal (Note 3): Gain (Loss) on Disposal	End of the period: Number of Shares	End of the period: Amount
Fulgent Sun International (Holding) Co., Ltd.	Capital Concord Enterprises Limited	Investment using equity method	Related parties	Subsidiary	1,070,000,000	$4,062,509	253,500,000	$998,238	-	$-	$-	$ -	1,323,500,000	$5,060,747

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates, and other related derivative marketable securities.
Note 2: For securities recognized using equity method, the two fields must be filled in.
Note 3: The acquisition or sale of the same securities should be calculated separately at the market price as to whether the accumulated cost reaches NT$300 million or 20% of paid-in capital or more.
Note 4: Paid-in capital refers to the parent company's paid-in capital. When the issuer's shares have no denomination, or its denomination is not NT$10, regarding maximum transaction amount on 20% of paid-in capital, the amount is calculated based on 10% of ownership's equity attributable to the parent company in the balance sheet.

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, 2018

Unit: NT$1,000
(Unless specified otherwise)

Table 4

Purchaser/Seller	Name of the Counterparty	Relationship with the counterparty	Transaction Details				Unusual trade conditions and its reasons		Notes and Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases (sales)	Credit term	Unit Price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Capital Concord Enterprises Limited	Fujian Sunshine Footwear Co., Ltd.	Subsidiary	Purchase	2,522,786	0.31	180 days after purchase	Note 1	Note 1	(1,408,978)	(1.39)	Notes 2 and 3
Capital Concord Enterprises Limited	Sunny Footwear Co., Ltd.	Subsidiary	Purchase	448,366	0.05	180 days after purchase	Note 1	Note 1	(268,792)	(0.27)	Notes 2 and 3
Capital Concord Enterprises Limited	Hubei Sunsmile Footwear Co., Ltd.	Subsidiary	Purchase	317,105	0.04	180 days after purchase	Note 1	Note 1	(246,765)	(0.24)	Notes 2 and 3
Capital Concord Enterprises Limited	Lin Wen Chih Sunbow Enterprises Co., Ltd.	Subsidiary	Purchase	1,754,262	0.21	120 days after purchase	Note 1	Note 1	-	-	Notes 2 and 3
Capital Concord Enterprises Limited	Fujian Laya Outdoor Products Co., Ltd.	Subsidiary	Purchase	409,790	0.05	90 days after purchase	Note 1	Note 1	(176,225)	(0.17)	Notes 2 and 3
Capital Concord Enterprises Limited	Lin Wen Chih Sunbow Enterprises Co., Ltd.	Subsidiary	Sales	(188,928)	(0.02)	135 days after Sales	Note 1	Note 1	142,300	0.07	Notes 2 and 3
Fujian Laya Outdoor Products Co., Ltd.	Lin Wen Chih Sunbow Enterprises Co., Ltd.	Subsidiary	Sales	(355,589)	(0.04)	135 days after Sales	Note 1	Note 1	159,207	0.07	Notes 2 and 3
Capital Concord Enterprises Limited Taiwan Branch	Fujian Sunshine Footwear Co., Ltd.	Subsidiary	Sales	(135,050)	(0.01)	135 days after Sales	Note 1	Note 1	19,511	0.01	Notes 2 and 3
Capital Concord Enterprises Limited Taiwan Branch	Lin Wen Chih Sunbow Enterprises Co., Ltd.	Subsidiary	Sales	(190,533)	(0.02)	135 days after Sales	Note 1	Note 1	92,830	0.04	Notes 2 and 3
Fulgent Sun Footwear Co., Ltd.	Capital Concord Enterprises Limited	Parent company	Sales	(985,584)	(0.10)	120 days after billing	Note 1	Note 1	29,490	0.01	Notes 2 and 3
NGOC Hung Footwear Co., Ltd. (Vietnam)	Capital Concord Enterprises Limited	Parent company	Sales	(371,761)	(0.04)	120 days after billing	Note 1	Note 1	116,303	0.05	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 Q418, the exchange rates for assets and profit or loss were USD:NTD=30.715 and USD:NTD=30.1751, 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
December 31, 2018

Unit: NT$1,000
(Unless specified otherwise)

Table 5

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2018	Turnover Rate	Overdue Receivable		Amount collected subsequent to the balance sheet date (Note 1)	Allowance for Doubtful Accounts	Note
					Amount	Actions Taken			
Fujian Sunshine Footwear Co., Ltd.	Capital Concord Enterprises Limited	Parent company	$ 1,408,978	1.82	$-	-	$ 501,046	$-	Notes 2 and 3
Sunny Footwear Co., Ltd.	Capital Concord Enterprises Limited	Parent company	268,792	1.65	-	-	109,063	-	Notes 2 and 3
Hubei Sunsmile Footwear Co., Ltd.	Capital Concord Enterprises Limited	Parent company	246,765	1.12	-	-	137,181	-	Notes 2 and 3
Fujian Laya Outdoor Products Co., Ltd.	Capital Concord Enterprises Limited	Parent company	176,225	2.88	-	-	141,420	-	Notes 2 and 3
NGOC Hung Footwear Co., Ltd. (Vietnam)	Capital Concord Enterprises Limited	Parent company	116,303	3.62	-	-	115,996	-	Notes 2 and 3
Capital Concord Enterprises Limited	Lin Wen Chih Sunbow Enterprises Co., Ltd.	Subsidiary	142,300	2.00	-	-	98,231	-	Notes 2 and 3
Fujian Laya Outdoor Products Co., Ltd.	Lin Wen Chih Sunbow Enterprises Co., Ltd.	Subsidiary	159,207	3.88	-	-	90,560	-	Notes 2 and 3

Note 1: The subsequent collections represent collections from the balance sheet date to March 8, 2019.
Note 2: In Q418, the exchange rates for assets and profit or loss were USD:NTD=30.715 and USD:NTD=30.1751, respectively.
Note 3: Offset in consolidated statements.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Significant inter-company transactions during the reporting period
For the year ended December 31, 2018

Unit: NT$1,000
(Unless specified otherwise)

Table 6

No. (Note 1)	Name of Trading Partner	Counterparty	Relationship (Note 2)	Transaction Status: General Ledger Account	Transaction Status: Amount (Note 5)	Transaction Status: Trade terms	Transaction Status: Percentage of consolidated total operating revenues or total assets (Note 3)
1	Capital Concord Enterprises Limited	Fujian Sunshine Footwear Co., Ltd.	1	Accounts receivable	62,815	Note 4	0.01
1	Capital Concord Enterprises Limited	Lin Wen Chih Sunbow Enterprises Co., Ltd.	1	Accounts receivable	142,300	Note 4	0.01
1	Capital Concord Enterprises Limited	Fujian Sunshine Footwear Co., Ltd.	1	Accounts payable	1,408,978	Note 4	0.13
1	Capital Concord Enterprises Limited	Hubei Sunsmile Footwear Co., Ltd.	1	Accounts payable	246,765	Note 4	0.02
1	Capital Concord Enterprises Limited	Sunny Footwear Co., Ltd.	1	Accounts payable	268,792	Note 4	0.02
1	Capital Concord Enterprises Limited	Fujian Laya Outdoor Products Co., Ltd.	1	Accounts payable	176,225	Note 4	0.02
1	Capital Concord Enterprises Limited	Fujian Sunshine Footwear Co., Ltd.	1	Sales	98,488	Note 4	0.01
1	Capital Concord Enterprises Limited	Lin Wen Chih Sunbow Enterprises Co., Ltd.	1	Sales	188,928	Note 4	0.02
1	Capital Concord Enterprises Limited	Fujian Sunshine Footwear Co., Ltd.	1	Purchase	2,522,786	Note 4	0.25
1	Capital Concord Enterprises Limited	Hubei Sunsmile Footwear Co., Ltd.	1	Purchase	317,105	Note 4	0.03
1	Capital Concord Enterprises Limited	Sunny Footwear Co., Ltd.	1	Purchase	448,366	Note 4	0.04
1	Capital Concord Enterprises Limited	Fujian Laya Outdoor Products Co., Ltd.	1	Purchase	409,790	Note 4	0.04
1	Capital Concord Enterprises Limited	Lin Wen Chih Sunbow Enterprises Co., Ltd.	1	Purchase	1,754,262	Note 4	0.17
2	Fulgent Sun Footwear Co., Ltd.	Capital Concord Enterprises Limited	2	Sales	985,584	Note 4	0.10
3	Fujian Sunshine Footwear Co., Ltd.	Sunny Footwear Co., Ltd.	3	Sales	73,512	Note 4	0.01
3	Fujian Sunshine Footwear Co., Ltd.	Lin Wen Chih Sunbow Enterprises Co., Ltd.	3	Sales	79,056	Note 4	0.01
4	Fujian Laya Outdoor Products Co., Ltd.	Lin Wen Chih Sunbow Enterprises Co., Ltd.	3	Accounts receivable	159,207	Note 4	0.01
4	Fujian Laya Outdoor Products Co., Ltd.	Lin Wen Chih Sunbow Enterprises Co., Ltd.	3	Sales	355,589	Note 4	0.04
5	Hubei Sunsmile Footwear Co., Ltd.	Lin Wen Chih Sunbow Enterprises Co., Ltd.	3	Sales	41,403	Note 4	0.00
6	Capital Concord Enterprises Limited Taiwan Branch	Fujian Sunshine Footwear Co., Ltd.	3	Sales	135,050	Note 4	0.01
6	Capital Concord Enterprises Limited Taiwan Branch	Lin Wen Chih Sunbow Enterprises Co., Ltd.	3	Sales	190,533	Note 4	0.02
6	Capital Concord Enterprises Limited Taiwan Branch	Lin Wen Chih Sunbow Enterprises Co., Ltd.	3	Accounts receivable	92,830	Note 4	0.01
6	Capital Concord Enterprises Limited Taiwan Branch	Fujian Sunshine Footwear Co., Ltd.	3	Purchase	57,282	Note 4	0.01
7	NGOC Hung Footwear Co., Ltd. (Vietnam)	Capital Concord Enterprises Limited	2	Sales	371,761	Note 4	0.04
7	NGOC Hung Footwear Co., Ltd. (Vietnam)	Capital Concord Enterprises Limited	2	Accounts receivable	116,303	Note 4	0.01

Note 1: The numbers filled in for parent-subsidiary 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 Q418, the exchange rates for assets and profit or loss were USD:NTD=30.715 and USD:NTD=30.1751, respectively.
Note 6: The disclosure standard is more than NT$40 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)
January 1 to December 31, 2018

Unit: NT$1,000
(Unless specified otherwise)

Table 7

Investee Company	Name of Investee Company	Place of Registration	Main Businesses	Original Investment Amount (Note 2)		Shares Held as of December 31, 2018			Investee company current profit or loss (Note 3)	Investment gains and losses recognized in the current period (Note 3)	Note
				December 31, 2018	December 31, 2017	Number of Shares	Ratio	Carrying Amount (Note 3)			
Fulgent Sun International (Holding) Co., Ltd.	Capital Concord Enterprises Limited	Hong Kong	Holdings and production and sale of sports and outdoor shoes	$5,060,747	$4,062,509	1,323,500,000	100	$ 7,610,329	$774,179	$774,179	Subsidiary
Capital Concord Enterprises Limited	Lin Wen Chih Sunbow Enterprises Co., Ltd.	Cambodia	Production and sale of sports and outdoor shoes	1,518,038	1,241,603		100	1,611,980	157,455	157,455	Subsidiary
Capital Concord Enterprises Limited	Lin Wen Chih Sunstone Garment Enterprises Co., Ltd.	Cambodia	Processing and sale of clothing	427,675	427,675		91.27	223,953	(57,794)	(52,748)	Subsidiary
Capital Concord Enterprises Limited	Fulgent Sun Footwear Co., Ltd.	Vietnam	Production of sports and outdoor shoes	566,107	375,080		100	632,549	33,945	33,945	Subsidiary
Capital Concord Enterprises Limited	NGOC HUNG Footwear Co., Ltd.	Vietnam	Production of sports and outdoor shoes	876,428	748,033		100	800,996	27,464	27,464	Subsidiary
Capital Concord Enterprises Limited	Laya Outdoor Products Limited	Hong Kong	A holding company	24,731	24,731		100	27,509	(925)	(925)	Subsidiary
Capital Concord Enterprises Limited	Laya Max Trading Co., Ltd.	Taiwan	Distribution and import and export trade	12,395	12,395		100	16,827	(2,183)	(2,183)	Subsidiary
Lin Wen Chih Sunbow Enterprises Co., Ltd.	Lin Wen Chih Sunlit Enterprises Co., Ltd.	Cambodia	Land lease	174,989	174,989		100	180,930	743	743	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 Q418, the exchange rates for assets and profit or loss were USD:NTD=30.715 and USD:NTD=30.1751, respectively.

Fulgent Sun International (Holding) Co., Ltd. and Subsidiaries
Information on Investments in Mainland China
January 1 to December 31, 2018

Unit: NT$1,000
(Unless specified otherwise)

Table 8

Name of Investee Company in China	Main business activities	Paid-in Capital (Note 3)	Investment Method	Accumulated Amount Remitted from Taiwan to Mainland China, as of January 1,2018 (Note 5)	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018 (Note 5): Remitted to Mainland China	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018(Note 5)	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 4)	Book value of investments in Mainland China as of December 31, 2018 (Note 4)	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Note
Fujian Sunshine Footwear Co., Ltd.	Production and sale of sports and outdoor shoes	$ 723,826	Note 1	$ -	$-	$-	$ -	$ 155,230	100	122,446	$2,002,178	$ -	Note 2
Hubei Sunsmile Footwear Co., Ltd.	Production and sale of sports and outdoor shoes	1,825,033	Note 1	-	-	-	-	44,186	100	37,922	1,740,076	-	
Sunny Footwear Co., Ltd.	Production and sale of sports and outdoor shoes	130,680	Note 1	-	-	-	-	32,204	100	32,204	580,039	-	
Fujian Laya Outdoor Products Co., Ltd.	Distribution and import and export trade	40,656	Note 1	-	-	-	-	41,195	100	41,195	162,157	-	
Fujian La Sportiva Co., Ltd.	Distribution and import and export trade	40,656	Note 1	-	-	-	-	(1,673)	60	(1,004)	25,282	-	

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

Note 2: On May 17, 2011, Fujian Sunshine Footwear Co., Ltd. (China) obtained approval from the local regulator to merge Heng Cheng Shoes Co., Ltd. and Yu Heng Cheng Shoes 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 Q418, the exchange rates for assets and profit or loss were USD:NTD=30.715 and USD:NTD=30.1751, respectively.

Note 5: The Company was established on the Cayman Islands, which is not subject to the limits on the principle limit in the “Principles for Conducting Investment or Technical Cooperation” of the Ministry of Economic Affairs.
The Group has re-funded the investment in the amount of NT$2,590,220 thousand through re-investment in Hong Kong.