

**Kwong Lung Enterprise Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standards No.10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

KWONG LUNG ENTERPRISE CO., LTD.

By

March 8, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Kwong Lung Enterprise Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Kwong Lung Enterprise Co., Ltd. and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”).

In our opinion, based on our audits and the reports of other auditors (refer to the Other Matter section of our report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Income Occurrence

Refer to Note 4 to the accompanying consolidated financial statements for disclosures regarding the accounting policies and detailed information on income.

The Group specializes in the production of down, bedding, ski wear and outdoor sports jackets. Revenue mainly comes from the production and sales of garments, down raw materials and home textile products. The Group's incomes involves business performance from domestic and foreign markets and may have a significant risk of misrepresentation. Such occurrence of revenue is identified as a key audit matter.

In response to this key audit matter, we performed the following audit procedures:

1. We understood and evaluated the accounting policies recognized in sales revenue.
2. We understood and evaluated the occurrence of sales revenue and its effectiveness in internal control.
3. We sampled tests for sales revenue transaction of the current year, checked the relevant internal and external vouchers to support the facts of the shipment, checked whether the sales target and the recipient of the payment and the post-receipt collection had major abnormalities, and checked the sales return after the inspection period and the discounted ledger, whether there was a significant sales return and a discount, to confirm that the annual sales revenue transaction did occur.

Impairment of Trade Receivables

Refer to Notes 5 and 12 to the accompanying consolidated financial statements for disclosures regarding the accounting policies and detailed information on trade receivables and the impairment of trade receivables.

The products sold by the Group to its major customers are concentrated in clothing, down and bedding. The sales of such products comprise more than 70% of the Group's total sales, and trade receivables account for about 12% of total assets.

The management's assessment of impairment of trade receivables for these customer segments is based on expected credit losses over the life of the customer. Expected credit losses during the lifetime represent the expected credit losses arising from all possible defaults in the expected duration of the receivables. Because expected credit loss is affected by risk assumptions which may be defaulted by customers, the amount of such customers is relatively significant. When market sentiment changes, such customers may have significant expected credit losses due to financial difficulties or defaults. Therefore, we identified trade receivables as a key audit matter.

In response to this key audit matter, we performed the following audit procedures:

1. We understood management's impairment assessment policy for trade receivables and tested the age of trade receivable balances to calculate the expected credit losses proposed by management.
2. We analyzed the expected credit losses by reviewing customers' historical payment status and the forward-looking adjustment information. We focused on the major abnormalities in the proposed method and tracked the processing results of the exceptions, and adjusted the information evaluation based on customers' historical payment status and the forward-looking perspective. The reasonableness of the expected credit loss rate of the trade receivable is determined by reference to the current year's customer payment status and other available information to verify the adequacy of the impairment rate of major customers' overdue receivables.
3. After the evaluation period, the Group will recover the cash from overdue receivables to consider whether additional impairment is required.

Other Matter

We have also audited the parent company only financial statements of Kwong Lung Enterprise Co., Ltd. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion.

We did not audit the financial statements of certain consolidated subsidiaries for the years ended December 31, 2017, but such financial statements were audited by other auditors whose reports thereon have been furnished to us. Our opinion, insofar as it relates to the related amounts included and the information disclosed in the Group's consolidated financial statements, is based solely on the reports of the other auditors. The total assets of the aforementioned subsidiaries constitute 21% (NT\$1,375,991 thousand) of the Group's consolidated total assets as of December 31, 2017, and the total sales of the abovementioned subsidiaries 2% (NT\$156,320 thousand) of the consolidated total sales for the years ended December 31 2017.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Cheng-tsai Tsai and Chin-tsung Cheng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 8, 2019

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 794,215	12	\$ 509,708	8
Financial assets at fair value through profit or loss - current (Note 7)	2,034	-	1,594	-
Financial assets at amortized cost - current (Note 10)	3,002	-	-	-
Debt investments with no active market - current (Notes 11 and 33)	-	-	72,403	1
Notes receivable (Note 12)	132,444	2	112,607	2
Trade receivables (Notes 5, 12 and 32)	915,574	13	920,883	14
Other receivables (Note 12)	123,443	2	261,418	4
Other receivables from related parties (Note 32)	-	-	90,000	1
Inventories (Note 13)	2,618,775	37	2,251,388	34
Prepayments	138,944	2	48,153	1
Other current assets	<u>89,469</u>	<u>1</u>	<u>81,400</u>	<u>1</u>
Total current assets	<u>4,817,900</u>	<u>69</u>	<u>4,349,554</u>	<u>66</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Note 9)	100,700	2	-	-
Available-for-sale financial assets - non-current (Note 8)	-	-	146,293	2
Financial assets at amortized cost - non-current (Note 10)	60,000	1	-	-
Debt investments with no active market - non-current (Notes 11 and 33)	-	-	50,000	1
Investments accounted for using the equity method (Note 15)	156,970	2	200,983	3
Property, plant and equipment (Notes 16, 32 and 33)	1,573,527	22	1,589,129	24
Investment properties, net (Note 17)	96,680	1	92,282	1
Other intangible assets (Note 18)	66,081	1	37,689	1
Deferred tax assets (Note 26)	50,088	1	44,698	1
Long-term prepayments for leases (Note 19)	79,455	1	82,604	1
Other non-current assets	<u>29,924</u>	<u>-</u>	<u>22,036</u>	<u>-</u>
Total non-current assets	<u>2,213,425</u>	<u>31</u>	<u>2,265,714</u>	<u>34</u>
TOTAL	<u>\$ 7,031,325</u>	<u>100</u>	<u>\$ 6,615,268</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 20)	\$ 380,855	5	\$ 627,818	9
Financial liabilities at fair value through profit or loss - current (Note 7)	10,289	-	78	-
Notes payable	5,267	-	3,067	-
Trade payables (Note 32)	782,705	11	795,040	12
Other payables (Note 22)	469,308	7	366,452	6
Current tax liabilities (Note 26)	59,474	1	42,317	1
Current portion of long-term liabilities (Notes 20, 21 and 33)	790,871	11	100,836	1
Other current liabilities	<u>44,072</u>	<u>1</u>	<u>49,556</u>	<u>1</u>
Total current liabilities	<u>2,542,841</u>	<u>36</u>	<u>1,985,164</u>	<u>30</u>
NON-CURRENT LIABILITIES				
Bonds payable (Note 21)	-	-	776,572	12
Long-term borrowings (Notes 20 and 33)	214,720	3	840,629	13
Deferred tax liabilities (Note 26)	129,400	2	106,248	1
Net defined benefit liabilities - non-current (Note 23)	42,409	1	47,729	1
Other non-current liabilities	<u>1,999</u>	<u>-</u>	<u>1,890</u>	<u>-</u>
Total non-current liabilities	<u>388,528</u>	<u>6</u>	<u>1,773,068</u>	<u>27</u>
Total liabilities	<u>2,931,369</u>	<u>42</u>	<u>3,758,232</u>	<u>57</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 24 and 28)				
Share capital				
Ordinary shares	1,103,540	16	1,090,130	16
Preference shares	182,000	2	-	-
Total share capital	<u>1,285,540</u>	<u>18</u>	<u>1,090,130</u>	<u>16</u>
Capital surplus	1,687,841	24	1,043,597	16
Retained earnings				
Legal reserve	373,931	5	373,931	5
Special reserve	80,889	1	-	-
Unappropriated earnings	707,906	10	386,167	6
Total retained earnings	<u>1,162,726</u>	<u>16</u>	<u>760,098</u>	<u>11</u>
Other equity interests				
Exchange differences on translating foreign operations	(106,120)	(1)	(141,947)	(2)
Unrealized gain on financial assets at fair value through other comprehensive income	17,486	-	-	-
Unrealized gain on available-for-sale financial assets	-	-	61,058	1
Total other equity interests	<u>(88,634)</u>	<u>(1)</u>	<u>(80,889)</u>	<u>(1)</u>
Total equity attributable to owners of the Company	4,047,473	57	2,812,936	42
NON-CONTROLLING INTERESTS				
Total equity	<u>52,483</u>	<u>1</u>	<u>44,100</u>	<u>1</u>
TOTAL	<u>\$ 7,031,325</u>	<u>100</u>	<u>\$ 6,615,268</u>	<u>100</u>

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

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Years Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Note 32)				
Sales revenue	\$ 10,154,312	100	\$ 8,512,927	100
OPERATING COSTS (Notes 13, 25 and 32)				
Cost of goods sold	<u>(8,802,102)</u>	<u>(87)</u>	<u>(7,276,251)</u>	<u>(86)</u>
GROSS PROFIT	<u>1,352,210</u>	<u>13</u>	<u>1,236,676</u>	<u>14</u>
OPERATING EXPENSES (Notes 25 and 32)				
Selling and marketing expenses	(637,533)	(6)	(570,773)	(6)
General and administrative expenses	(286,291)	(3)	(241,122)	(3)
Research and development expenses	(79,945)	(1)	(67,306)	(1)
Gains on reversal of expected credit loss	<u>997</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>(1,002,772)</u>	<u>(10)</u>	<u>(879,201)</u>	<u>(10)</u>
PROFIT FROM OPERATIONS	<u>349,438</u>	<u>3</u>	<u>357,475</u>	<u>4</u>
NON-OPERATING INCOME AND EXPENSES (Notes 25 and 32)				
Other income	17,812	-	6,209	-
Other gains and losses	390,163	4	(369,892)	(4)
Finance costs	(38,410)	-	(38,924)	-
Share of profit (loss) of associates and joint ventures	<u>8,937</u>	<u>-</u>	<u>(5,639)</u>	<u>-</u>
Total non-operating income and expenses	<u>378,502</u>	<u>4</u>	<u>(408,246)</u>	<u>(4)</u>
PROFIT (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	727,940	7	(50,771)	-
INCOME TAX EXPENSE (Note 26)	<u>(96,308)</u>	<u>(1)</u>	<u>(59,092)</u>	<u>(1)</u>
NET PROFIT (LOSS) FOR THE YEAR	<u>631,632</u>	<u>6</u>	<u>(109,863)</u>	<u>(1)</u>

(Continued)

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Years Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ 2,893	-	\$ (1,689)	-
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(43,572)	-	-	-
Income tax relating to items that will not be reclassified subsequently to loss or profit	(191)	-	287	-
	<u>(40,870)</u>	<u>-</u>	<u>(1,402)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	35,482	-	(144,776)	(2)
Unrealized loss on available-for-sale financial assets	-	-	(64,579)	(1)
	<u>35,482</u>	<u>-</u>	<u>(209,355)</u>	<u>(3)</u>
Other comprehensive loss for the year, net of income tax	<u>(5,388)</u>	<u>-</u>	<u>(210,757)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 626,244</u>	<u>6</u>	<u>\$ (320,620)</u>	<u>(4)</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 618,337	6	\$ (118,339)	(1)
Non-controlling interests	13,295	-	8,476	-
	<u>\$ 631,632</u>	<u>6</u>	<u>\$ (109,863)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Company	\$ 613,294	6	\$ (329,132)	(4)
Non-controlling interests	12,950	-	8,512	-
	<u>\$ 626,244</u>	<u>6</u>	<u>\$ (320,620)</u>	<u>(4)</u>
EARNINGS (LOSS) PER SHARE (Note 27)				
From continuing operations				
Basic	<u>\$5.74</u>		<u>\$(1.09)</u>	
Diluted	<u>\$4.95</u>		<u>\$(1.09)</u>	

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

(Concluded)

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent Company									Other Equity Interests					Total	Non-controlling Interests	Total Equity	
	Share Capital			Capital Surplus					Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for-sale Financial Assets				
	Ordinary Shares	Preference Shares	Subtotal	Additional Paid-in Capital	Treasury Share Transactions	Employee Share Options	Convertible Bonds Share Options	Expired Share Options	Subtotal	Legal Reserve	Special Reserve							Unappropriated Earnings
BALANCE AT JANUARY 1, 2017	\$ 1,083,250	\$ -	\$ 1,083,250	\$ 903,025	\$ 29,284	\$ 56,870	\$ 34,657	\$ 486	\$ 1,024,322	\$ 329,194	\$ -	\$ 940,615	\$ 2,865	\$ -	\$ 125,637	\$ 3,505,883	\$ 787	\$ 3,506,670
Appropriation of the 2016 earnings	-	-	-	-	-	-	-	-	-	44,737	-	(44,737)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	-	-	(389,970)	-	-	-	(389,970)	-	(389,970)
Net loss for the year ended December 31, 2017	-	-	-	-	-	-	-	-	-	-	-	(118,339)	-	-	-	(118,339)	8,476	(109,863)
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	-	-	-	-	-	-	(1,402)	(144,812)	-	(64,579)	(210,793)	36	(210,757)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	-	-	-	-	-	-	(119,741)	(144,812)	-	(64,579)	(329,132)	8,512	(320,620)
Issuance of ordinary shares under employee share options	6,880	-	6,880	20,581	-	(2,313)	-	1,007	19,275	-	-	-	-	-	-	26,155	-	26,155
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34,801	34,801
BALANCE AT DECEMBER 31, 2017	1,090,130	-	1,090,130	923,606	29,284	54,557	34,657	1,493	1,043,597	373,931	-	386,167	(141,947)	-	61,058	2,812,936	44,100	2,857,036
Effect of retrospective application	-	-	-	-	-	-	-	-	-	-	-	-	-	-	61,058	(61,058)	-	-
BALANCE AT JANUARY 1, 2018 AS RESTATED	1,090,130	-	1,090,130	923,606	29,284	54,557	34,657	1,493	1,043,597	373,931	-	386,167	(141,947)	61,058	-	2,812,936	44,100	2,857,036
Appropriation of the 2017 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	80,889	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	-	-	(218,411)	-	-	-	(218,411)	-	(218,411)
Cash dividends from capital surplus	-	-	-	(109,205)	-	-	-	-	(109,205)	-	-	-	-	-	-	(109,205)	-	(109,205)
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	-	-	-	-	-	618,337	-	-	-	618,337	13,295	631,632
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	-	-	-	-	-	-	2,702	35,827	(43,572)	-	(5,043)	(345)	(5,388)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	-	-	-	-	-	-	621,039	35,827	(43,572)	-	613,294	12,950	626,244
Issuance of preference shares	-	182,000	182,000	728,000	-	-	-	-	728,000	-	-	-	-	-	-	910,000	-	910,000
Issuance of ordinary shares under employee share options	13,410	-	13,410	34,996	-	(9,601)	-	54	25,449	-	-	-	-	-	-	38,859	-	38,859
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,567)	(4,567)
BALANCE AT DECEMBER 31, 2018	\$ 1,103,540	\$ 182,000	\$ 1,285,540	\$ 1,577,397	\$ 29,284	\$ 44,956	\$ 34,657	\$ 1,547	\$ 1,687,841	\$ 373,931	\$ 80,889	\$ 707,906	\$ (106,120)	\$ 17,486	\$ -	\$ 4,047,473	\$ 52,483	\$ 4,099,956

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

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	\$ 727,940	\$ (50,771)
Adjustments for:		
Depreciation expenses	132,574	120,201
Amortization expenses	11,469	12,905
Amortization of prepayments for leases	3,834	3,861
Expected credit loss reversed on trade receivables	(997)	-
Impairment loss recognized on trade receivables	-	5,072
Net loss (gain) on fair value changes of financial assets and liabilities designated as at fair value through profit or loss	8,255	(1,516)
Finance costs	38,410	38,924
Interest income	(7,042)	(6,209)
Dividend income	(10,770)	-
Loss from disasters	-	676,878
Gain on disposal of investments	(10,487)	-
Net gain on disposal of available-for-sale financial assets	-	(76,601)
Write-downs of inventories	9,774	18,272
Compensation costs of employee share options	5,298	6,413
Share of profit (loss) of associates and joint ventures	(8,937)	5,639
Gain on disposal of property, plant and equipment	(30,401)	(205)
Other losses	-	9
Net loss (gain) on foreign currency exchange	5,636	(1,207)
Changes in operating assets and liabilities		
Financial assets held for trading	-	13,780
Financial assets mandatorily measured at fair value through profit or loss	1,594	-
Notes receivable	(19,837)	67,926
Trade receivables	18,412	(65,215)
Other receivables	139,020	(212,401)
Inventories	(375,727)	(544,267)
Prepayments	(90,791)	12,504
Other current assets	(7,325)	2,674
Financial liabilities held for trading	(78)	-
Notes payable	2,200	924
Trade payables	(13,365)	181,525
Other payables	77,907	(29,830)
Other current liabilities	(5,484)	34,391
Net defined benefit liabilities	(2,427)	(1,110)
Cash generated from operations	598,655	212,566
Interest received	7,042	6,209
Interest paid	(25,714)	(25,423)
Income tax paid	(61,862)	(85,950)
Net cash generated from operating activities	<u>518,121</u>	<u>107,402</u>

(Continued)

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	\$ -	\$ (66,920)
Proceeds from disposal of available-for-sale financial assets	-	94,495
Acquisition of financial assets at amortized cost	(10,000)	-
Proceeds from disposal of financial assets at amortized cost	69,401	-
Acquisition of debt investments with no active market	-	(67,612)
Acquisition of investment accounted for using the equity method	-	(38,422)
Net cash outflow on acquisition of subsidiaries (Note 29)	16,202	(11,991)
Net cash inflow on disposal of subsidiaries	36	-
Acquisition of property, plant and equipment	(264,601)	(626,095)
Proceeds from disposal of property, plant and equipment	217,854	20,737
Increase in other receivables - related parties	-	(10,000)
Decrease in other receivables - related parties	90,000	-
Acquisition of intangible assets	(8,609)	(14,151)
Increase in other non-current assets	(7,888)	(651)
Dividends received	10,770	-
Net cash generated from (used in) investing activities	<u>113,165</u>	<u>(720,610)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	-	41,953
Repayments of short-term borrowings	(248,273)	-
Proceeds from long-term borrowings	950,000	1,155,000
Repayments of long-term borrowings	(1,675,760)	(430,619)
Increase in other non-current liabilities	109	-
Decrease in other non-current liabilities	-	(81)
Cash dividends paid	(327,616)	(389,970)
Proceeds from issuing preference shares	910,000	-
Proceeds from share options exercised	33,561	19,742
Cash dividends paid by subsidiary	(4,851)	-
Changes in non-controlling interests	(103)	15,594
Net cash (used in) generated from financing activities	<u>(362,933)</u>	<u>411,619</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>16,154</u>	<u>(86,067)</u>

(Continued)

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	For the Years Ended	
	December 31	
	2018	2017
NET (DECREASE) INCREASE IN CASH	\$ 284,507	\$ (287,656)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>509,708</u>	<u>797,364</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 794,215</u>	<u>\$ 509,708</u>

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

(Concluded)

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Kwong Lung Enterprise Co., Ltd. (the “Company”) was incorporated in February 1966 under the Company Law and related regulations of the Republic of China (ROC). The Company mainly manufactures and sells various feather products including apparel, down and bedding.

The Company’s shares have been traded on the Taipei Exchange (formerly known as Taiwan GreTai Securities Market) since April 1999.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as “the Group”) are presented in the Company’s functional currency, New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 8, 2019.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the FSC

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group’s accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendments

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that exist as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

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

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 509,708	\$ 509,708	
Derivatives	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	1,594	1,594	
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	146,293	146,293	a)
Debt securities	Loans and receivables	Amortized cost	50,000	50,000	b)
Time deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	72,403	72,403	b)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	1,384,908	1,384,908	c)

- a) As equity investments that were previously classified as available-for-sale under IAS 39 are not held for trading. As a result, the Company elected to designate all of these investments as at FVTOCI under IFRS 9. As a result, the related other equity-unrealized gain or loss on available-for-sale financial assets of \$59,778 thousand is reclassified to increase other equity - unrealized gain or loss on financial assets at FVTOCI.
- b) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- c) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.
- d) As equity investments that were previously classified as available-for-sale under IAS 39 are not held for trading. With the retrospective adoption of IFRS 9 by associates accounted for using equity method, the corresponding adjustments made by the Company would result in a decrease in other equity-unrealized gain or loss on available-for-sale financial assets of 2,110 thousand on January 1, 2018.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies. In addition, the Group will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2019

New, Amended And Revised Standards And Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan amendments, Curtailments, and Settlements”	January 1, 2019 (Note 3)
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

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

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

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets or investment properties if the right-of-use assets meet the definition of investment properties and lease liabilities for all leases on the balance sheets, except for short-term leases and leases for which the underlying asset is of low value. The lease payments associated with those leases will be recognized as an expense on a straight-line basis.

On the statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Before the adoption of IFRS 16, payments under operating lease contracts including property interest qualified as investment properties are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in China and Vietnam are recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the statements of cash flows. Contracts classified as finance lease are recognized as lease asset and finance lease payable on the balance sheets.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities at the commencement date. The Group applies IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

- a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

If the Group determines that a sale and leaseback transaction does not satisfy the requirements of IFRS 15 to be accounted for as a sale of an asset, it will be accounted for as a financing transaction. If it satisfies the requirements to be accounted for as a sale of an asset, the Group will recognize only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor. Currently, the leaseback portion is classified as either a finance lease or an operating lease and accounted for differently.

The Group will not reassess sale and leaseback transactions entered into before January 1, 2019 to determine whether the transfer of an underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. Upon initial application of IFRS 16, the aforementioned transitional provision for a lessee will apply to the leaseback portion.

The Group as lessor

Except for sublease transactions, the Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$	\$ 207,741	\$ 207,741
Other assets			
Prepayments for leases - current	3,843	(3,843)	-
Prepayments for leases - non-current	79,455	<u>(79,455)</u>	<u>-</u>
Total effect on assets		<u>\$ 124,443</u>	<u>\$ 207,741</u>
Lease liabilities - current		\$ 39,799	\$ 39,799
Lease liabilities - non-current		<u>84,644</u>	<u>84,644</u>
Total effect on liabilities		<u>\$ 124,443</u>	<u>\$ 124,443</u>
Total effect on equity	-	-	-

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

Except for the above impact, as of the date the financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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 and attributed to the owners of the Company.

See Note 15 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials, supplies, finished goods, work-in-process, goods to subcontractor and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

h. Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of equity of associates and joint venture attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate or joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate or joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate or joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates and joint ventures. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate or joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate or joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate or joint venture.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate or a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When the Group transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate and joint venture of entities that are not related to the Group.

i. Property, plant and equipment

Property, plant and equipment are stated at cost less recognized accumulated depreciation and accumulated impairment loss.

Properties, plant and equipment in the course of construction are measured at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

k. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation which is disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

l. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

m. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

n Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

2018

Financial assets, held by the Company, are classified into the following categories: financial assets at FVTPL, financial assets at amortized cost and equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Refer to Note 31 for the determination of fair value of the financial assets.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Subsequent to initial recognition, financial assets at amortized cost - consisting of cash and cash equivalents, trade receivables at amortized cost, trade receivables (including from related parties), contract assets and other receivables (including from related parties) - are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Cash equivalents include time deposits that are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: financial assets at FVTPL, available-for-sale financial assets, and loans and receivables.

i. Financial assets at FVTPL

Financial assets at FVTPL are derivatives that do not meet the criteria for hedge accounting and are measured at fair value with any gains or losses arising from remeasurement recognized in profit or loss. Refer to Note 31 for the determination of fair value of the financial assets.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

iii. Loans and receivables

Except for financial assets at FVTPL, loans and receivables (primarily including cash and cash equivalent, note receivables, debt instruments with no active market, trade receivables, and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits that are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses (ECL) on financial assets at amortized cost (including cash and cash equivalents, trade receivables at amortized cost, trade receivables (including from related parties)), contract assets, other receivables (including from related parties) and investments in debt instruments that are measured at FVTOCI.

For trade receivables and contract assets, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is 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.

For financial assets measured at amortized cost, 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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Except financial liabilities at FVTPL, financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities at FVTPL are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss.

4) Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

5) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including currency swaps.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument; in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

o. Revenue recognition

2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

For contracts where the period between the date on which the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

1) Revenue from the sale of goods

When the product arrives at the customer's designated place or when it is shipped, the customer has the right to set the price and use of the goods and has the primary responsibility for reselling, and bears the risk of obsolescence of the goods. The Group recognizes revenue and accounts receivable at that time.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable interest rate.

p. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

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

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur, or when the plan amendment or curtailment occurs or when the settlement occurs. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Employee share options

Employee share options granted to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimate of the number of options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date when the share options granted vest immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current tax and deferred tax for the year

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies (Note 4), management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss for trade receivables, the Group takes into consideration the estimation of future cash flows of such receivables. 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2018	2017
Cash on hand	\$ 2,759	\$ 1,727
Checking accounts and demand deposits	532,529	400,313
Cash equivalents (investments with original maturities less than three months)		
Time deposits	<u>258,927</u>	<u>107,668</u>
	<u>\$ 794,215</u>	<u>\$ 509,708</u>

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

	<u>December 31</u>	
	2018	2017
Bank balance	0%-1.35%	0%-1.35%
Time deposits	1.07%-3.15%	1.75%-3.95%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2018	2017
<u>Financial assets at FVTPL - current</u>		
Held for trading		
Financial assets mandatorily classified as at FVTPL	<u>\$ 2,034</u>	<u>\$ 1,594</u>
<u>Financial liabilities at FVTPL - current</u>		
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts	<u>\$ 10,289</u>	<u>\$ 78</u>

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2018</u>			
Sell	JPY/NTD	2019.2.26-2019.3.4	JPY600,000/NTD166,820
Sell	USD/CNY	2019.1.31-2019.10.29	USD12,000/CNY80,593
<u>December 31, 2017</u>			
Sell	JPY/NTD	2018.1.29-2018.2.27	JPY300,000/NTD80,777
Buy	EUR/NTD	2018.3.28-2018.4.11	EUR2,000/NTD71,215

The Group entered into foreign exchange forward contracts during 2018 and 2017 to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
<u>Non-current</u>	
Domestic investments	
Listed shares	<u>\$ 146,293</u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018
<u>Non-current</u>	
Domestic investments	
Listed shares	<u>\$ 100,700</u>

Refer to Note 3 and Note 8 for information relating to their reclassification and comparative information for 2017.

10. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
<u>Current</u>	
Restricted assets - bank balance (a)	\$ 2
Time deposits with original maturity more than 3 months (c)	<u>3,000</u>
	<u>\$ 3,002</u>
	(Continued)

**December 31,
2018**

Non-current

Private corporate bond with no active market (b) \$ 60,000
(Concluded)

- a. The bond investments with no active market were classified as financial instruments at FVTPL under IAS 39. Refer to Note 3 and Note 11 for information relating to their reclassification and comparative information for 2017.
- b. The Group bought one and five pieces of five-year corporate bond without security issued by Snowdown Merchandise Corporation with a coupon rate of 2.75%, at a par value of \$10,000 thousand, as of April 2018 and April 2017, respectively. Refer to Note 3 and Note 11 for information relating to their reclassification and comparative information for 2017.
- c. The market interest rates of the time deposits with original maturity more than 3 months was 1.065% per annum as of December 31, 2018.
- d. Refer to Note 33 for information related to investments in financial assets at amortized cost pledged as security.

11. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

**December 31,
2017**

Current

Restricted assets - bank balance (a) \$ 8,883
Time deposits with original maturity more than 3 months (b) 63,520
\$ 72,403

Non-current

Private corporate bond with no active market \$ 50,000

- a. Refer to Note 33 for information relating to bond investments with no active market pledged as security.
- b. The market interest rates of the time deposits with original maturity more than 3 months was 0.09%-1.75% per annum as of December 31, 2017.
- c. The Group bought five pieces of five-year corporate bond without security issued by Snowdown Merchandise Corporation with a coupon rate of 2.75%, at a par value of \$10,000 thousand, as of April 2017.

12. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Notes receivable</u>		
Notes receivable	\$ 132,444	\$ 112,607
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 132,444</u>	<u>\$ 112,607</u>
<u>Trade receivables (including related parties)</u>		
Trade receivables	\$ 916,873	\$ 930,999
Less: Allowance for impairment loss	<u>(1,299)</u>	<u>(10,116)</u>
	<u>\$ 915,574</u>	<u>\$ 920,883</u>
<u>Other receivables</u>		
Sale of raw materials	\$ 29,347	\$ 47,205
Tax refund receivable	71,894	99,517
Premium receivable	18,644	102,868
Others	3,558	11,828
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 123,443</u>	<u>\$ 261,418</u>

Notes Receivable and Trade Receivables

2018

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to estimate expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected losses allowance for all trade receivables. The expected credit losses on trade receivables are estimated using an allowance matrix, which takes into consideration the historical credit loss experience with the respective debtor, the current financial position of the debtor, and the current and future economic conditions of the industry as well as the overall economy. The overdue trade receivable will be provided with an allowance of 0.03% to 100%.

The Group writes off a trade receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or when the trade receivables are more than 2 years past due, whichever occurs earlier. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The aging of receivables was as follows:

	December 31, 2018
Less than 30 days	\$ 532,006
31-60 days	278,774
61-120 days	100,770
More than 121 days	<u>5,323</u>
	<u>\$ 916,873</u>

The above aging schedule was based on the number of overdue days from the posting date.

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

	2018
Balance at January 1, 2018 per IAS 39	\$ 10,116
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	10,116
Less: Net remeasurement of loss allowance	(997)
Less: Amounts written off	(7,851)
Foreign exchange gains and losses	<u>31</u>
Balance at December 31, 2018	<u>\$ 1,299</u>

2017

The credit policy of the group company in 2017 is the same as the aforementioned 2018 credit policy.

In determining the recoverability of trade receivables, the Group considered any change in the credit quality of the trade receivables since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss is recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

	December 31, 2017
Less than 30 days	\$ 514,665
31-60 days	255,782
61-120 days	149,934
More than 121 days	<u>10,618</u>
	<u>\$ 930,999</u>

The above aging schedule was based on the number of overdue days from the posting date.

The aging of receivables that were past due but not impaired was as follows:

	December 31, 2017
Less than 30 days	\$ 8,612
31-60 days	148
61-120 days	3
More than 121 days	<u>-</u>
	<u>\$ 8,763</u>

The above aging schedule was based on the past due days from due date.

The movements of the allowance for doubtful receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ 1,435	\$ 3,707	\$ 5,142
Less: Impairment losses recognized (Impairment losses reversed)	(2)	5,074	5,072
Foreign exchange translation gains and losses	<u>-</u>	<u>(98)</u>	<u>(98)</u>
Balance at December 31, 2017	<u>\$ 1,433</u>	<u>\$ 8,683</u>	<u>\$ 10,116</u>

13. INVENTORIES

	December 31	
	2018	2017
Merchandise	\$ 352,700	\$ 264,152
Finished goods	386,445	205,936
Work in progress	1,227,280	1,070,541
Raw materials and supplies	460,673	411,743
Goods to subcontractor	1,406	17,837
Inventory in transit	<u>190,271</u>	<u>281,179</u>
	<u>\$ 2,618,775</u>	<u>\$ 2,251,388</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$8,802,102 thousand and \$7,276,251 thousand, respectively. The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 included inventory write-downs of \$9,774 thousand and \$18,272 thousand, respectively.

14. SUBSIDIARIES

a. Subsidiaries included in consolidated financial statements

Investor	Investee	Main Business	% of Ownership		Remark	
			2018	2017		
The Company	Kwong Lung Feather (B.V.I.) Limited	Overseas reinvested holding company.	100	100		
	Kwong Lung Meko Co., Ltd.	Manufacturing and selling of down and bedding.	100	100		
	Kwong Lung Japan Co., Ltd.	Manufacturing and selling of down and bedding.	100	100		
	Bo Hsing Enterprise Co., Ltd.	Manufacturing and selling of apparel.	100	100		
	Toptex Garment Co., Ltd.	Manufacturing and selling of apparel.	100	100		
	Nepheles Co., Ltd.	Manufacturing, exporting, importing and selling clothing.	-	90	2)	
	Klego Co., Ltd.	Wholesale and retail sale of cloths, clothes, shoes, hat, umbrella and apparel, clothing accessories, furniture, bedclothes, kitchen equipment, fixtures, cosmetics and other textile products; retail business without shop; retail sale of other products; international trade; software design services; data processing services; third party payment; retail sale of computer software; body shaping services; wholesale and retail sale of drugs, medical goods.	100	100		
	BBL Premium Co., Ltd.	Outerwear knitting mills; apparel, clothing accessories and other textile product manufacturing; other textile products manufacturing; cleaning products manufacturing; wholesale and retail sale of cloths, clothes, shoes, hat, umbrella and apparel, clothing accessories, furniture, bedclothes, kitchen equipment, fixtures, articles for daily use, cleaning preparations and other textile products; wholesale of pottery, porcelain and glassware; international trade.	100	100		
		KWONG LUNG EUROPE SP.Z.O.O.	Various selling of down and bedding	100	100	1)
		KWONG LUNG-OMON COMPANY LIMITED	Manufacturing and selling of apparel.	100	49	3)
Bo Hsing Enterprise Co., Ltd.	Kwong Lung Meko (B.V.I.) Ltd.	Overseas reinvested holding company.	40	100	4)	
Kwong Lung Meko Co., Ltd.	Kwong Lung Meko (B.V.I.) Ltd.	Overseas reinvested holding company	60	-	4)	
Kwong Lung Feather (B.V.I.) Limited	Snowdown Merchandise (Suzhou) Co., Ltd.	Manufacturing and selling of down and bedding.	100	100		
Snowdown Merchandise (Suzhou) Co., Ltd.	Kunshan Fulong Trade Co., Ltd.	Wholesale of outdoor supplies, household wares, clothing, and related packaging materials; food; Import and export of goods and technology	100	100		
Snowdown Merchandise (Suzhou) Co., Ltd.	Huai An Guang Long He Yu Home Textile Co., Ltd	Home textile products; textile and apparel production and sales; feather acquisition; down processing, down products production and sales; self-support and agents of various types of goods and technology import and export business.	51	51		
Kwong Lung Japan Co., Ltd.	Downgoods Co., Ltd.	Manufacturing, exporting, importing and selling clothing.	-	100	2)	
BBL Premium Co., Ltd.	Manumech Corporation	Wholesale	51	51		
Manumech Corporation	Windsun Industry Co., Ltd.	Wholesale	100	100		
	Intime Tech Co., Ltd.	Wholesale	100	100		

- 1) The financial statements of the subsidiaries were audited as of December 31, 2017. Because KWONG LUNG EUROPE SP. Z.O.O. is not a major subsidiary, its financial statements have not been audited. Management believes that auditing the financial statements of KWONG LUNG EUROPE SP. Z.O.O. would not result in significant impact on the Group's consolidated financial statements.
 - 2) Management believes that the liquidation of the subsidiary has no significant impact on the consolidated financial statements.
 - 3) In January 2018, the Group has acquired control of the VIET TIEN MEKO COMPANY LIMITED, which was originally a joint venture investment company, and changed its name to "KWONG LUNG-O MON COMPANY LIMITED".
 - 4) In October 2018, KWONG LUNG MEKO CO., LTD. increased USD 3,000 thousand capital of KWONG LUNG MEKO (B.V.I.) LTD., representing a 60% shareholding. This resulted in a decrease from 100% to 40% shareholding on BOHSING ENTERPRISE CO., LTD. The capital increase did not affect the control of the Group and did not affect its profit and loss.
- b. Subsidiaries excluded from consolidated financial statements: None.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Investments in associates	\$ 156,970	\$ 145,939
Investments in joint ventures	<u>-</u>	<u>55,044</u>
	<u>\$ 156,970</u>	<u>\$ 200,983</u>

a. Investments in associates

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Associates that are not individually material	<u>\$ 156,970</u>	<u>\$ 145,939</u>

Aggregate information of associates that are not individually material

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
The Group's share of:		
Profit (loss) from continuing operations	\$ 8,937	\$ (687)
Other comprehensive income	<u>2,286</u>	<u>(11,016)</u>
Total comprehensive income (loss) for the year	<u>\$ 11,223</u>	<u>\$ (11,703)</u>

b. Investments in joint ventures

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Joint ventures that are not individually material	<u>\$ -</u>	<u>\$ 55,044</u>

Aggregate information of joint ventures that are not individually material

(In Thousands of Vietnamese Dong)

For the Year Ended December 31
2018 **2017**

The Group's share of:

Profit (loss) from continuing operations	\$ -	\$ (4,015,358)
Other comprehensive income	-	-
Total comprehensive income (loss) for the year	<u>\$ -</u>	<u>\$ (4,015,358)</u>

In 2017, the proportion of ownership and voting rights in joint ventures held by the Group was 49%.

In January 2018, the Group has acquired control of the VIET TIEN MEKO COMPANY LIMITED, which was originally a joint venture investment company. Refer to Note 29 for information relating to investments in joint ventures.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery Equipment	Trans- portation Equipment	Other Equipment	Property under Construction	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 265,684	\$ 1,245,145	\$ 743,454	\$ 45,570	\$ 307,260	\$ 64,561	\$ 2,671,674
Additions	-	63,506	61,927	4,320	13,278	474,508	617,539
Acquired in business combination	21,240	3,834	-	-	270	-	25,344
Disposals	-	(196,086)	(119,566)	(7,497)	(22,517)	-	(345,666)
Reclassification	309,466	40,758	19,233	1,165	5,988	(355,716)	20,894
Effect of foreign currency exchange differences	-	(45,248)	(38,303)	(2,224)	(4,476)	(2,439)	(92,690)
Balance at December 31, 2017	<u>\$ 596,390</u>	<u>\$ 1,111,909</u>	<u>\$ 666,745</u>	<u>\$ 41,334</u>	<u>\$ 299,803</u>	<u>\$ 180,914</u>	<u>\$ 2,897,095</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 528,789	\$ 594,357	\$ 30,378	\$ 263,952	\$ -	\$ 1,417,476
Acquired in business combination	-	655	-	-	81	-	736
Disposals	-	(52,130)	(98,325)	(4,361)	(21,332)	-	(176,148)
Depreciation expense	-	48,975	48,833	4,366	17,548	-	119,722
Effect of foreign currency exchange differences	-	(16,609)	(32,421)	(1,313)	(3,477)	-	(53,820)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 509,680</u>	<u>\$ 512,444</u>	<u>\$ 29,070</u>	<u>\$ 256,772</u>	<u>\$ -</u>	<u>\$ 1,307,966</u>
Carrying amounts at December 31, 2017	<u>\$ 596,390</u>	<u>\$ 602,229</u>	<u>\$ 154,301</u>	<u>\$ 12,264</u>	<u>\$ 43,031</u>	<u>\$ 180,914</u>	<u>\$ 1,589,129</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 596,390	\$ 1,111,909	\$ 666,745	\$ 41,334	\$ 299,803	\$ 180,914	\$ 2,897,095
Additions	-	39,853	85,663	4,215	52,995	93,895	276,621
Acquired in business combination	-	16,721	43,098	944	2,340	-	63,103
Disposals	(122,919)	(31,340)	(7,550)	(569)	(45,206)	-	(207,584)
Reclassification	-	243,906	2,597	-	11,515	(258,018)	-
Effect of foreign currency exchange differences	-	668	6,832	294	(2,141)	504	6,157
Balance at December 31, 2018	<u>\$ 473,471</u>	<u>\$ 1,381,717</u>	<u>\$ 797,385</u>	<u>\$ 46,218</u>	<u>\$ 319,306</u>	<u>\$ 17,295</u>	<u>\$ 3,035,392</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 509,680	\$ 512,444	\$ 29,070	\$ 256,772	\$ -	\$ 1,307,966
Disposals	-	(1,486)	(5,477)	(558)	(12,610)	-	(20,131)
Acquired in business combination	-	11,862	27,897	815	1,829	-	42,403
Depreciation expense	-	50,188	58,306	3,943	19,655	-	132,092
Effect of foreign currency exchange differences	-	(1,504)	3,069	(16)	(2,014)	-	(465)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 568,740</u>	<u>\$ 596,239</u>	<u>\$ 33,254</u>	<u>\$ 263,632</u>	<u>\$ -</u>	<u>\$ 1,461,865</u>
Carrying amounts at December 31, 2018	<u>\$ 473,371</u>	<u>\$ 812,977</u>	<u>\$ 201,146</u>	<u>\$ 12,964</u>	<u>\$ 55,674</u>	<u>\$ 17,295</u>	<u>\$ 1,573,527</u>

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

Building	
Main buildings	5 to 51 years
Construction	1 to 26 years
Machinery equipment	2 to 20 years
Transportation equipment	4 to 12 years
Other equipment	
Office equipment	3 to 10 years
Air conditioning	36 to 51 years
Utilities equipment	2 to 23 years
Others	1 to 25 years
Leasehold improvements	1 to 5 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 33.

17. INVESTMENT PROPERTIES

	<u>December 31</u>	
	2018	2017
Completed investment properties	<u>\$ 96,680</u>	<u>\$ 92,282</u>

The investment properties are depreciated using the straight-line method over their estimated useful life as follows:

Main buildings	28 years
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The fair values of investment properties were assessed as follows:

(In Thousands of Japanese Yen)

	<u>December 31</u>	
	2018	2017
Independent valuation	<u>\$ 349,000</u>	<u>\$ 388,000</u>

The fair value of investment properties as of December 31, 2018 was based on the valuation carried out as of by independent qualified professional valuator, a member of certified Japan real estate appraisers. The fair value of investment properties was estimated by using the market price approach, cost approach and the direct capitalization approach.

The fair value of investment properties was not evaluated by independent appraisers on December 31, 2017 but evaluated by the management using the evaluation model commonly used by market participants. This evaluation is based on market evidence of transactions involving similar real estate.

18. OTHER INTANGIBLE ASSETS

	<u>December 31</u>	
	2018	2017
Goodwill (Note 29)	\$ 22,022	\$ -
Cost of computer software	36,571	37,494
Others	<u>7,488</u>	<u>195</u>
	<u>\$ 66,081</u>	<u>\$ 37,689</u>

Other intangible assets are amortized on a straight-line basis over the estimated useful lives 1-10 years.

19. PREPAYMENTS FOR LEASE OBLIGATIONS

	<u>December 31</u>	
	2018	2017
Prepayments for lease obligations	<u>\$ 79,455</u>	<u>\$ 82,604</u>

The prepaid lease payments include land use rights, which are located in mainland China and Vietnam.

20. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2018	2017
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>\$ 380,855</u>	<u>\$ 627,818</u>
Range of interest rates	<u>0.27%-0.94%</u>	<u>0.25%-4.79%</u>

b. Current portion of long-term borrowings

	<u>December 31</u>	
	2018	2017
Current portion of bonds payable	\$ 789,886	\$ -
Current portion of long-term borrowings	<u>985</u>	<u>100,836</u>
	<u>\$ 790,871</u>	<u>\$ 100,836</u>

c. Long-term borrowings

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Secured borrowings (Note 33)</u>		
Bank loans*	\$ 115,705	\$ 116,465
<u>Unsecured borrowings</u>		
Credit borrowings	<u>100,000</u>	<u>825,000</u>
	215,705	941,465
Less: Current portion	<u>(985)</u>	<u>(100,836)</u>
Long-term borrowings	<u>\$ 214,720</u>	<u>\$ 840,629</u>
Range of interest rates	<u>1.3%-1.82%</u>	<u>1.21%-1.72%</u>

* The bank borrowings are secured by the Group's freehold land and buildings (see Note 33).

21. BONDS PAYABLE

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Unsecured bonds payable	\$ 789,886	\$ 776,572
Less: Current portion	<u>(789,886)</u>	<u>-</u>
Bonds payable	<u>\$ -</u>	<u>\$ 776,572</u>

To repay the loan, the Company issued the 1st domestic unsecured convertible bonds with an aggregate principal amount of \$800,000 thousand and a face value of \$100 thousand per bond certificate. At the maturity date of the bonds payable, if the bondholders don't convert the bonds, the Company has to repay the bonds at face value in cash. The convertible bonds are separated into option and liability and presented in equity under the heading of capital surplus - option and liability respectively. The terms and conditions of the bond are as follows:

- a. Issuance date: September 30, 2016
- b. Coupon rate: 0%
- c. Issuance period: 3 years, and a circulation period from September 30, 2016 to September 30, 2019.
- d. Redemption of the convertible bonds

The Company has the right to redeem the outstanding convertible bonds payable at par value in cash during the period from three month after the issuance date (December 31, 2017) to the date 40 days (August 21, 2019) prior to the maturity date. The conditions are as follows:

- 1) The closing price of the Company's ordinary shares continues being at least 130% of the conversion price then in effect for 30 consecutive trading days; or
- 2) The aggregate outstanding balance of the bonds payable is less than 10% of the original issuance amount.

e. Redemption method

1) The Company meets the obligation of convertible bonds by issuing ordinary shares.

2) Conversion period:

Except for the book closure period, bondholders are entitled to convert bonds into ordinary shares from October 31, 2016 to September 30, 2019.

3) The conversion price of the bonds is set up based on the Arithmetic mean of the business day's share closing price multiplied by 103% premium rate before the effective date, September 22, 2016. The conversion price is set initially at 50.88 per share.

a) After the issuance of the convertible bonds, in the event that the Company issued new ordinary shares or any kind of securities with conversion option or issue ordinary shares as employee bonus, the Company shall adjust the conversion price of the convertible bonds according to the given formula when the value of publicly or privately issued ordinary shares increased (including but not limited to cash replenishment by either public issuance or private placement, earnings transferred to capital, capital surplus transferred to capital, share issuance in business combination, share split, and cash replenishment to participate in the issuance of overseas depositary receipts etc.)

b) After the issuance of the convertible bonds, in the event that the ratio of the cash dividends of the ordinary shares to the price per share is more than 1.5%, the conversion price shall be reduced on the basis of the ratio at the effective date.

c) After the issuance of the convertible bonds, the conversion price shall be adjusted according to the given formula when the Company issues or privately place any kind of securities with conversion or share option priced lower than the market price per share.

d) After the issuance of the convertible bonds, the conversion price shall be adjusted according to the given formula when the reduction of the ordinary shares is not because of the reduction of the treasury shares.

4) The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - option. The effective interest rate of the liability component was 1.7145% per annum on initial recognition.

Proceeds of the issuance (less transaction costs \$5,120 thousand)	\$ 794,880
Equity component (less transaction costs allocated to the equity component of \$223 thousand)	<u>(34,657)</u>
Liability component at the date of issuance (less transaction costs allocated to the liability component of \$4,897 thousand)	760,223
Interest charged at an effective interest rate	<u>29,663</u>
Liability component at December 31, 2017	<u>\$ 789,886</u>

22. OTHER PAYABLES

	<u>December 31</u>	
	2018	2017
Accrued payroll and employee benefit	\$ 228,784	\$ 203,392
Accrued fabrication expense	10,423	22,214
Accrued bonus to employees	26,899	-
Accrued remuneration to directors and supervisors	11,550	-
Accrued commissions	14,000	9,214
Accrued equipment	12,157	-
Others	<u>165,495</u>	<u>131,632</u>
	<u>\$ 469,308</u>	<u>\$ 366,452</u>

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company, Klego Co., Ltd., BBL Premium Co., Ltd. and Manumech Corporation of the Group adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiary outside Taiwan are members of a state-managed retirement benefit plan operated by the government. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 3.18% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Company has no right to influence the investment policy and strategy.

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

	<u>December 31</u>	
	2018	2017
Present value of defined benefit obligation	\$ 60,568	\$ 65,816
Fair value of plan assets	<u>(18,159)</u>	<u>(18,087)</u>
Net defined benefit liability	<u>\$ 42,409</u>	<u>\$ 47,729</u>

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2017	<u>\$ 69,036</u>	<u>\$ (21,886)</u>	<u>\$ 47,150</u>
Service cost			
Current service cost	409	-	409
Net interest expense (income)	<u>851</u>	<u>(274)</u>	<u>577</u>
Recognized in profit or loss	<u>1,260</u>	<u>(274)</u>	<u>986</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	73	73
Actuarial loss - changes in demographic assumptions	120	-	120
Actuarial loss - experience adjustments	(336)	-	(336)
Actuarial loss - changes in financial assumptions	<u>1,832</u>	<u>-</u>	<u>1,832</u>
Recognized in other comprehensive income	<u>1,616</u>	<u>73</u>	<u>1,689</u>
Benefits paid - recognized expenses	-	(2,096)	(2,096)
Benefits paid - from plan assets	<u>(6,096)</u>	<u>6,096</u>	<u>-</u>
Balance at December 31, 2017	<u>65,816</u>	<u>(18,087)</u>	<u>47,729</u>
Service cost			
Current service cost	367	-	367
Past service cost	(298)	-	(298)
Net interest expense (income)	<u>648</u>	<u>(180)</u>	<u>468</u>
Recognized in profit or loss	<u>717</u>	<u>(180)</u>	<u>537</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(602)	(602)
Actuarial loss - changes in demographic assumptions	13	-	13
Actuarial loss - experience adjustments	<u>(2,304)</u>	<u>-</u>	<u>(2,304)</u>
Recognized in other comprehensive income	<u>(2,291)</u>	<u>(602)</u>	<u>(2,893)</u>
Benefits paid - recognized expenses	-	(2,964)	(2,964)
Benefits paid - from plan assets	<u>(3,674)</u>	<u>3,674</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 60,568</u>	<u>\$ (18,159)</u>	<u>\$ 42,409</u>

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government or corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2018	2017
Discount rate(s)	1.00%	1.00%
Expected rate(s) of salary increase	3.00%	3.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<u>December 31</u>	
	2018	2017
Discount rate(s)		
0.25% increase	<u>\$ (1,514)</u>	<u>\$ (1,837)</u>
0.25% decrease	<u>\$ 1,572</u>	<u>\$ 1,913</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 1,537</u>	<u>\$ 1,871</u>
0.25% decrease	<u>\$ (1,489)</u>	<u>\$ (1,806)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 1,743</u>	<u>\$ 1,853</u>
The average duration of the defined benefit obligation	10 years	11 years

24. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	2018	2017
Number of shares authorized (in thousands)	<u>180,000</u>	<u>160,000</u>
Shares authorized	<u>\$ 1,800,000</u>	<u>\$ 1,600,000</u>
Number of shares issued and fully paid (in thousands)	<u>110,354</u>	<u>109,013</u>
Shares issued	<u>\$ 1,103,540</u>	<u>\$ 1,090,130</u>

The authorized shares include shares allocated for exercise of employee share option.

b. Preference shares

The board of directors resolved to issue preference shares A on September 25, 2018. The issuance of preference shares A was approved under the Rule No. 1070337798 issued by FSC on October 25, 2018. The total amount of preference share A issued was \$910,000 thousand, consisting of 18,200 thousand shares sold at \$50, with a par value of \$10. The record date of capital increase was December 20, 2018. The payment of all issued preference shares was received and the relevant statutory registration procedures were completed. The preference shares are classified as equity.

The rights and obligations of the preference shares A are as follows:

- 1) The preferred shares are perpetual.
- 2) The dividends of preferred shares A is capped at 5% per annum on the issue price. The dividend rate will be set as 5-year IRS + [fixed rate]. The fixed rate will be reset after one business day when 5-year is due.
- 3) The fiscal year-end earnings of the Company shall be applied to the following in order: payments of taxes, adjustments per financial and accounting principle, making-up of deficit, legal reserve, special reserve by law or reversal, and the remaining shall be paid to holders of preferred shares as the current year's dividends. The company has discretion over the dividend distribution of preferred shares A. The company may decide not to distribute dividends of preferred shares in the following circumstances: (a) there are no earnings in a fiscal year, and (b) the earnings are insufficient to distribute dividends of preferred shares. The cancellation of dividend payment should not constitute an event of default. The preferred shares are noncumulative, and the preferred shareholders do not have the right to claim any of the unpaid or omitted dividends in the future. Preferred shares dividend will be paid in cash every year after the Annual General Meeting has approved on the audited financial reports. The board will decide on a payment record date for distributing the dividend. Preferred shares dividend on the issued year and redeemed year will be calculated based on actual number of days issued.
- 4) Preferred shareholders are not entitled to received ordinary shares' cash or share dividends derived from earnings or capital reserve.
- 5) Preferred shares may be redeemed in whole or in part at issue price anytime after five years of issuance at the original issued price. Unredeemed preferred shares shall continue to have the rights and obligations of issuance terms prescribed in this Article. Preferred shares dividend on the redeemed year will be calculated based on actual number of days issued.
- 6) The order of claim for distribution of property is prior to ordinary shares. The claim of all series of preferred shareholders is equal, but subordinate to the holders of debts. The repayment shall be capped at the respective issue amount of preferred shares upon liquidation.
- 7) Preferred shareholders do not have voting rights or suffrage. However, they have voting rights with respect to agendas related to the rights and obligations of preferred shares in shareholders' meetings.
- 8) Preferred shares cannot be converted to ordinary shares within one year after the preferred share issuance. The actual conversion period will be subjected to the terms approved by the chairman. Preferred shareholders A then can convert partially or wholly into ordinary shares based on the approved conversion terms and period. (conversion ratio 1:1) Once Preferred shares shareholders A are converted to ordinary shares, it has the same rights as ordinary shareholders. The preferred shares dividend will be distributed based on the actual number of days issued. Preferred shares shareholders A are not entitled to preferred dividend if the preferred shares are converted to ordinary share prior to the ex-dividend record date, but are entitled to ordinary shares dividend derived from earnings and capital reserve.

9) Preferred shareholders have the same pre-emptive right as ordinary shareholders for newly issued shares.

c. Capital surplus

The capital surplus arising from shares issued in excess of par (including share premium from issuance of ordinary shares and treasury share transactions) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

The capital surplus arising from employee share and convertible bonds options may not be used for any other purposes.

d. Retained earnings and dividends policy

2018

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders.

Company's Articles also stipulate a dividends policy whereby the issuance of stock dividends takes precedence over the payment of cash dividends. In principle, cash dividends are limited to 20% of the total dividends distributed.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

2017

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders.

The dividend policy provides that the amount of dividend shall be determined after taking into consideration factors such as development plan, investment environment, funding requirements, and overseas competitive landscape, as well as shareholders' interest. The Company continues to operate in its growth phase. The distribution of shareholders' dividend may be made by way of cash dividend and share dividend, provided that cash dividend shall account for at least 20% of the total dividends distributed. However, the Company may adjust the distribution of cash dividends and share dividends as necessary, depending on factors such as economic condition, industrial development, and funding requirements.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2017 and 2016 have been approved in the shareholders' meetings on June 22, 2018 and June 22, 2017, respectively; the amounts were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2017	2016	2017	2016
Legal reserve	\$ -	\$ 44,737		
Special reserve	80,889	-		
Ordinary dividends	218,411	389,970	\$2.0	\$3.6

The board of directors also resolved the payment of cash dividends from capital surplus of \$109,205 thousand on June 22, 2018.

The appropriations of earnings for 2018 had been proposed by the Company's board of directors on March 8, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Special reserve	\$ 7,745	
Legal reserve	61,834	
Preferred dividends	1,496	
Ordinary dividends	386,957	\$3.5

The appropriations of earnings for 2018 are subject to the resolution in the shareholders' meeting to be held in May 2019.

25. NET PROFIT FROM CONTINUING OPERATIONS

Net Profit from Continuing Operations

a. Other income

	For the Year Ended December 31	
	2018	2017
Interest income	\$ 7,042	\$ 6,209
Dividend income	<u>10,770</u>	<u>-</u>
	<u>\$ 17,812</u>	<u>\$ 6,209</u>

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	\$ 381,458	\$ 221,218
Foreign exchange losses	(301,064)	(262,790)
Net gain on financial assets designated as at FVTPL	(8,255)	1,516
Gain on disposal of investment	-	76,601
Gain (loss) on disposal of associates	10,487	-
Gain (loss) on disposal of property, plant and equipment	30,401	205
Loss on disasters (Note 35)	-	(676,878)
Insurance claims (Note 35)	274,848	262,377
Others	<u>2,288</u>	<u>7,859</u>
	<u>\$ 390,163</u>	<u>\$ (369,892)</u>

c. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	\$ 25,095	\$ 25,834
Convertible bonds	<u>13,315</u>	<u>13,090</u>
	<u>\$ 38,410</u>	<u>\$ 38,924</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	\$ 132,092	\$ 119,722
Investment property	482	479
Intangible assets	<u>11,469</u>	<u>12,905</u>
	<u>\$ 144,043</u>	<u>\$ 133,106</u>
 An analysis of depreciation by function		
Operating costs	\$ 91,996	\$ 75,827
Operating expenses	<u>40,578</u>	<u>44,374</u>
	<u>\$ 132,574</u>	<u>\$ 120,201</u>
 An analysis of amortization by function		
Operating costs	\$ 2,095	\$ 252
Operating expenses	<u>9,374</u>	<u>12,653</u>
	<u>\$ 11,469</u>	<u>\$ 12,905</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits		
Defined contribution plans	\$ 21,642	\$ 21,293
Defined benefit plans	<u>537</u>	<u>986</u>
	<u>22,179</u>	<u>22,279</u>
Share-based payments		
Equity-settled	<u>5,298</u>	<u>6,413</u>
Other employee benefits	<u>1,281,003</u>	<u>1,010,039</u>
Total employee benefits expense	<u>\$ 1,308,480</u>	<u>\$ 1,038,731</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 843,872	\$ 634,195
Operating expenses	<u>464,608</u>	<u>404,536</u>
	<u>\$ 1,308,480</u>	<u>\$ 1,038,731</u>

f. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration to directors and supervisors at the rates no less than 1% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2018 and 2017 which have been approved by the Company's board of directors on March 8, 2019 and March 23, 2018, respectively, were as follows:

Amount

	For the Year Ended December 31	
	2018	2017
	Cash	Cash
Employees' compensation	\$ 26,899	\$ -
Remuneration to directors and supervisors	11,550	-

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration to directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

- a. Major components of income tax expense recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 78,513	\$ 63,992
Income tax expense of unappropriated earnings	-	1,361
Adjustments for prior periods	<u>224</u>	<u>3,565</u>
	<u>78,737</u>	<u>68,918</u>
Deferred tax		
In respect of the current year	6,322	(9,826)
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>11,249</u>	<u>-</u>
	<u>17,571</u>	<u>(9,826)</u>
Income tax expense recognized in profit or loss	<u>\$ 96,308</u>	<u>\$ 59,092</u>

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

	For the Year Ended December 31	
	2018	2017
Profit (loss) before tax from continuing operations	<u>\$ 727,940</u>	<u>\$ (50,711)</u>
Income tax expense (benefit) calculated at the statutory rate	\$ 145,588	\$ (8,631)
Nondeductible expenses (deductible gains) in determining taxable income	(16,952)	3,190
Deferred tax on undistributed earnings (loss) from subsidiary	58,834	(73,666)
Additional income tax on unappropriated earnings	-	1,361
Unrecognized deductible temporary differences	(56,883)	47,462
Effect of tax rate changes	11,249	-
Effect of different tax rates of the Group operating in other jurisdictions	(45,752)	85,811
Adjustments for prior years' tax	<u>224</u>	<u>3,565</u>
Income tax expense recognized in profit or loss	<u>\$ 96,308</u>	<u>\$ 59,092</u>

In 2017, the applicable corporate income tax rate used by the Group in the ROC is 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other groups operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Acquired in Business Combination	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Foreign exchange losses	\$ 2,403	\$ (1,891)	\$ -	\$ -	\$ 512
Write-down of inventories	5,758	(875)	-	-	4,883
Unrealized intercompany gain	2,181	(12)	-	-	2,169
Foreign subsidiaries' investment profits and losses	20,944	5,074	-	-	26,018
FVTPL financial liabilities	13	2,045	-	-	2,058
Defined benefit obligation	8,089	556	-	(191)	8,454
Accrued employee benefit	4,573	876	-	-	5,449
Others	737	(192)	-	-	545
	<u>\$ 44,698</u>	<u>\$ 5,581</u>	<u>\$ -</u>	<u>\$ (191)</u>	<u>\$ 50,088</u>

Deferred tax liabilities

Temporary differences					
Foreign exchange gains	\$ (3,104)	\$ (4,862)	\$ -	\$ -	\$ (7,966)
FVTPL financial assets	(271)	(136)	-	-	(407)
Foreign subsidiaries' investment profits and losses	(102,732)	(18,130)	-	-	(120,862)
Others	(141)	(24)	-	-	(165)
	<u>\$ (106,248)</u>	<u>\$ (23,152)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (129,400)</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Acquired in Business Combination	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Foreign exchange losses	\$ 6,624	\$ (4,221)	\$ -	\$ -	\$ 2,403
Write-down of inventories	4,630	1,128	-	-	5,758
Unrealized intercompany gain	2,438	(257)	-	-	2,181
Foreign subsidiaries' investment profits and losses	-	20,944	-	-	20,944
FVTPL financial liabilities	-	13	-	-	13

(Continued)

	Opening Balance	Recognized in Profit or Loss	Acquired in Business Combination	Recognized in Other Comprehen- sive Income	Closing Balance
Defined benefit obligation	\$ 7,989	\$ (187)	\$ -	\$ 287	\$ 8,089
Accrued employee benefit	4,411	162	-	-	4,573
Others	<u>798</u>	<u>(554)</u>	<u>493</u>	<u>-</u>	<u>737</u>
	<u>\$ 26,890</u>	<u>\$ 17,028</u>	<u>\$ 493</u>	<u>\$ 287</u>	<u>\$ 44,698</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Foreign exchange gains	\$ (31)	\$ (2,750)	\$ (323)	\$ -	\$ (3,104)
FVTPL financial assets	(2,342)	2,071	-	-	(271)
Foreign subsidiaries' investment profits and losses	(96,209)	(6,523)	-	-	(102,732)
Others	<u>(141)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(141)</u>
	<u>\$ (98,723)</u>	<u>\$ (7,202)</u>	<u>\$ (323)</u>	<u>\$ -</u>	<u>\$ (106,248)</u> (Concluded)

c. Income tax assessments

The tax returns through 2015 have been assessed by the tax authorities, and the Group agrees with the assessment.

27. EARNINGS PER SHARE (LOSS)

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net Profit (Loss) for the Year

	<u>For the Year Ended December 31</u>	
	2018	2017
Profit (loss) for the period attributable to owners of the Company	\$ 618,337	\$ (118,339)
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	<u>13,315</u>	<u>-</u>
		Note
Earnings used in the computation of diluted earnings (loss) per share	<u>\$ 631,652</u>	<u>\$ (118,339)</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings (loss) per share	107,808	107,518
Effect of potentially dilutive ordinary shares:		
Convertible bonds	18,136	-
Employee share option	1,108	-
Employees' compensation or bonus issue to employees	<u>600</u>	<u>-</u>
		Note
Weighted average number of ordinary shares used in the computation of diluted earnings (loss) per share	<u>127,652</u>	<u>107,518</u>

Note: As of 2017 of the net loss were anti-dilutive and excluded from the computation of diluted earnings per share.

If the Group offered to settle compensation paid to employees in cash or shares, the Group will assume the entire amount of the compensation or bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

28. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan of the Company

- 1) Qualified employees of the Company and its subsidiaries were granted 6,000 options in March 2014 and June 2013. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares listed on the Taipei Exchange on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

	2018				2017			
	Granted 2014		Granted 2013		Granted 2014		Granted 2013	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)						
Balance at January 1	274	\$ 35.30	1,055	\$ 15.40	352	\$ 38.40	1,375	\$ 16.70
Options exercised	(62)	34.96	(737)	14.87	(78)	37.92	(320)	16.40
Options forfeited	-	-	-	-	-	-	-	-
Balance at December 31	<u>212</u>	33.20	<u>318</u>	14.50	<u>274</u>	35.30	<u>1,055</u>	15.40
Options exercisable, end of period	<u>212</u>		<u>318</u>		<u>274</u>		<u>1,055</u>	

Information on outstanding options as of December 31, 2018 and 2017 was as follows:

	December 31	
	2018	2017
Range of exercise price (NT\$)	\$14.5-\$33.2	\$15.4-\$35.3
Weighted-average remaining contractual life (years)	0.47-2.22	1.46-2.22

Options granted in March 2014 and June 2013 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	March 2014	June 2013
Grant-date share price (\$)	\$48	\$21.3
Exercise price (\$)	\$48	\$21.3
Expected volatility	37.04%	36.55%
Expected life (years)	4.25 years	4.25 years
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	1.07%	0.99%

Expected volatility was based on the historical share price volatility.

- 2) Qualified employees of the Company and its subsidiaries were granted 3,926 options in March 2015 and April 2014. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 6 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the highest closing price of the Company's ordinary shares listed on the GreTai Securities Market on the day before the grant date, on the grant date and on the day after it, or the average closing price of the three days. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

	2018				2017			
	Granted 2015		Granted 2014		Granted 2015		Granted 2014	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)						
Balance at January 1	635	\$ 34.00	2,143	\$ 39.10	735	\$ 36.90	2,395	\$ 42.50
Options exercised	(35)	33.86	(507)	37.97	(100)	36.90	(190)	41.36
Options forfeited	-	-	(20)	36.80	-	-	(62)	41.92
Balance at December 31	<u>600</u>	32.00	<u>1,616</u>	36.80	<u>635</u>	34.00	<u>2,143</u>	39.10
Options exercisable, end of period	<u>417</u>		<u>1,616</u>		<u>268</u>		<u>1,533</u>	

Information on outstanding options as of December 31, 2018 and 2017 was as follows:

	December 31	
	2018	2017
Range of exercise price (NT\$)	\$32-\$36.8	\$34-\$39.1
Weighted-average remaining contractual life (years)	2.22-1.28	3.22-2.28

Options granted in March 2015 and April 2014 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	March 2015	April 2014
Grant-date share price (\$)		
Exercise price (\$)	\$43	\$53.8
Expected volatility	\$43	\$53.8
Expected life (years)	34.65%	37.11%
Expected dividend yield	4.38 years	4.38 years
Risk-free interest rate	0.00%	0.00%
	1.04%	1.09%

Expected volatility was based on the historical share price volatility.

- 3) Qualified employees of the Company and its subsidiaries were granted 2,200 options in March 2015 and June 2017. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted are valid for 5 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the highest closing price of the Company's ordinary shares listed on the GreTai Securities Market on the day before the grant date, on the grant date and on the day after it, or the average closing price of the three days. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

	2018	
	Granted 2018	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance at January 1	-	\$ -
Options granted	1,610	49.3
Options forfeited	<u>-</u>	-
Balance at December 31	<u>1,610</u>	49.3
Options exercisable, end of period	<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>11.9957</u>	

Information on outstanding options as of December 31, 2018 and 2017 was as follows:

	December 31, 2018
Range of exercise price (NT\$)	\$49.3
Weighted-average remaining contractual life (years)	4.45

Options granted in June 2018 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	September 2018
Grant-date share price (\$)	\$49.3
Exercise price (\$)	\$49.3
Expected volatility	30.7%
Expected life (years)	3.75years
Expected dividend yield	0.00%
Risk-free interest rate	0.66%

Expected volatility was based on the historical share price volatility.

Compensation cost recognized was \$5,298 thousand and \$6,413 thousand for years ended December 31, 2018 and 2017, respectively.

The weighted-average share price at the date of exercise of share options for the years ended December 31, 2018 and 2017 was \$47.58 and \$45.45, respectively.

29. BUSINESS COMBINATIONS

KWONG LUNG-OMON COMPANY LIMITED acquired

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
KWONG LUNG-OMON COMPANY LIMITED	Manufacturing and selling of apparel.	January 1, 2018	100	<u>\$ 38,422</u>

The merger company acquired VIET TIEN MEKO COMPANY LIMITED in 2018 to continue to expand the market. On January 10, 2018, it was renamed “KWONG LUNG-O MON COMPANY LIMITED” by “VIET TIEN MEKO COMPANY LIMITED”.

b. Consideration transferred

	KWONG LUNG-OMON COMPANY LIMITED
Prepayments for investments in shares	<u>\$ 38,422</u>

c. Assets acquired and liabilities assumed at the date of acquisition

**KWONG
LUNG-OMON
COMPANY
LIMITED**

Current assets	
Cash and cash equivalents	\$ 16,202
Trade receivables and other receivables	15,438
Inventories	1,780
Other current assets	720
Non-current assets	
Property, plant and equipment	20,700
Other intangible assets	9,226
Current liabilities	
Other payables	(13,420)
Current tax liabilities	<u>(282)</u>
	<u>\$ 50,364</u>

d. Goodwill recognized on acquisition

January 1, 2018

Consideration paid in cash	\$ 38,422
Plus: The fair value of the acquirer's previous interest in the acquiree at the acquisition date	33,964
Less: Fair value of identifiable net assets acquired	<u>(50,364)</u>
Goodwill recognized on acquisition	<u>\$ 22,022</u>

The goodwill recognized in the acquisitions of KWONG LUNG-OMON COMPANY LIMITED mainly represents the control premium included in the cost of the combinations. In addition, the consideration paid for the combinations effectively included amounts attributed to the benefits of expected synergies, revenue growth, future market development and the assembled workforces of KWONG LUNG-OMON COMPANY LIMITED. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

e. Net cash outflow on acquisition of subsidiary

January 1, 2018

Prepayments for investments in shares	<u>\$ (38,422)</u>
Cash and cash equivalent balance acquired	<u>\$ 16,202</u>

Manumech Corporation acquired

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Manumech Corporation	Machinery wholesale	May 2, 2017	51	<u>\$ 20,000</u>

Manumech Corporation was acquired in order to continue the expansion of the Group's market.

b. Consideration transferred

	Manumech Corporation
Cash	<u>\$ 20,000</u>

The acquisition-related costs have been excluded from the transfer consideration and are recognized as other costs in the acquisition period.

c. Assets acquired and liabilities assumed at the date of acquisition

	Manumech Corporation
Current assets	
Cash	\$ 8,009
Debt investments with no active market - current	9,791
Notes receivable	2,703
Trade receivables	93,503
Other receivables	2,288
Other current assets	583
Non-current assets	
Property, plant and equipment	24,608
Deferred tax assets	493
Refundable deposits	5
Current liabilities	
Short-term borrowings	(48,615)
Trade payables	(34,017)
Other payables	(680)
Current tax liabilities	(2,033)
Other current liabilities	(33)
Non-current liabilities	
Long-term borrowings	(17,084)
Deferred tax liabilities	<u>(323)</u>
	<u>\$ 39,198</u>

d. Profit or loss recognized on acquisition

	May 2, 2017
Consideration paid in cash	\$ 20,000
Plus: Non-controlling interests	19,207
Less: Fair value of identifiable net assets acquired	<u>(39,198)</u>
	<u>\$ 9</u>

The consideration paid for the merger includes the anticipated synergy, revenue growth, and future market development. However, these benefits do not meet the recognition criteria of identifiable intangible assets and are not separately recognized. With a difference of \$9 thousand, other benefits and losses recognized by the management after the assessment would not have significant impact on the consolidated financial statements.

e. Net cash outflow on acquisition of subsidiaries

	May 2, 2017
Consideration paid in cash	\$ 20,000
Less: Cash and cash equivalent balance acquired	<u>(8,009)</u>
	<u>\$ 11,991</u>

f. Impact of acquisition on the results of the Group

The results of the acquired entity since the acquisition date included in the consolidated statements of comprehensive income were as follows:

	Manumech Corporation
Revenue	<u>\$ 231,512</u>
Profit	<u>\$ 18,758</u>

Had the business combination been in effect at the beginning of the annual reporting period, the Group's revenue from continuing operations would have been \$8,686,897 thousand, and the loss from continuing operations would have been \$(102,042) thousand for the year ended December 31, 2017. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that may have been actually achieved had the acquisition been completed on January 1, 2017, nor is it intended to be a projection of future results.

30. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy has no significant variations.

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

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

31. FINANCIAL INSTRUMENTS

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

December 31, 2018

	Carrying Amount	Fair Value
<u>Financial liabilities</u>		
Convertible bonds	\$ 789,886	\$ 832,400

December 31, 2017

	Carrying Amount	Fair Value
<u>Financial liabilities</u>		
Convertible bonds	\$ 776,572	\$ 876,000

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	<u>\$ 100,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,700</u>
Financial assets at FVTPL				
Derivative financial assets	<u>\$ -</u>	<u>\$ 2,034</u>	<u>\$ -</u>	<u>\$ 2,034</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	<u>\$ -</u>	<u>\$ 10,289</u>	<u>\$ -</u>	<u>\$ 10,289</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	<u>\$ 146,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,293</u>
Financial assets at FVTPL				
Derivative financial assets	<u>\$ -</u>	<u>\$ 1,594</u>	<u>\$ -</u>	<u>\$ 1,594</u>
Financial liabilities at FVTPL				
Derivative financial liabilities	<u>\$ -</u>	<u>\$ 78</u>	<u>\$ -</u>	<u>\$ 78</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

c. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ -	\$ 1,594
Financial assets mandatorily classified as at FVTPL	2,034	-
Loans and receivables (1)	-	1,917,502
Financial assets at amortized cost(2)	1,956,785	-
Available-for-sale financial assets	-	146,293
Financial assets designated as at FVTOCI	100,700	-
<u>Financial liabilities</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	10,289	78
Amortized cost (3)	2,376,493	3,307,022

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, trade receivables and other receivables.
- 2) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, debt investments, and notes receivable and trade receivables. Those reclassified to held-for-sale disposal groups are also included.
- 3) The balances include financial liabilities at amortized cost, which comprise short-term and long-term loans, short-term bills payable, trade and other payables, and bonds issued.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivable, other receivables, trade payables, other payables and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (refer to (a) below) and interest rates (refer to (b) below). The Group entered into forward foreign exchange contracts to manage its exposure to foreign currency risk.

a) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 37.

	<u>December 31</u>	
	2018	2017
<u>Assets</u>		
JPY	\$ 320	\$ 1,336
USD	1,714	258
<u>Liabilities</u>		
JPY	300	78
USD	9,989	-

Sensitivity analysis

The Group was mainly exposed to the USD, CNY, JPY and EUR.

The following table details the Group's sensitivity to a 3% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 3% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts which were not designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 3% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated with New Taiwan dollars weakening by 3% against the relevant currency. For a 3% strengthening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	<u>USD Impact</u>		<u>JPY Impact</u>	
	<u>For the Year Ended December 31</u>		<u>For the Year Ended December 31</u>	
	2018	2017	2018	2017
Profit or loss*	\$ 26,994	\$ 19,723	\$ 10,463	\$ 2,881
	<u>CNY Impact</u>		<u>EUR Impact</u>	
	<u>For the Year Ended December 31</u>		<u>For the Year Ended December 31</u>	
	2018	2017	2018	2017
Profit or loss*	\$ 309	\$ 231	\$ (4,597)	\$ (1,099)

* This was mainly attributable to the exposure on outstanding foreign currency cash, trade receivables, other receivables, borrowings, accounts payable, and other payables, which were not hedged at the end of the reporting period.

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings.

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

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 318,927	\$ 307,188
Financial liabilities	942,246	1,139,656
Cash flow interest rate risk		
Financial assets	528,033	409,368
Financial liabilities	444,200	1,206,199

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would decrease/increase by \$419 thousand and increase/decrease by \$3,984 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities. The Group does not actively trade these investments. The Group's equity price risk was mainly concentrated on equity instruments operating in the ROC.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 10% higher/lower, the pre-tax other comprehensive income for the years ended December 31, 2018 and 2017 would increase/decrease by \$10,070 thousand and \$14,629 thousand, respectively, as a result of the changes in fair value of available-for-sale shares.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

In order to minimize credit risk, management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks with good credit ratings assigned by international credit-rating agencies.

Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

Counterparties of trade receivables consisted of a large number of different customers, spread across apparel, down material, home textile industry and geographical areas. Ongoing credit evaluation is performed on the customers' financial condition. The Group's concentration of credit risk by geographical location was mainly in the U.S. and Japan.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Group had available unutilized bank loan facilities in the amounts of \$6,740,672 thousand and \$5,545,186 thousand, respectively.

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

The following tables detailed the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 784,313	\$ 403,654	\$ 69,313	\$ -
Bonds payable	-	-	800,000	-
Borrowings	<u>19,208</u>	<u>114,485</u>	<u>251,390</u>	<u>219,039</u>
	<u>\$ 803,521</u>	<u>\$ 518,139</u>	<u>\$ 1,120,703</u>	<u>\$ 219,039</u>

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 842,170	\$ 302,908	\$ 19,481	\$ -
Bonds payable	-	-	-	800,000
Borrowings	<u>93,259</u>	<u>265,125</u>	<u>391,896</u>	<u>851,113</u>
	<u>\$ 935,429</u>	<u>\$ 568,033</u>	<u>\$ 411,377</u>	<u>\$ 1,651,113</u>

b) Liquidity and interest rate risk tables for derivative financial liabilities

The following table detailed the Group's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis or on the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
<u>Gross settled</u>			
Foreign exchange forward contracts - outflows	<u>\$ -</u>	<u>\$ 320,389</u>	<u>\$ 215,097</u>

December 31, 2017

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year
<u>Gross settled</u>			
Foreign exchange forward contracts - outflows	<u>\$ 52,969</u>	<u>\$ 62,246</u>	<u>\$ 35,440</u>

32. TRANSACTIONS WITH RELATED PARTIES

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

a. Related parties and relationships

<u>Related Parties</u>	<u>Relationships with the Group</u>
Snowdown Merchandise Corporation	Investments in associates
Daquan Hanshi Co., Ltd.	Investments in associates
GONG TONG ZU LIN CO., LTD.	Investments in associates
JFT Circuit Limited	Substantively related parties (Beginning in May 2017 as a substantively related parties, as of June 2018, the non-consolidated company's relationship)
KWONG LUNG-OMON COMPANY LIMITED	Subsidiary (The original joint venture company was a subsidiary in January 2018; on January 10, 2018, it was renamed "KWONG LUNG-O MON COMPANY LIMITED" by "VIET TIEN MEKO COMPANY LIMITED")
OU LI INVESTMENT CO., LTD.	Substantively related parties
KAI SHENG INVESTMENT CO., LTD.	Substantively related parties

b. Sales of goods

Related Party	For the Year Ended December 31	
	2018	2017
JFT Circuit Limited	\$ 55,604	\$ 79,674
Daquan Hanshi Co., Ltd.	<u>357</u>	<u>-</u>
	<u>\$ 55,961</u>	<u>\$ 79,674</u>

The sale of goods to related parties were made at cost plus.

c. Manufacturing overhead

Related Party	For the Year Ended December 31	
	2018	2017
KWONG LUNG-OMON COMPANY LIMITED	\$ _____ -	\$ <u>105,765</u>

Processing fees are based on cost plus. They are the same as general manufacturer.

d. Receivables from related parties

Related Party	December 31	
	2018	2017
JFT Circuit Limited	\$ _____ -	\$ <u>52,543</u>

Payment terms of export relations are 120 days. The sales terms with non - related parties are L/C, L/C 90 days, T/T 30-90 days, O/A 30-180 days, D/A 30-90 days or D/P.

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for trade receivables from related parties.

e. Payables to related parties

Related Party	December 31	
	2018	2017
KWONG LUNG-OMON COMPANY LIMITED	\$ _____ -	\$ <u>15,373</u>

The outstanding trade payables to related parties are unsecured.

f. Property, plant and equipment acquired

Related Party	Price	
	For the Year Ended December 31	
	2018	2017
Daquan Hanshi Co., Ltd.	\$ -	\$ 4,000
GONG TONG ZU LIN CO., LTD.	<u>2,130</u>	<u>-</u>
	<u>\$ 2,130</u>	<u>\$ 4,000</u>

g. Acquisitions of financial assets

For the year ended December 31, 2018

Related Party	Account	Number of Shares	Underlying Assets	Price
Snowdown Merchandise Corporation	Financial assets at amortized cost - non-current	One shares with par value of \$10,000 thousand	Five-year private corporate bond with no active market	<u>\$ 10,000</u>

For the year ended December 31, 2017

Related Party	Account	Number of Shares	Underlying Assets	Price
Snowdown Merchandise Corporation	Debt investments with no active market - non-current	Five shares with par value of \$10,000 thousand	Five-year private corporate bond with no active market	<u>\$ 50,000</u>
h. Loans to related parties				
			December 31	
			2018	2017
Other receivables				
Snowdown Merchandise Corporation			\$ -	\$ 90,000
			For the Year Ended December 31	
			2018	2017
Interest income				
Snowdown Merchandise Corporation			\$ 1,375	\$ 2,362
i. Other income				
			December 31	
			2018	2017
Other income				
Daquan Hanshi Co., Ltd.			\$ 1,337	\$ 1,003
j. Expenses				
			December 31	
			2018	2017
Substantively related parties			\$ 1,400	\$ 1,000
The expenses included rents, other expenses, etc.				
k. Compensation of key management personnel				
			For the Year Ended December 31	
			2018	2017
Short-term employee benefits			\$ 61,094	\$ 43,980
Post-employment benefits			710	702
Share-based payments			<u>726</u>	<u>1,220</u>
			<u>\$ 62,530</u>	<u>\$ 45,902</u>

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

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and letters of credit:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Pledged assets (classified as debt investments with no active market)	\$ 2	\$ 8,883
Land	236,840	236,840
Buildings, net	<u>2,613</u>	<u>2,952</u>
	<u>\$ 239,455</u>	<u>\$ 248,675</u>

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2018 and 2017 were as follows:

Significant Commitments

- a. Unused letters of credit for purchases of raw materials as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
USD	\$ 2,121	\$ 2,493
EUR	829	654
NTD	44,434	57,597

- b. As of December 31, 2018 and 2017, guarantees issued by financial institutions for purchases of raw materials and development of technology amounted to \$51,954 thousand and \$22,795 thousand, respectively.
- c. As of December 31, 2018 and 2017, notes provided as refundable deposits for bank borrowing and purchases of raw materials were \$107,146 thousand and \$223,000 thousand, respectively.
- d. As of December 31, 2018 and 2017, commitments for purchases of machinery and equipment were as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Unpaid amounts of the purchases		
NTD	\$ 1,774	\$ 46,857
USD	356	319

35. SIGNIFICANT LOSSES FROM DISASTERS

A fire broke out on March 23, 2017 at the plant of the Vietnamese subsidiary KWONG LUNG MEKO CO., LTD., resulting in the destruction of some buildings, equipment and inventories. The estimated amount of disaster damage was \$676,878 thousand (US\$21,808 thousand), including loss of inventories \$527,892 thousand (US\$17,008 thousand) and real estate, plant and equipment \$148,986 thousand (US\$4,800 thousand) As of December 31, 2018, insurance claim income was \$537,225 thousand (US\$17,524 thousand), referring to Note 25.

36. SIGNIFICANT EVENT AFTER REPORTING PERIOD

On March 8, 2019, the board of directors passed a financings provided for NT\$120 million to Snowdown Merchandise Corporation.

37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 56,014	30.715 (USD:NTD)	\$ 1,720,470
USD	10,124	6.8930(USD:CNY)	310,959
USD	20,271	25,596 (USD:VND)	622,624
JPY	1,257,411	0.2782 (JPY:NTD)	349,812
VND	77,988,127	0.000039 (VND:USD)	93,586
EUR	93	35.2 (EUR:NTD)	3,274
CNY	2,302	4.472 (CNY:NTD)	10,295
Non-monetary items			
Investments accounted for using equity method			
USD	722	30.715 (USD:NTD)	22,183
<u>Financial liabilities</u>			
Monetary items			
USD	40,757	30.715 (USD:NTD)	1,251,851
USD	1,221	6.8930 (USD:CNY)	37,503
USD	15,136	25,596 (USD:VND)	464,902
JPY	3,779	0.2782 (JPY:NTD)	1,051
VND	96,467,744	0.000039 (VND:USD)	115,761
EUR	4,446	35.2 (EUR:NTD)	156,499

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 46,199	29.76 (USD:NTD)	\$ 1,374,882
USD	12,430	6.5192 (USD:CNY)	369,917
USD	18,550	25,008 (USD:VND)	552,048
JPY	666,287	0.2642 (JPY:NTD)	176,033
VND	82,931,696	0.00004 (VND:USD)	98,689
EUR	182	35.57 (EUR:NTD)	6,474
CNY	1,687	4.565 (CNY:NTD)	7,701
Non-monetary items			
Investments accounted for using equity method			
VND	13,968,285	0.00119 (VND:NTD)	16,622
USD	1,144	29.76 (USD:NTD)	34,035
<u>Financial liabilities</u>			
Monetary items			
USD	42,173	29.76 (USD:NTD)	1,255,068
USD	1,598	6.5192 (USD:CNY)	47,556
USD	11,317	25,008 (USD:VND)	336,794
JPY	2,067	0.2642 (JPY:NTD)	546
VND	99,202,728	0.00004 (VND:USD)	118,051
EUR	3,226	35.57 (EUR:NTD)	114,749

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

For the Year Ended December 31				
2018			2017	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
VND	0.00119 (VND:NTD)	\$ 5,083	0.00122 (VND:NTD)	\$ (173)
NTD	1 (NTD:NTD)	66,359	1 (NTD:NTD)	(15,981)
USD	30.149 (USD:NTD)	290	30.432 (USD:NTD)	903
CNY	4.560 (CNY:NTD)	10,519	4.507 (CNY:NTD)	(26,727)
PLN	8.3624 (PLN:NTD)	<u>(1,857)</u>	8.1549 (PLN:NTD)	<u>406</u>
		<u>\$ 80,394</u>		<u>\$ (41,572)</u>

38. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

Apparel department - manufacturing, developing, designing and selling of apparel.

Down material department - manufacturing, developing and selling of down.

Home textile department - manufacturing, developing, designing and selling of bedding.

a. Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment Revenue		Segment Profit	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2018	2017	2018	2017
Apparel department	\$ 3,846,466	\$ 3,720,239	\$ 224,603	\$ 274,424
Down material department	3,852,135	2,630,417	64,941	(22,976)
Home textile department	2,399,581	2,142,340	37,378	89,740
Others	645,009	478,507	22,516	16,287
Segment revenues	10,743,191	8,971,503	349,438	357,475
Eliminations	(588,879)	(458,576)	-	-
Segment revenue or segment income	\$ 10,154,312	\$ 8,512,927	349,438	357,475
Other income			17,812	6,209
Other gains and losses			390,163	(369,892)
Finance costs			(38,410)	(38,924)
Share of profit or loss of associates and joint ventures			8,937	(5,639)
Profit (loss) before tax (continuing operations)			\$ 727,940	\$ (50,771)

Segment profit represented the profit before tax earned by each segment without allocation of share of profit or loss of associates and joint ventures, other income, other gains and losses, and finance costs. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

This is not a measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

c. Revenue from major products

The following is an analysis of the Group's revenue from continuing operations by major products.

	For the Year Ended December 31	
	2018	2017
Apparel products	\$ 3,846,466	\$ 3,720,212
Down material products	3,418,384	2,237,468
Home textile products	2,244,453	2,076,740
Others	645,009	478,507
	\$ 10,154,312	\$ 8,512,927

d. Geographical information

The Group operates in four principal geographical areas - Taiwan, China, Vietnam and Japan.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2018	2017	2018	2017
USA	\$ 2,503,235	\$ 2,520,326	\$ -	\$ -
Taiwan	432,902	617,118	893,063	941,344
China	1,459,740	821,008	282,137	304,946
Vietnam	187,178	80,707	558,182	468,677
Japan	3,832,131	3,154,578	112,178	108,661
Others	<u>1,739,126</u>	<u>1,319,190</u>	<u>107</u>	<u>112</u>
	<u>\$ 10,154,312</u>	<u>\$ 8,512,927</u>	<u>\$ 1,845,667</u>	<u>\$ 1,823,740</u>

Non-current assets exclude non-current assets classified as financial instruments and deferred tax assets.

e. Information on major customers

Single customer that contributed 10% or more to the Group's revenue was as follows:

Customer	For the Year Ended December 31			
	2018		2017	
	Amount	% to Total	Amount	% to Total
A	\$ 1,182,364	12	\$ 1,155,322	14