Stock code: 6504

NAN LIU Enterprise Co., Ltd. and Subsidiaries
Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report

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Telephone: 07-6116616

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference interpretation between the two versions, the Chinese language financial statements shall prevail.

NAN LIU Enterprise Co., Ltd. and Subsidiaries
Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Nanliu Enterprise Company Limited

Opinion

We have audited the accompanying consolidated financial statements of Nanliu Enterprise Company Limited and subsidiaries (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.

In our opinion, 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 the 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.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows:

Valuation of accounts receivable

Please refer to Notes 4(7) and 6(3) to the consolidated financial statements for detail information and accounting policy of valuation of accounts receivable. As of December 31, 2018, net accounts and notes receivable of the Group amounted to NT$ 1,438,325 thousand dollars, accounted for 17.71% of total assets, has significant impact to financial statements of the Group, and the provision for impairment of accounts and notes receivable is inherently judgmental, therefore, we have identified valuation of accounts receivable as a key audit matter.

Our audit procedures to the above key audit matter (including but not limited to) are as the following:

1. Performed internal control test on top 10 customers and other major customers, surveyed these customers' background and randomly checked to confirm whether the receivables arising from these customer sales are in line with the Group's credit policy. We inspected how the Group processed breach of the credit policy.
2. Performed internal control test by randomly vouching from sales documents to accounts receivable aging report to test accuracy of accounts receivable aging.
3. Performed analytical review procedures by comparing the difference in turnover and accounts receivable balance for reasonableness of variances.
4. Reviewed subsequent collection of significant receivables after the balance sheet date.
5. For the preparation matrix provided by the group, evaluate whether the expected loss rate is reasonable.
6. According to the consolidated accounts receivable statement, accounts receivable aging and overdue accounts receivable statement provided by the client, whether the credit period of the accounts receivable customer is consistent with the system login. Perform relevant decimation calculations to confirm that the aging and overdue vesting periods are correct.

Valuation of inventories

Please refer to Notes 4(8), 5 and 6(4) to the consolidated financial statement for the detail information and accounting policy, uncertainty of valuation of inventories; As of December 31, 2018, inventories of the Group amounted to NT$1,022,120 thousand dollars, accounted for 12.59% of total assets, has significant impact to financial statements of the Group, in addition, the principal operating activities of the Group include Air-Through/Thermal-Bonded Nonwovens Fabrics、Spunlace Nonwovens Fabrics、High-tech woodpulp spunlace Fabrics、Wet Wipes、Facial Mask and care product, etc., the selling price of these products fluctuates from the supply of upstream suppliers and changes in the market competition, resulted risk of book value exceeding its net realizable value, therefore, we have identified valuation of inventories as a key audit matter.

Our audit procedures to the above key audit matter (including but not limited to) are as the following:

1. Understood inventory valuation process by the management.
2. Understood the Group's warehousing management process, reviewed the Group's annual physical inventory count plan and observed the annual inventory count to assess the reasonableness of methods used by the management to identify and monitor obsolescent inventories.
3. Randomly checked the inventory movement report for consumption of inventories and compared inventory aging report to that of prior year for reasonableness and accuracy of inventory aging report.
4. Conducted analytical review process for inventory balances, turnover and gross margin by products, compared differences to prior year for any unusual variance.
5. Compared historical inventory provision and actual write-down to analyze the appropriateness of the accounting policies of the management for inventory provision.
6. Verified the reasonableness of the net realizable value of inventory by randomly vouching sales and purchase orders to evaluate adequacy of inventory provision.

Other Matter

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS,IFRIC, and 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 Company'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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether consolidated only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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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 Shu-Tung Wang and Hsiang-Ning Hu.

YANGTZE CPAS & Co.,
March 06, 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 auditors' report and consolidated financial statements shall prevail.

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NAN LIU ENTERPRISE CO., LTD AND SUBSIDIARIES

Consolidated Balance Sheets

December 31,2018 and December 31,2017

(All Amounts Expressed In Thousands of New Taiwan Dollars)

			December 31,2018		December 31,2017	
	ASSETS		**Amount**	**%**	**Amount**	**%**
	CURRENT ASSETS					
1100	Cash and cash equivalents	4、6(1)	$ 1,089,253	13.42	$ 1,015,577	15.04
1150	Notes receivable, net	4、6(2)	87,049	1.07	68,797	1.02
1170	Accounts receivable, net	4、6(3)	1,351,276	16.64	1,322,011	19.57
1200	Other receivables		39,533	0.49	29,386	0.44
1310	Inventories	4、5、6(4)	1,022,120	12.59	963,804	14.27
1410	Prepayments		370,426	4.56	355,947	5.27
1470	Other current assets	8	70,075	0.86	40,161	0.59
	Total current assets		4,029,732	49.63	3,795,683	56.20
	NONCURRENT ASSETS					
1600	Property , plant and equipment	4、6(5)	2,392,496	29.47	2,160,933	31.99
1780	Intangible assets	4	1,201	0.01	1,819	0.03
1840	Deferred income tax assets	4、5、6(13)	27,651	0.34	19,604	0.29
1915	Prepayments for equipment		1,461,965	18.01	636,546	9.42
1920	Refundable deposit		17,285	0.21	18,031	0.27
1985	Long-term prepaid rents	4	186,796	2.30	118,858	1.76
1990	Other assets		2,364	0.03	2,364	0.04
	Total noncurrent assets		4,089,758	50.37	2,958,155	43.80
1xxx	Total assets		$ 8,119,490	100.00	$ 6,753,838	100.00

			December 31,2018		December 31,2017	
	LIABILITIES AND EQUITY		**Amount**	**%**	**Amount**	**%**
	CURRENT LIABILTIES					
2100	Short-term loans	6(6)	$ 1,070,000	13.18	$ 706,435	10.46
2110	Short-term bills payable , net	6(7)	-	-	399,858	5.92
2130	Contract liabilities-current	4、6(11)	22,718	0.28	-	-
2150	Notes payable	4	563,057	6.93	486,140	7.20
2170	Accounts payable	4	605,212	7.46	602,969	8.93
2200	Other payable		163,114	2.01	147,956	2.19
2213	Payables on equipment		18,925	0.23	80,973	1.20
2230	Current tax liabilities	4、6(13)	178,443	2.20	91,511	1.35
2311	Unearned receipts		-	-	9,100	0.13
2322	Current portion of long-term bank borrowing	6(8)	126,000	1.55	-	-
2399	Other current liabilities		4,823	0.06	4,483	0.07
	Total current liabilities		$ 2,752,292	33.90	2,529,425	37.45
	NONCURRENT LIABILTIES					
2540	Long-term bank borrowing	6(8)	2,210,825	27.23	1,265,510	18.74
2571	Deferred income tax liabilities-Land value increment tax		7,386	0.09	7,386	0.11
2572	Deferred income tax liabilities-income tax	4、6(13)	5,433	0.07	1,735	0.03
2640	Accrued pension liabilities	4、5、6(9)	76,567	0.94	75,322	1.12
2645	Guarantee deposits		984	0.01	1,112	0.02
	Total noncurrent liabilities		2,301,195	28.34	1,351,065	20.02
	Total liabilities		5,053,487	62.24	3,880,490	57.47
	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT					
	Owners equity					
3100	Capital stock	6(10)	726,000	8.94	726,000	10.75
3200	Capital surplus	6(10)	453,467	5.58	453,467	6.71
3300	Retained earnings	6(10)				
3310	Legal reserve		371,872	4.58	317,735	4.70
3320	Special reserve		193,201	2.38	155,667	2.30
3350	Unappropriated earnings		1,586,400	19.54	1,413,680	20.93
3400	Other	6(10)				
3410	Financial statements translation differences for foreign operations		(264,937)	(3.26)	(193,201)	(2.86)
	Equity attributable to shareholders of the parent		3,066,003	37.76	2,873,348	42.53
	Total liabilities and equity		$ 8,119,490	100.00	$ 6,753,838	100.00

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

NAN LIU ENTERPRISE CO., LTD AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Year Ended December 31 ,2018 and 2017

(All Amounts Expressed In Thousands of New Taiwan Dollars, Except Earnings Per Share)

			For the year ended December 31			
			2018		2017	
	Item	Note	Amount	%	Amount	%
4000	Net Sales	4、6(11)	$ 6,786,338	100.00	$ 6,433,820	100.00
5000	Cost of goods sold	6(4)	(5,510,590)	(81.20)	(5,203,169)	(80.87)
5900	Gross profit		1,275,748	18.80	1,230,651	19.13
6000	Operating expenses					
6100	Promotion expenses		(232,539)	(3.43)	(251,976)	(3.92)
6200	Management expenses		(216,442)	(3.19)	(212,451)	(3.30)
6300	Research expenses		(29,598)	(0.44)	(33,716)	(0.52)
6000	Total Operating expenses		(478,579)	(7.06)	(498,143)	(7.74)
6900	Operating profit		797,169	11.74	732,508	11.39
	Other non-operating income and expenses					
7020	Other income	6(12)	92,688	1.37	2,603	0.04
7050	Finance costs	6(12)	(15,594)	(0.23)	(14,854)	(0.23)
7000	Other non-operating income and expenses		77,094	1.14	(12,251)	(0.19)
7900	Income before income tax		874,263	12.88	720,257	11.20
7950	Income tax expense	4、6(13)	(281,497)	(4.15)	(178,880)	(2.78)
8200	Net Income		592,766	8.73	541,377	8.42
8300	Other comprehensive income (loss)					
8310	Items that will not be reclassified subsequently to profit or loss:					
8311	Remeasurement of defined benefit obligation	6(9)	(2,580)	(0.04)	(4,369)	(0.07)
8349	Income tax (expense) related to components of the comprehensive income	6(13)	905	0.01	743	0.01
8360	Items that may be reclassified subsequently to profit or loss:					
8361	Exchange differences arising on translation of foreign operations	6(10)	(71,736)	(1.06)	(37,534)	(0.58)
8300	Other comprehensive income (loss) for the period ,net of income tax		(73,411)	(1.09)	(41,160)	(0.64)
8500	Total comprehensive income for the period		$ 519,355	7.64	$ 500,217	7.78
8600	Net income attributable to :					
8610	Owners of parent		$ 592,766	8.73	$ 541,377	8.42
8620	Non-controlling interests		-	-	-	-
	Net income		$ 592,766	8.73	$ 541,377	8.42
8700	Comprehensive income attributable to :					
8710	Owners of parent		$ 519,355	7.64	$ 500,217	7.78
8720	Non-controlling interests		-	-	-	-
	Total comprehensive income for the period		$ 519,355	7.64	$ 500,217	7.78
9750	Basic earnings per share(NT dollars)	4、6(15)	$ 8.16		$ 7.46	
9850	Diluted earnings per share(NT dollars)	4、6(15)	$ 8.16		$ 7.45	

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

NAN LIU ENTERPRISE CO., LTD AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the year ended December 31,2018 and 2017

(All Amounts Expressed In Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent																
	Capital Stock - Common Stock			Capital Surplus		Retained Earnings						Other equity items		Non-controlling interests		Total Equity	
	Ordinary shares	Amounts				Legal Reserve		Special Reserve		Unappropriated Earnings		Financial statements translation differences for foreign operations					
Balance as of January 1, 2017	72,600	$	726,000	$	453,467	$	259,498	$	44,348	$	1,393,965	$	(155,667)	$	-	$	2,721,611
Legal reserve appropriated	-		-		-		58,237		-		(58,237)		-		-		-
Special reserve appropriated	-		-		-		-		111,319		(111,319)		-		-		-
Cash dividends of ordinary share	-		-		-		-		-		(348,480)		-		-		(348,480)
Net income in 2017	-		-		-		-		-		541,377		-		-		541,377
Other comprehensive income for the year	-		-		-		-		-		(3,626)		(37,534)		-		(41,160)
Balance as of December 31, 2017	72,600	$	726,000	$	453,467	$	317,735	$	155,667	$	1,413,680	$	(193,201)	$	-	$	2,873,348
Balance as of January 1, 2018	72,600	$	726,000	$	453,467	$	317,735	$	155,667	$	1,413,680	$	(193,201)	$	-	$	2,873,348
Legal reserve appropriated	-		-		-		54,137		-		(54,137)		-		-		-
Special reserve appropriated	-		-		-		-		37,534		(37,534)		-		-		-
Cash dividends of ordinary share	-		-		-		-		-		(326,700)		-		-		(326,700)
Net income in 2018	-		-		-		-		-		592,766		-		-		592,766
Other comprehensive income for the year	-		-		-		-		-		(1,675)		(71,736)		-		(73,411)
Balance as of December 31, 2018	72,600	$	726,000	$	453,467	$	371,872	$	193,201	$	1,586,400	$	(264,937)	$	-	$	3,066,003

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

NAN LIU ENTERPRISE CO., LTD AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Year Ended December 31 ,2018 and 2017

(All Amounts Expressed In Thousands of New Taiwan Dollars)

	For the year ended December 31	
	2018	2017
Cash flows from operating activities		
Consolidated Profit before income tax	$ 874,263	$ 720,257
Adjustments for ：		
Depreciation expense	290,714	294,706
Amortization expense	8,224	7,989
Other expense	93	9
Interest expense	15,594	14,854
Interest income	(10,110)	(4,769)
Provision for doubtful accounts	10,035	10,958
Provision for inventory market price decline	9,600	1,227
Loss on disposal of inventory	13,788	13,304
Loss on physical inventory	683	2,012
Loss on disposal of assets	66	5,549
(Reversal) Impairment of Assets	(1,224)	(1,295)
Foreign exchange (gain) loss	(8,336)	511
Total adjustments to reconcile profit or loss	329,127	345,055
Changes in operating assets and liabilities		
(Increase) Decrease in notes receivable	(18,252)	26,812
(Increase) in accounts receivable	(40,181)	(107,713)
(Increase) Decrease in other receivable	(10,137)	2,949
(Increase) in inventories	(82,387)	(51,417)
(Increase) in prepayments	(12,147)	(54,240)
(Increase) Decrease in other current assets	(23,763)	24,782
Increase in contract liabilities-current	13,618	-
Increase (Decrease) in notes payable	71,618	(102,315)
Increase in accounts payable	3,701	128,180
Increase (Decrease) in other payable	13,690	(18,535)
(Decrease) in unearned receipts	-	(3,896)
Increase in other current liabilities	523	244
(Decrease) in accrued pension liabilities	(1,335)	(7,138)
Total Changes in Operating Assets and Liabilities	(85,052)	(162,287)
Cash generated from operating	1,118,338	903,025

(Continued)

	For the year ended December 31	
	2018	2017
Interest received	10,100	4,708
Income taxes paid	(198,009)	(140,784)
Net cash generated by operating activities	930,429	766,949
Cash flows from investing activities		
Acquisition of property , plant and equipment	(509,314)	(536,395)
Disposal of property , plant and equipment	10,712	1,918
Acquisition of intangible assets	(184)	(803)
(Increase) in prepayments for equipment	(936,738)	(526,404)
(Increase) Decrease in restricted assets	(5,962)	2,804
(Increase) in long-term prepaid rent	(78,322)	(1,047)
(Increase) Decrease in Instead of payment	(189)	197
Decrease (Increase) in refundable deposits	578	(710)
Net cash used in investing activities	(1,519,419)	(1,060,440)
Cash Flows From Financing Activities：		
Interest paid	(13,984)	(14,913)
Increase in short-term loans	363,565	353,483
(Decrease) Increase in short-term bills payable	(400,000)	220,000
Increase in long-term bank borrowing	1,085,015	533,896
Cash dividends	(326,700)	(348,480)
(Decrease) Increase in guarantee deposits	(106)	656
(Decrease) Increase in other current liabilities	(183)	860
Net cash used in financing activities	707,607	745,502
Effect of exchange rate changes on cash and cash equivalents	(44,941)	(13,584)
Net Increasein cash and cash equivalents	73,676	438,427
Cash and cash equivalents, beginning of year	1,015,577	577,150
Cash and cash equivalents, end of year	$ 1,089,253	$ 1,015,577

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

NAN LIU Enterprise Co., Ltd. and Subsidiaries

Notes to Consolidated financial statements

For the year ending on December 31, 2018 and 2017

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

1. Company history

NAN LIU Enterprise Co., Ltd. (hereinafter referred to as the company) was established in 1973 and approved by the Ministry of Economic Affairs with the registered address of No.88, Bixiu Road, Qiaotou District, Kaohsiung City and moved to No. 699, Silin Rd., Yanchao Dist., Kaohsiung City on January 10, 2019. The NAN LIU Group consolidated financial statements consist of NAN LIU Company and its Subsidiary, a group of associated enterprises and joint ventures controlled under individual rights (hereinafter referred to as the group), and concluded on December 31st of 2017. NAN LIU Group is engaged in selling air-through nonwovens, spunlace nonwovens, wet napkins, facial masks and skin care products as shown in appendix 14.

2. The date of authorization for issuance of the consolidated financial statements and procedures for authorization

Consolidated financial statements were approved and authorized for issue by the board of directors on March 6, 2019.

3. Application of new standards, amendments and interpretations

(1) 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), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) for application starting from 2017 (collectively, “IFRSs”).

Except for the following, 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 for application starting from 2017 would not have a significant effect on the Company’s accounting policies.

1. 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.

<u>Classification, measurement and impairment of financial assets</u>

On the basis of the facts and circumstances that existed as at January 1, 2018, the Corporation and its subsidiaries have 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 Corporation and its subsidiaries' financial assets and financial liabilities as at January 1, 2018.

	Measurement Category		Carrying Amount		
	IAS39	IFRS9	IAS39	IFRS9	Description
Financial Assets					
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 1,015,577	$ 1,015,577	(1)
Time deposits with original maturity of more than 3 months	Loans and receivables	Amortized cost	–	–	(1)
Notes and accounts receivable and other receivables	Loans and receivables	Amortized cost	1,420,194	1,420,194	(1)
Refundable deposits and Pledged Financial Assets	Loans and receivables	Amortized cost	57,903	57,903	(1)
Financial Liabilities					
Short-term loans, Notes payable and Accounts payable, Payables on equipment, Other payable, long-term bank borrowings and Current portion of long-term bank borrowings	Amortized cost	Amortized cost	3,689,841	3,689,841	
Guarantee deposits	Amortized cost	Amortized cost	1,112	1,112	

(1) Cash and cash equivalents, notes and accounts receivable (including related parties), other receivables and refundable deposits that were classified as loans and receivables under IAS 39 are now classified at amortized cost with assessment of future 12-month or lifetime expected credit loss under IFRS 9.

2. IFRS 15 "Revenue from Contracts with Customers" and related amendment

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. Please refer to Note 4 for related accounting policies. The Corporation and its subsidiaries elected to retrospectively apply IFRS 15 to contracts that were not complete on January 1, 2018 and elected not to restate prior reporting period with the cumulative effect of the initial application recognized at the date of initial application.

The revenue of contract between the Group and customers major from sales goods and provide services. The Effects of the Group's revenue recognition under IFRS15 is as follows.

(1) Detail description of application of Accounting for the Group that is from January 1, 2018 and before January 1, 2018 is as remark 4.

(2) Before January 1, 2018, recognition as revenue when sales and delivered goods. After January 1, 2018, above revenue follows IFRS15 rules. The group commit that recognition as goods transfer to customers and satisfy performance obligation. Application of IFRS15 haven't effects of the Group's recognition of sales goods revenue. But for apart of contract, take apart of consideration before transfer goods to customers. The Group has the obligation of transaction goods that is recognition of consideration for advance before January 1, 2018 and be recognition of contract liability after January 1, 2018. The reclassification amount of the Group that from revenue received in advance to contract liability is 9,100 thousand on January 1, 2018. For application of IAS18, decrease revenue received in advance amount 22,718 thousand and increase contract liability amount 22,718 thousand on December 31, 2019.

(3) Before January 1, 2018, recognition as revenue when the group provide service. After January 1, 2018, above revenue follows IFRS15 rules. The group commit that recognition as service transfer to customers and satisfy performance obligation. Application of IFRS15 haven't effects of the Group's recognition of service revenue. But for apart of contract, take apart of consideration before transfer service to customers. The Group has the obligation of transaction service that is recognition of consideration for advance before January 1, 2018 and be recognition of contract liability after January 1, 2018.

(4) It's necessary to increase remark disclosure for following IFRS15 rules. Please refer to remark 4, remark 5 and remark 6

(2) Effect of the IFRSs issued by IASB but not endorsed by FSC

The Group has not applied the following IFRS, IAS, IFRIC and SIC (collectively as IFRSs) issued by the IASB but not endorsed by the FSC.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note2)
IFRS 16 Leases	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note3)
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 2018.
Note 3: The Corporation 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 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company will 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 Corporation and its subsidiaries 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 consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Corporation and its subsidiaries 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 consolidated statements of cash flows, cash payments for the principal and interest portion of lease liabilities will be classified within financing activities.

Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Prepaid lease payments of Chinese and India for land use rights are recognized as prepayments for leases. The difference between the actual payments and the expenses, as adjusted for lease incentives, is recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and lease payables are recognized for contracts classified as finance leases.

The Corporation and its subsidiaries anticipate applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Leases agreements classified as operating leases under IAS 17, except for leases of low-value asset and short-term leases, will be 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, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets are subject to impairment testing under IAS 36.

The Group will apply the following practical expedients to measure right-of-use assets and lease liabilities on January 1, 2019 :

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) Except for lease payment, the Company will exclude incremental costs of obtaining the lease from the measurement of right-of-use assets on January 1, 2019.

d) The Group will determine lease terms (e.g. lease periods) based on the projected status on January 1, 2019, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate used by the Company to calculate lease liabilities recognized on January 1, 2019 is 1.1%. The reconciliation between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is presented as follows:

The future minimum lease payments of non-cancellable operating lease on December 31, 2018	$	176, 332
Less: Recognition exemption for short-term leases		(1, 260)
Undiscounted gross amounts on January 1, 2019	$	175, 072
Discounted using the incremental borrowing rate on January 1, 2019	$	135, 391
Add: Adjustments as a result of a different treatment of extension and purchase options		383, 480
Lease liabilities recognized on January 1, 2019	$	518, 871

The Group as lessor

It will not have significant impacts on the Group's accounting process for the Group as lessor.

Impact on assets, liabilities and equity on January 1, 2019

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments of lease- current	$ 8, 473	$ (8, 467)	$ 6
Prepaid rent	186, 796	(186, 796)	—
Right-of-use assets	—	705, 667	705, 667
Total effect on assets	$ 195, 269	$ 510, 404	$ 705, 673
Lease liabilities - current	$ 6, 808	$ 5, 347	$ 12, 155
Lease liabilities - noncurrent	—	506, 716	506, 716
Total effect on liabilities	$ 6, 808	$ 512, 063	$ 518, 871

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Retained earnings	$ —	$ —	$ —
Total effect on equity		$ —	

Except above effects, as of the date for financial statements approved, it does not have significant impacts on the Group's financial position and financial performance after evaluating above Standards and Interpretations by the Group.

(3) The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note1)
Amendments to IFRS 3 "Definition of a Business"	Jan uary 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"	Jan uary 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 Company 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 Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date for financial statements approved, it does not have significant impacts on the Group's financial position and financial performance after evaluating above Standards and Interpretations by the Group. Disclosure of related effect will be after evaluating finished.

4. Summary of significant accounting policies

The consolidated financial statements are prepared in conformity with significant accounting policies are as follows. The accounting policies applied consistently during the reporting period unless otherwise stated.

(1) Statement of Compliance

The consolidated financial statements are prepared in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and IFRS, IAS, interpretations, and announcements approved by the Financial Supervisory Commission.

(2) Basis of preparation

1. The accompanying consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.
2. The preparation of financial statements is in conformity with the IFRS requirement of the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Areas involving a higher degree of judgment and complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

1. The basis for the consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. In general, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity.

(b) Inter-company significant transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

2. The subsidiaries in the consolidated financial statements:

Investment company name	Subsidiary name	Business features	Percentage of ownership	
			2018.12.31	2017.12.31
Nan Liu Enterprise Co., Ltd.	NANLIU ENTERPRISE (SAMOA) CO., LTD.	Overseas investment holding company	100	100
NANLIU ENTERPRISE (SAMOA) CO., LTD.	Nanliu Enterprises (Pinghu) Ltd.	Production and sales of special textiles, hair care, skin care, cosmetics and hygiene products	100	100
NANLIU ENTERPRISE CO.,LTD. (SAMOA)	NANLIU MANUFACTURING(INDIA) PRIVATE LIMITED	Production and sales of special textiles, hair care, skin care, cosmetics and hygiene products	100	99.98

3. Subsidiaries not included in the consolidated financial statements: None.
4. Adjustments for subsidiaries with different fiscal years: None.
5. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency exchange

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and presentation currency.

1. Foreign currency transactions and balances
   - A. Foreign currency transactions are exchanged into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are measured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
   - B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
   - C. Exchange differences of non-monetary assets and liabilities arising upon re- translation are recognized in fair value profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date. Their translation differences are then recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date. Their translation differences are then recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
   - D. All foreign exchange gains and losses are presented in the statement of comprehensive income within other gains and losses.
2. Translation of foreign operations
   - (a) The operating results and financial position of all Company entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the functional currency as follows:
     - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
     - ii. Income and expenses for each statement of comprehensive income are translated at the average exchange rates of that period; and
     - iii. All resulting exchange differences are recognized as other comprehensive income.
   - (b) Financial statements of foreign entities reported in the currency of a hyperinflationary economy should be restated by applying a general price index of the balance sheet date. Restated financial statements are then translated into the currency of the Group using the exchange rate of the balance sheet date.
   - (c) Translation differences from net investments of foreign operations, loans with long-term investment natures, and other monetary instruments designated as hedging

instruments for these investments are recognized as other comprehensive income.

(d) Upon partial disposal or sale of the foreign operation, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the profit or loss on sale. When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(e) Goodwill and fair value adjustments generated from acquiring the foreign entity are considered as the assets and liabilities of the foreign entity, and they are translated using the closing exchange rate at the date of that balance sheet.

(5) Classification of Current and Noncurrent Assets and Liabilities

A. Assets that meet one of the following criteria are classified as current assets. Otherwise, they are classified as non-current assets:

(1) Assets arising from operating activities that are expected to be realized or are intended to be sold or consumed within the normal operating cycle;

(2) Assets held mainly for trading purposes;

(3) Assets that are expected to be realized within twelve months from the balance sheet date;

(4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

Assets that do not meet the above criteria are classified as non-current items.

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

(1) Liabilities that are expected to be paid off within the normal operating cycle.

(2) Liabilities arising mainly from trading activities.

(3) Liabilities without an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies assets that do not meet the above criteria as non-current liabilities

(6) Cash equivalents

a. In the consolidated cash flow statements, cash and cash equivalents include currency, bank deposits, and other highly liquid investments with a maturity of three months or less at the time of purchase.

b. Cash equivalents refer to the following conditions of highly liquid short-term investments:

(a) Investments that are readily convertible to known amounts of cash.

(b) Investments that are subject to an insignificant risk of changes in value.

(7) Financial instruments

Financial assets and financial liabilities are recognized when the Corporation and its subsidiaries become a party to the contractual provisions of the instruments.

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.

a) Financial assets

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

A. Measurement category

<u>2018</u>

Financial assets are classified into the following categories: Financial assets at FVTPL and financial assets at amortized cost.

i) Financial asset at FVTPL

Financial asset 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 subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Please refer to Note twelve for the determination of fair value.

ii) Financial assets at amortized cost

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

(1) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(2) 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.

Financial assets at amortized cost, including cash and cash equivalents, notes and accounts receivable at amortized cost, other receivables and refundable deposits, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Except as the following, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

(1) Purchased or originated credit-impaired financial asset, credit-adjusted effective interest rate multiply by amortised cost of a financial asset is interest.

(2) Non-purchased or originated credit-impaired financial asset but become to credit-impaired financial asset, effective interest rate multiply by amortised cost of a financial asset is interest.

Cash equivalents include time deposits with repurchase agreements with original maturities within 3 months from the date of acquisition, high liquidity, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2017

Financial assets held by the Group include loans and receivables.

(1) Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and accounts receivable, net, other receivables and refundable deposits) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with repurchase agreements with original maturities within 3 months from the date of acquisition, high liquidity, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

B. Impairment of financial assets

2018

The Corporation and its subsidiaries recognize a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivables).

The Corporation and its subsidiaries always recognize lifetime Expected Credit Loss (i.e. ECL) for accounts receivables. For other financial assets, the Corporation and its subsidiaries recognize lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Corporation and its subsidiaries measure the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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

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, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

Financial assets, other than those at fair value through profit or loss, 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.

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables. 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.

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation and its subsidiaries' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. 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.

If, in the 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 shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the securities below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, the disappearance of an active market for that financial asset because of financial difficulties, or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

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 is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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. Except unrecoverable trade is written off against the allowance account, the change of allowance account is recognized in profit or loss.

C. Derecognition of financial assets

The Corporation and its subsidiaries derecognize 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.

b) Equity instruments

Debt and equity instruments issued by the Corporation and its subsidiaries 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 Corporation and its subsidiaries are recognized at the proceeds received, net of direct issue costs.

c) Financial liabilities

i Subsequent measurement

The Group's all the financial liabilities are measured at amortized cost using the effective interest method.

ii Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(8) Inventories

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

(9) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they occur.

C. Land is not depreciated. Other property, plant and equipment apply the cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in the estimate. This is in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', and the change is reported from the date of the change. For the estimated useful lives of each asset, except that the houses and buildings are 20-25 years, the remaining personal protective equipment is given 2-10 years.

(10) Intangible assets

A. Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 3 years.

B. Intangible assets are initially measured at cost and subsequently measured at cost less accumulated amortization.

(11) Long-term prepaid rent

A. The Company signed a superficies agreement with Taiwan Sugar Corporation in January 2014 for new factory. The agreement is valid through January 9, 2024 and is amortized for 10 years.

B. NANLIU ENTERPRISE (PINGHU) CO. has land use rights for 50 years, amortized over 50 years.

C. NANLIU MANUFACTURING (INDIA) PRIVATE LIMITED has land use rights for 99 years, amortized over 99 years.

(12) Impairment of non-financial assets

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

(13) Leases (lessor/lessee)

Based on the terms of a lease contract, a lease is classified as a finance lease if the lessee (with the Group as the lessor) or the Group (with the Group as the lessee) assumes substantial or all risks and rewards incidental to ownership of the leased asset. An operating lease is a lease other than a finance lease. Lease income (net of any incentives given to the lessee) or payments (net of any incentives received from the lessor) from an operating lease is recognized in profit or loss on a straight-line basis over the lease term.

(14) Loans

A. Loans are recognized initially at fair value, net of the transaction costs incurred. Loans are subsequently stated at amortized cost, and any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the loans using the effective interest method.

B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(15) Accounts and notes payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(16) Offsetting financial instruments

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

(17) Provisions

Provisions (including decommissioning) are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date.

(18) Revenue recognition

<u>2018</u>

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

Revenue from the sale of goods is mainly recognized when a customer obtains control of promised goods, at which time the goods are delivered to the customer's specific location and performance obligation is satisfied.

Revenue from sale of goods is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

In principle, payment term granted to customers is due 60 to 90 days from the shipment date. Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the Company measures them at the original invoice amounts without discounting.

Material processing, the control for the ownership of processing product doesn't transfer. So material processing doesn't recognizes revenue.

<u>2017</u>

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.

a) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

a. The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

b. The Company 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 Company; and

e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Material processing, the significant risks and rewards of ownership of processing product doesn't transfer. So material processing doesn’t process sales.

b) Rendering of services

Service revenue is recognized according to the contract and the percentage of completion of the services.

c) 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 Company 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 effective interest rate applicable.

(19) Employee benefits

A. Short-term employee benefits

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

B. Post-employment benefit plans

(a) Defined contribution plans

For defined contribution plans, the Group pays fixed contributions to an independent, publicly or privately administered pension fund. The Group has no further legal or constructive obligations once the contributions have been paid. The contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. A defined benefit plan is a pension plan without a defined contribution plan. Generally, a defined benefit plan is the pension benefit amount that an employee will receive upon retirement. This amount depends on one or multiple factors such as age, service years, and salary. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive upon retirement for their services with the Group in the current period or prior periods. The liability recognized in the balance sheet in respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds. The corporate bonds referenced are denominated in the currency in which the benefits will be paid and have terms to maturity approximating to the terms of the related pension liability. When there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise, and they are presented in retained earnings.

C. Severance benefit

Severance benefit is the benefit provided in exchange for the termination of employment before the normal retirement date. This occurs when employment is ended or when employees decide to accept the company's benefit offer. The Group recognizes expenses when the Group can no longer terminate the severance benefit offer or recognize related replacement costs, whichever occurs first. It is not expected to be completely paid off and discounted within 12 months after the balance sheet date.

(20) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, deferred tax is not accounted for if it arises from initial recognition of goodwill or from an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates. This excludes instances when the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not subside in the near future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date, and it is expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

A deferred tax asset shall be recognized as the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(21) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as reductions on the carrying amount of assets, and they are amortized to profit or loss over the estimated useful lives of the related assets with the reduction of depreciation expenses.

(22) Share-based payment transaction

Share-based payment to employees are measured at the fair value of the stock options at the grant date. During the period when the employee can receive the salary unconditionally, the share-based payment can be recognized as the salary costs, and the relative equity can be raised. The recognized salary costs are adjusted with the reward amount that is expected to meet the service conditions and non-market price vesting conditions. The amount recognized in the end is the reward amount that meets the service conditions and non-market vesting conditions on the vesting date.

(23) Earnings per share

The Group presents the basic and diluted earnings per share of the common shareholders of the Group. The consolidation's basic earnings per share represent the profit and loss of the common shareholders of the Company divided by the weighted average number of common shares outstanding during the period. The diluted earnings per share is calculated by adjusting the influence of all potential diluted common shares with the gain or loss of the Group's common stock holders and weighted average number of common shares outstanding. Potential dilution of Group common shares includes convertible bonds, warrants, and employee bonuses that are not resolved by the shareholders' meeting and can be taken by stock issuance.

(24) Operating segments

Operating segments of the Group are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group’s chief operating decision-maker is responsible for allocating resources and assessing the performance of the operating segments. The Board of Directors is recognized as the chief operating decision-maker.

5. Critical accounting judgements and key sources of estimation and uncertainty

Management level have judgement, estimate and assumption that it based on experience and other factors, when accounting policies is not easy to get related information. The result maybe is not same as estimate.

Management level will continue to review estimate and basic assumption. If amendment of estimate only effect current period, recognized in amendment period. If amendment of estimate effect current and future period, recognized in amendment and future period.

(1) Estimate impairment of financial assets (Application in 2018)

The estimate impairment of accounts receivable depend on assumption of default rate and expected losses rate. The Group consider experience, current market and prospect information to make assumption and choose the entry value of impairment evaluation. Please refer to Note 6 and Note 12 for the important assumption and entry value. It maybe has material impairment loss if actual cash flow less than expected cash flow in the future.

(2) Estimate impairment of account receivable (Application in 2017)

The Group consider estimate of cash flow in the future when there is impairment for objective evidence. The amount of impairment loss depend on measurement of difference between initial effective discount rate and current value. (It carve-out impairment loss in the future) It maybe has material impairment loss if actual cash flow less than expected cash flow in the future.

(3) Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Group must make estimations to determine the net realizable value of inventory at the end of each reporting period. Due to rapid technological changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of each reporting period, then recording the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

As of December 31, 2018, the Group's carrying amount of inventory was NT$1,022,120 thousand.

(4) Realization of deferred income tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the management’s judgment and estimation. This includes assumptions such as future revenue growth and profitability, the amount of tax credits that can be utilized, and tax planning. Any changes in the global economic environment, industry trends and relevant laws could result in significant adjustments to deferred tax assets.

As of December 31, 2018, the Group recognized NT $27,651 thousand as deferred income tax liabilities.

(5) Calculation of accrued pension obligations

When calculating the present value of defined pension obligations, the Group must make estimations in order to determine the actuarial assumptions on the balance sheet date, including discount rates and the expected rate of return on plan assets. Any changes in actuarial assumptions could significantly impact the amount of defined pension obligations.

As of December 31, 2018, the Group's carrying amount of accrued pension obligations amounted to NT $76,567 thousand.

6. Details of significant accounts

(1) Cash and cash equivalents

Items	December 31, 2018	December 31, 2017
Cash	$ 2,385	$ 1,715
Demand deposits	549,219	410,950
Checking account	269	97

Foreign currency deposits	253,548	361,829
Time deposits	283,832	240,986
Total	$ 1,089,253	$ 1,015,577

1. NAN LIU Group possesses good credit with financial institutions and interacts with several financial institutions to diversify credit risk. The anticipated possibility of default is very low, and the balance sheet figure for exposure cash amount on maximum credit risks is same as cash equivalents
2. NAN LIU Group's cash and cash equivalents had not been provided to pledge.

(2) Notes receivable, net

Items	December 31, 2018	December 31, 2017
Non-related parties	$ —	$ —
Related parties	87,049	68,797
Less: Allowance for doubtful receivables	—	—
Net	$ 87,049	$ 68,797

a. The Group does not have collateral as security for receivable notes.
b. The Group adopt impairment evaluation to follow IFRS9. Accumulated impairment related information refer to Note 6(3). Credit risk related information refer to Note 12.

(3) Accounts receivable, net

Items	December 31, 2018	December 31, 2017
Non-related parties	$ —	$ —
Related parties	1,383,004	1,344,124
Less: Allowance for doubtful accounts	(31,728)	(22,113)
Net	$ 1,351,276	$ 1,322,011

<1> Accounts receivable

For the year ending on December 31, 2018

The management level of the Group requests a specialty team to make decision of credit line, credit approval and other control procedure to reduce credit risk. Then they have due activity to make sure past due accounts receivable recoverability. The Group review the recoverable amount of receivables on the balance sheet date to ensure that proper allowances are recognized for unrecoverable receivables. The management level confirms the credit risk of the Group decrease significantly.

The Group use the simple way of IFRS9, lifetime expected credit losses recognize loss allowance for account receivable. Lifetime expected credit losses are estimated by reference to past default experience of the debtor and an analysis of the debtor’s current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast GDP and direction of economic conditions at the reporting date.

The Group recognizes loss allowance at full amount when the customers face severe financial situation and the Group can't evaluate expected recoverable amount reasonably.

Aging analysis of Notes receivable, Account receivable, Past due receivables.

	December 31, 2018
Not past due	$ 1,148,714
Past due	
Within 60 days	278,201
From 61 to 90 days	10,596
From 91 to 180 days	814
Over 180 days	—
Total	$ 1,438,325

The above aging analysis is based on past due days.

Changes of loss allowance	December 31, 2018
January 1,2018(IAS39)	$ 22,757
Effect of Retrospective application for IFRS9	—
January 1,2018 (IFRS9)	22,757
Current Recognition	10,170
Current recovery	(135)
The Effects of Changes in Foreign Exchange Rates	(555)
December 31, 2018	$ 32,237

A. The amount of loss allowance 32,237 thousand on December 31, 2018 is the sum of allowance for uncollectible account receivable 31,728 thousand and past due receivables 509 thousand.

B. Please refer Note 12 for expected credit impairment losses and credit risk related information.

For the year ending on December 31, 2017

The Group's credit policy of 2018 is same as credit policy of 2017.

The Group consider the credit quality changes during initial credit date and end of the balance sheet date when make decision of account receivable recoverability. Allowance for uncollectible account receivable refer to customers' payment record and current financial situation analysis for evaluation of unrecoverable amount.

The Corporation and its subsidiaries had not recognized an allowance for some notes and accounts receivable that are past due at the end of the reporting period because there had not been a significant change in credit quality and the amounts were still considered recoverable.

The Corporation and its subsidiaries did not hold any collateral or other credit enhancement for these balances.

<2> Past due but not in impairment of the allowance for doubtful receivables:

	December 31, 2017
Not past due and not in impairment	$ 1,280,639
Past due but not in impairment	
Within 60 days	49,785
From 61 to 90 days	45,020
From 91 to 180 days	14,866
Over 180 days	498
Total	$ 1,390,808

<3> Changes in the allowance for doubtful receivables

	For the year ending on December 31, 2017		
	Individually assessed for impairment	Collectively assessed for impairment	Total
On January 1st, 2017	$ $ 1,274	$ $ 11,169	$ $ 12,443
Provision (reversal) for impairment	(111)	11,069	10,958
Write-off	(519)	—	(519)
Exchange difference	—	(125)	(125)
December 31, 2017	$ $ 644	$ $ 22,113	$ $ 22,757

<4> The asset impairment loss assessment of individual accounts receivable is located in the column, "other non-current assets".

<5> NAN LIU Group did not hold collateral for accounts receivable.

(4) Net inventories

	December 31, 2018		
	Cost	Allowance for price decline of inventories	Carrying amount
Raw materials	$ 406, 928	$ 15, 713	$ 391, 215
Supplies	71, 097	2, 478	68, 619
Work in process	12, 259	1, 650	10, 609
Finished goods	521, 001	10, 347	510, 654
Merchandise inventory	21, 075	7, 022	14, 053
Inventory in transit	26, 970	—	26, 970
Total	$ 1, 059, 330	$ 37, 210	$ 1, 022, 120

	December 31, 2017		
	Cost	Allowance for price decline of inventories	Carrying amount
Raw material	$ 376, 549	$ 6, 586	$ 369, 963
Supplies	82, 914	3, 210	79, 704
Work in process	17, 995	2, 823	15, 172
Finished goods	495, 602	11, 428	484, 174
Merchandise inventory	13, 836	3, 563	10, 273
Inventory in transit	4, 518	—	4, 518
Total	$ 991, 414	$ 27, 610	$ 963, 804

1. Inventories are provided without guarantee or pledge as of December 31, 2018 and December 31, 2017.
2. Inventory related to charges recognized in the losses of the current period is detailed as follows:

Items	2018	2017
Cost of goods sold	$ 5, 514, 420	$ 5, 214, 766
Idle capacity cost	13, 756	7, 530
Revenue from sale of scraps	(41, 657)	(35, 670)
Provision for inventory market price decline	9, 600	1, 227
Loss on disposal of inventory	13, 788	13, 304
Loss (profit) on physical inventory	683	2, 012
Total	$ 5, 510, 590	$ 5, 203, 169

(5) Property, plant and equipment

	Land	Land revaluation	Building/ Structure	Machinery and equipment	Hydropower equipment	Transport equipment	Office equipment	Other equipment	Construction in progress	Total
Balance on January 1st, 2018	$ 46,046	$ 11,264	$ 395,330	$ 1,025,112	$ 70,951	$ 10,781	$ 1,477	$ 28,205	$ 571,767	$ 2,160,933
Added	–	–	28,521	39,626	1,728	–	445	5,620	376,625	452,565
Disposals or retirements	–	–	–	(7,299)	(34)	(3,429)	(11)	(5)	–	(10,778)
Deconsolidation	–	–	–	–	–	–	–	–	–	–
Other changes	–	–	–	65,399	–	23,499	–	18,989	(258)	107,629
Annual depreciation	–	–	(35,531)	(221,916)	(16,314)	(5,801)	(592)	(10,560)	–	(290,714)
Reversal of impairment	–	–	1,224	–	–	–	–	–	–	1,224
Effect of exchange rate changes	–	–	20,750	(18,423)	(1,293)	(96)	(13)	(376)	(28,912)	(28,363)
Balance on December 31, 2018	$ 46,046	$ 11,264	$ 410,294	$ 882,499	$ 55,038	$ 24,954	$ 1,306	$ 41,873	$ 919,222	$ 2,392,496
Book value：										
On December 31, 2018										
Cost	$ 46,046	$ 11,264	$ 729,056	$ 2,854,868	$ 193,480	$ 58,331	$ 20,190	$ 110,653	$ 919,222	$ 4,943,110
Less: Accumulated depreciation and impairment	–	–	(318,762)	(1,972,369)	(138,442)	(33,377)	(18,884)	(68,780)	–	(2,550,614)
Balance on December 31, 2018	$ 46,046	$ 11,264	$ 410,294	$ 882,499	$ 55,038	$ 24,954	$ 1,306	$ 41,873	$ 919,222	$ 2,392,496

	Land	Land revaluation	Building/ Structure	Machinery and equipment	Hydropower equipment	Transport equipment	Office equipment	Other equipment	Construction in progress	Total
Balance on January 1st, 2017	$ 46,046	$ 11,264	$ 399,286	$ 1,166,603	$ 85,398	$ 14,994	$ 1,984	$ 25,757	$ 58,476	$ 1,809,808
Added	—	—	20,161	49,449	3,185	1,929	201	8,592	525,523	609,040
Disposals or retirements	—	—	—	(6,898)	(3)	(520)	(1)	(45)	—	(7,467)
Deconsolidation	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	13,114	55,993	514	—	—	2,298	(12,063)	59,856
Annual depreciation	—	—	(34,517)	(228,432)	(17,279)	(5,560)	(700)	(8,218)	—	(294,706)
Reversal of impairment	—	—	1,295	—	—	—	—	—	—	1,295
Effect of exchange rate changes	—	—	(4,009)	(11,603)	(864)	(62)	(7)	(179)	(169)	(16,893)
Balance on December 31, 2017	$ 46,046	$ 11,264	$ 395,330	$ 1,025,112	$ 70,951	$ 10,781	$ 1,477	$ 28,205	$ 571,767	$ 2,160,933
Book value：										
On December 31, 2017										
Cost	$ 46,046	$ 11,264	$ 682,589	$ 2,820,601	$ 195,198	$ 49,732	$ 20,175	$ 87,183	$ 571,767	$ 4,484,555
Less: Accumulated depreciation and impairment	—	—	(287,259)	(1,795,489)	(124,247)	(38,951)	(18,698)	(58,978)	—	(2,323,622)
Balance on December 31, 2017	$ 46,046	$ 11,264	$ 395,330	$ 1,025,112	$ 70,951	$ 10,781	$ 1,477	$ 28,205	$ 571,767	$ 2,160,933

1. Capitalized interest for the years 2017 and 2016 were 6,902 and 2,361 thousand, respectively.
2. For the information regarding the Group's property, plant and equipment weren't pledged to others as collateral.

(6) Short-term borrowings

Items	December 31, 2018 Amount	Interest rate
Credit loans	$ 1,070,000	0.77%~0.90%
Total	$ 1,070,000	

Items	December 31, 2017 Amount	Interest rate
Credit loans	$ 706,435	0.84%~1.12%
Total	$ 706,435	

For short-term loans, NAN LIU Group assigned Huang Chin-San and Huang Ho-Chun as guarantors.

(7) Short-term notes and bills payable, net

December 31, 2018:None.

December 31, 2017

Item	Guarantee agency	Period	Interest rate	Amount
Short-term notes and bills payable	Dah Chung Bills Finance Corporation	2017/12/08~2018/01/19	0.551%	$ 70,000
Short-term notes and bills payable	China Bills Finance Co.,	2017/12/28~2018/01/26	0.540%	100,000
Short-term notes and bills payable	MEGA Bills Finance Co.,	2017/12/29~2018/01/26	0.560%	50,000
Short-term notes and bills payable	International Bills Finance Corporation	2017/12/28~2018/01/26	0.660%	100,000
Short-term notes and bills payable	Wan tong Bills.	2017/12/29~2018/01/26	0.540%	80,000
Total				400,000
Less: discount on short-term notes and bills				(142)
Short-term net notes and bills				$ 399,858

(8) Long-term bank borrowing and current portion of long-term bank borrowing

	December 31, 2018	December 31, 2017
Credit loans	$ 1,961,886	$ 1,265,510
Secured bank borrowings	374,939	—
Subtotal	2,336,825	1,265,510
Less: current portion of long-term bank borrowings	(126,000)	—
Total	$ 2,210,825	$ 1,265,510
Range of maturity dates	106/04~114/09	105/08~109/10

Range of interest rates	1.05%~1.15%	1.10%~2.26%

1. NAN LIU Group assigned Huang Chin-San and Huang Ho-Chun as guarantors.

2. The machines of secured loan is installing. The lending bank will have the first priority ranking mortgage.

(9) Pensions

A. Defined benefit plan;

(a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law. The plan covers all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and the service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries to the retirement fund deposited in the Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31 every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to be qualified for retirement in the next year, the Company will make contributions to cover the deficit by the following March.

(b) The amounts recognized in the balance sheet are determined as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	$ (95,491)	$ (93,379)
Fair value of plan assets	18,924	18,057
Net defined benefit liability	$ (76,567)	$ (75,322)

(c) Changes in net defined benefit obligations are as follows:

	2018	2017
Defined benefit obligations at January 1	$ 93,379	$ 92,782
Current service cost	1,002	1,135
Interest cost	908	1,145
Benefits paid	(3,020)	(5,626)
Remeasurement losses/(gains):		
Actuarial losses (gains)-experience adjustments	(6,671)	1,358
Actuarial losses (gains)-changes in demographics assumptions	48	852
Actuarial losses (gains)-changes in financial assumptions	9,845	2,154

Plan Curtailment effects	—	(421)
Defined benefit obligations on December 31	$ 95,491	$ 93,379

(d) Changes in fair value of plan assets are as follows:

	2018	2017
Fair value of plan assets at January 1	$ 18,057	$ 14,691
Expected return on plan assets	159	176
Contributions on plan assets	3,086	8,821
Benefits paid from plan assets	(3,020)	(5,626)
Actuarial gain or loss on plan assets	642	(5)
Fair value of plan assets on December 31	$ 18,924	$ 18,057

(e) The fair value of the plan assets by major categories at the end of reporting period is as follows:

	December 31, 2018	December 31, 2017
Cash	$ 18,924	$ 18,057
Equity instruments	—	—
Debt instruments	—	—
Total	$ 18,924	$ 18,057

(f) Expenses recognized in statements of comprehensive income are as follows:

	2018	2017
Current service cost	$ 1,002	$ 1,135
Interest cost	908	1,145
Expected return on plan assets	(159)	(176)
Plan Curtailment effects	—	(421)
Current pension costs	$ 1,751	$ 1,683

Remeasurement details of net defined benefit liabilities are as follows:

	2018	2017
Actuarial gain or loss on defined benefit obligation	$ 3,222	$ 4,364
Gain (loss) on plan assets	(642)	5
Remeasurement of net defined benefit liabilities' other comprehensive loss (gain)	$ 2,580	$ 4,369

Details of the aforementioned costs and expenses recognized in the statements of comprehensive income are as follows:

	2018	2017
Cost of goods sold	$ 805	$ 732
Selling expenses	—	—
General and administrative expenses	658	662
Research and development expenses	288	289
Total	$ 1,751	$ 1,683

Actuarial gain or loss recognized under other comprehensive income are as follows:

	2018	2017
Current period	$ (2,580)	$ (4,369)
Accumulated amount	$ (15,558)	$ (12,978)

(g) The Bank of Taiwan was commissioned to manage the funds of the Group's defined benefit pension plan in accordance with the fund's annual investment and utilization plan and Article 6 of "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund". The scope of utilization for the fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc. With regard to the utilization of the fund, its minimum earnings in annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of the fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilization Report published by the government. Expected returns on plan assets represent a projection of overall returns for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilization by the Labor Pension Fund Supervisory Committee. It was also taken into account that the fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

(h) The principal actuarial assumptions used were as follows:

	December 31, 2018	December 31, 2017
Discount rate	0.75%	1.00%
Future salary increase rate	3.00%	2.00%

Effects of changes in the principal actuarial assumptions on the present value analysis of the defined benefit obligation are as follows:

	Discount rate		Future salary increases	
December 31, 2018	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
Effects on present value of defined benefit obligation	$ (2,140)	$ 2,225	$ 2,170	$ (2,099)

	Discount rate		Future salary increases	
December 31, 2017	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
Effect on present value of defined benefit obligation	$ (2,178)	$ 2,266	$ 2,238	$ (2,163)

The sensitivity analysis above is based on other conditions that are unchanged, but only one assumption is changed. In practice, more than one assumption may change at one time. The method of analyzing sensitivity and calculating net pension liability in the balance sheet are the same.

(i) The expected total contributions paid to the Group's defined benefit pension plans within one year from December 31, 2018 was $885 thousand.

(j) As of December 31, 2018, the weighted average duration of the retirement plan is 10 years.

The analysis of timing was as follows:

Within 1 year	$	5,621
1-2 years		6,888
2-5 years		32,458
Over 5 years		55,193
	$	100,160

B. Defined contribution plan:

(a) Effective July 1, 2005, the Group established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with Republic of China (ROC) nationality. Under the New Plan, the Group contributes a monthly amount based on no less than 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(b) Monthly contributions of Nan Liu Enterprise (Pinghu) in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage of employees' monthly salaries and wages. Monthly contributions are administered by the government.

Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs (including pension insurance) under the Group's defined contribution pension plans for the years ending on December 31, 2018 and 2017 were $18,580 thousand and $18,269 thousand, respectively.

(10) Capital and other equity

1. Common stock

As of December 31, 2017 and 2018, the Company's authorized capital was $1,000,000 thousand, and issued capital was $726,000 thousand.

2. Capital surplus

Item	December 31, 2018		December 31, 2017	
Additional paid-in capital	$	439,404	$	439,404

Employee stock options		14,063		14,063
Total	$	453,467	$	453,467

Pursuant to the ROC Company Act, capital surplus arising from paid-in capital in excess of the par value on the issuance of common stocks and donations can be used to cover accumulated deficit. It may also be used to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Furthermore, the ROC Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

3. Retained earnings and dividend policy

(1) According to the Company's Articles of Incorporation:

a. Over 1% of the current year's earnings, if there were earnings, shall be distributed as employee bonuses and less than 2% as director and supervisor remuneration. However, if the Company still has accumulated loss, the compensation shall be kept.

b. Remuneration of employees shall be paid by stock or cash, including employees of affiliated companies who meet certain criteria. Remuneration of directors and supervisors may be paid in cash.

c. 10% of the annual net income, after offsetting any loss from prior years and paying all taxes and dues, shall be set aside as legal reserve. Then, special reserve is set aside or reserved according to laws or competent authority. The appropriation of the remaining amount, along with any unappropriated earnings, shall be proposed by the Board of Directors and resolved by the shareholders to be distributed as dividends. Cash dividends, however, shall be no less than 20% of total dividends.

d. Aforementioned distribution of earnings shall be resolved and recognized in the shareholders' meeting held in the following year.

(2) The legal reserve shall not be used for any purpose other than covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share of ownership. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

(3) Company employee bonuses were calculated by the percentage before deducted remuneration of employees and directors from income before tax in 2018, and the amount was estimated to reach $8,663 thousand and $7,368 thousand in 2018 and 2017, respectively. Remuneration of directors was expensed based on the estimated amount payable. The estimated amount was $5,997 thousand and $4,715 thousand in 2018 and 2017, respectively. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issuance, the differences are recorded as a change in the accounting estimate in the next year.

(4) The bonus to employees and remuneration of directors and supervisors of 2018 were NT$8,663 thousand and NT$5,997 thousand, respectively proposed by the Board of Directors on March 6, 2019. There was no difference between the actual amounts of bonus to employees and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2018. The distribution of the 2017 will be approved in the shareholders' meeting on May 29, 2019.

(5) The distributions of profit for 2017 and 2016 were approved by the shareholders' meeting on May 29, 2018 and May 31, 2017, respectively. The appropriations and dividends per share were as follows:

	2017		2016	
	Dividends per share (NT$)	Amount	Dividends per share (NT$)	Amount
Cash	4.5	$ 326, 700	4.8	$ 348, 480
Shares	—	—	—	—
		$ 326, 700		$ 348, 480
Bonus to employees - cash		$ 7, 368		$ 8,142
Remuneration of directors and supervisors		4, 715		5,226
		$ 12, 083		$ 13,368

The distribution of 2017 profit was as follows:

	2017		
	The amount to be allocated by the Board of Directors allotment case	Estimated annual cost recognized in the estimated amount	Differences
1. Distribution			
Cash bonus to employees	$ 7, 368	$ 7, 368	$ —
Remuneration of directors and supervisors	$ 4, 715	$ 4, 715	$ —

Distribution of 2017 profit was the same as proposal by the Board of Directors on March 13, 2018 and the shareholder resolution made on May 29, 2018.

Please refer to the Taiwan Stock Exchange website under "Market Observation Post System" for the resolutions of the Board of Directors and shareholders' meeting.

4. Special reserve

	December 31, 2018		December 31, 2017	
Opening balance	$	155,667	$	44,348
Special reserve appropriated-deduction item in other equity appropriated		37,534		111,319
Reversal Special reserve		–		–
Ending balance	$	193,201	$	155,667

The Company is required to set aside additional special capital reserve equivalent to the net debit balance of the other components of stockholders' equity, such as the accumulated balance of foreign currency translation reserve, etc. For the subsequent decrease in the deduction amount to stockholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

5. Other equity

	Foreign Currency Translation Difference	
On January 1st, 2017	$	(193,201)
Currency translation differences (after tax)		(71,736)
On December 31, 2018	$	(264,937)
On January 1st, 2016	$	(155,667)
Currency translation differences (after tax)		(37,534)
On December 31, 2017	$	(193,201)

The conversion of foreign-operating agency net assets to company currency will cause exchange differences. This can be recognized as other comprehensive income and accumulated in the conversion of financial statements due to the foreign operating agency exchange differences.

(11) Net Sales

Items	2018		2017	
Sale of goods	$	6,786,338	$	6,433,820

a. The detail item of customers' contracts.

Item	2018
Biotechnology	$ 2,575,813
Spunlace Nonwoven	1,565,646
Air Through & Thermal Bond Nonwoven	1,767,689
Disposable Surgical gowns Fabrics	877,190
Total	$ 6,786,338

b. The outstanding of contracts

	December 30, 2018	January 1, 2018
Contract liability	$ 22,718	$ 9,100

The changes of contract liability majorly satisfy performance obligation and payment difference of customers. For the year ending on December 31, 2018, initial contract liability recognize 7,362 thousand under revenue.

(12) Non-operating income and expenses

1. Others

Items	2018	2017
Interest income	$ 10,110	$ 4,769
Impairment or reversal of property, plant and equipment	1,224	1,295
gain on disposal of assets	(66)	(5,549)
Foreign exchange gain, net	40,705	(34,842)
Other income	40,715	36,930
Total	$ 92,688	$ 2,603

2. Finance costs

Items	2017	2016
Interest expense (Bank loans)	$ 22,496	$ 17,215
The amount of capitalization of assets that eligible for condition	(6,902)	(2,361)
Total	$ 15,594	$ 14,854

(13) Income taxes

1. Income tax expense

(1) Components of income tax expense:

Item	2018	2017
Current income tax		
income tax incurred in current period	$ 212,730	$ 166,727
10% tax on unappropriated earnings	11,938	6,353

Income tax adjustments on prior years	363	—
10% Dividend tax through capitalization of retained earnings by subsidiaries	59,910	—
Deferred income tax expense		
Recognition and reversal of temporary differences	(710)	5,800
Effects of changes in tax rate	(2,734)	—
Income tax expense	$ 281,497	$ 178,880

(2) The income tax expense related to components of other comprehensive income (loss) is as follows:

Items	2018	2017
Currency translation differences	$ —	$ —
Actuarial gains/losses on defined benefit obligations	(516)	(743)
Effects of changes in tax rate	(389)	—
Total	$ (905)	$ (743)

2. Reconciliation between income tax expense and accounting profit:

Item	2018	2017
Income before tax	$ 874,263	$ 720,257
Income tax expense at the statutory 17% tax rate	$ 174,852	$ 122,443
Nondeductible (deductible) items in determining taxable income	4,298	(1,920)
Changes of deferred tax		
Temporary differences	(710)	5,800
Effects of changes in tax rate	(2,734)	
10% tax on unappropriated earnings	11,938	6,353
Prior year income tax underestimation	363	—
10% dividend tax through capitalization of retained earnings by subsidiaries	59,910	—
Impact from different tax rates of subsidiaries operating in other jurisdictions	33,580	46,204
Income tax expense	$ 281,497	$ 178,880

In February 2018, it was announced that the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the tax rate applicable to unappropriated earnings will be reduced from 10% to 5%. The effect of the change in tax rate on deferred tax income had been recognized in profit or loss. In addition, the tax rate of the corporate unappropriated earnings in 2018 will be reduced from 10% to 5%.

3. Deferred income tax assets or liabilities resulting from temporary differences, loss are as follows:

Items	2018 Beginning balance	2018 Recognition of income	2018 Recognition of Other Comprehensive income	2018 Ending balance
Temporary differences				
Impairment of assets	$ 2,063	$ 119	$ －	$ 2,182
Loss on inventory market value decline	1,950	2,094	－	4,044
Unrealized gross profit	187	3,145	－	3,332
Exchange gain or loss	(371)	(3,688)	－	(4,059)
Investment income with equity method (Note)	—	—	—	—
Net defined benefit liability	12,805	1,603	905	15,313
Currency translation differences(Note)	—	—	—	—
Others	1,235	171	－	1,406
Deferred tax income(expenses)		$ 3,444	$ 905	
Net deferred tax assets(liabilities)	$ 17,869			$ 22,218
The balance sheet information is as follows				
Deferred tax assets	$ 19,604			$ 27,651
Deferred tax liabilities	$ 1,735			$ 5,433

Items	2017 Beginning balance	2017 Recognition of income	2017 Recognition of Other Comprehensive income	2017 Ending balance
Temporary differences				
Impairment of assets	$ 2,283	$ (220)	$ －	$ 2,063
Loss on inventory market value decline	1,741	209	－	1,950
Unrealized gross profit	5,473	(5,286)	－	187
Exchange gain or loss	(398)	27	－	(371)
Investment income with equity method (Note)	—	—	—	—
Net defined benefit liability	12,896	(834)	743	12,805
Currency translation differences(Note)	—	—	—	—
Others	931	304	－	1,235
Deferred tax income(expenses)		$ (5,800)	$ 743	
Net deferred tax assets(liabilities)	$ 22,926			$ 17,869
The balance sheet information is as follows				
Deferred tax assets	$ 25,233			$ 19,604
Deferred tax liabilities	$ 2,307			$ 1,735

(Note) The Company controls its subsidiary's dividends. NAN LIU Plans to support its subsidiary in establishing nonwoven fabric at the Science and Technology Park in Yanchao District through subsidiary's earnings distribution. The company has plan for capital expenditure of Yanchao new plant. It is unnecessary for the subsidiary to allocate its earnings. At the same time, the Company actively plans to apply retained earnings to extend subsidiary operations. Therefore, undistributed profits and foreign conversion differences were evaluated for the future without rotation in 2017. According to IAS12's 39th provision for investment subsidiaries related to taxable temporary differences (including subsidiaries' undistributed earnings and foreign exchange differences), the above are not accounted- as deferred tax liabilities.

4. NAN LIU Group's parent company annual profit-seeking enterprise income tax for last year had been approved by Tax Collection agency in 2016.

5. NAN LIU Group's subsidiary income tax was calculated according to the local income tax rates approved by the Tax Collection agency in 2016.

(14) Additional information on expenses by nature and employee benefit expense:

	2018		
	Operating cost	Operating expenses	Total
Employee benefit expense	$ 355,652	$ 121,401	$ 477,053
Wages and salaries	292,285	99,289	391,574
Labor and health insurance costs	35,383	8,462	43,845
Pension and severance expenses	6,398	3,270	9,668
Compensation of directors	-	4,708	4,708
Other personnel expenses- food expenses	21,586	5,672	27,258
Depreciation	281,663	9,051	290,714
Amortization	707	7,517	8,224

	2017		
	Operating cost	Operating expenses	Total
Employee benefit expense	$ 323,584	$ 120,378	$ 443,962
Wages and salaries	267,571	99,297	366,868
Labor and health insurance costs	31,090	8,246	39,336
Pension and severance expenses	5,169	3,379	8,548
Compensation of directors	-	3,811	3,811
Other personnel expenses- food expenses	19,754	5,645	25,399
Depreciation	284,684	10,022	294,706
Amortization	365	7,624	7,989

There were 912 and 882 workers in NAN LIU Company on December 31, 2018 and 2017, respectively. It's include Non employees Directors 4 persons.

(15) Earnings per share

1. Basic earnings per share

Earnings per share were attributed to the common equity holders of NAN LIU Group parent company's profit and losses and divided by the weighted average number of shares for the calculations for the current period.

2. Dilute earnings per share

The effect of diluted earnings per share indicates the number of adjustments to all diluted potential common shares, and was attributable to the equity holders of the parent company's common stock profit and loss calculation and the weighted average number of shares outstanding.

3. Dilute earnings per share

	2018		
	After-tax amount	Weighted average number of outstanding shares (thousand shares)	Earnings per share (NT$)
Basic earnings per share			
Profit attributable to common stock holders of the parent	$ $ 592, 766	72, 600	$ 8.16
Diluted earnings per share			
Assumed conversion of all dilutive potential common stocks	–	56	
Profit attributable to common stock holders plus assumed conversion of all dilutive potential common stocks	$ $ 592, 766	72, 656	$ 8.16

	2017		
	After-tax amount	Weighted average number of outstanding shares (thousand shares)	Earnings per share (NT$)
Basic earnings per share			
Profit attributable to common stock holders of the parent	$ $ 541, 377	72, 600	$ 7.46
Diluted earnings per share			
Assumed conversion of all dilutive potential common stocks	–	48	
Profit attributable to common stock holders plus assumed conversion of all dilutive potential common stocks	$ $ 541, 377	72, 648	$ 7.46

If enterprises choose to offer employees remuneration or profits in the way of shares or cash, in order to calculate the diluted earnings per share, employee remuneration (or employee profits issued with stock that has a dilution effect on potential ordinary shares) should be included in the weighted average number of outstanding shares. Calculating diluted earnings per share is based on the closing price reported on the end period date of potential ordinary shares (taking into account the ex-right and ex-dividend effect) as a basis for judging the number of shares. The following year of resolution staff remuneration or issuance of profit shares will continue to take into account the dilution effects to potential ordinary shares when calculating the diluted earnings per share.

(16)Cash flow supplement information

1. Investing activities of part of cash payment.

	2018	2017
Acquisition of property , plant and equipment	$ 452, 565	$ 609, 040
Add ： Initial Payables on equipment	80, 973	6, 722
Add：Initial Notes payable	602	2, 208
Less ： Ending Payables on equipment	(18, 925)	(80, 973)
less：Ending Notes payable	(5, 901)	(602)
Total	$ 509, 314	$ 536, 395

2. The changes of liabilities from Financing Activities:

	Short term loan	Short-term bills payable , net	Long term loan (include Current portion)	Guarantee deposits	The total of liabilities from Financing Activities
January 1, 2018	$ 706, 435	$ 399, 858	$ 1, 265, 510	$ 1, 112	$ 2, 372, 915
Cash folw	363, 565	(400, 000)	1, 085, 015	(106)	1, 048, 474
Changes of Exchange rate	—	—	(13, 700)	(22)	(13, 722)
Others(Note)	—	142	—	—	142
December 30, 2018	$ 1, 070, 000	$ —	$ 2, 336, 825	$ 984	$ 3, 407, 809

Note: others include amortization of short-term bills payable.

7. Related party transactions

(1) Name of related parties and relationship

Name of related party	Relationship with the company
Huang Chin-San	Chairman of NAN LIU Group's parent company
Huang Hsieh Mei-Yun	Spouse, Chairman of NAN LIU Group's parent company
Huang Ho-Chun	Director of NAN LIU Group's parent company

(2) Significant transactions and balances with related parties:

1. Purchasing: None.
2. Sales: None.
3. Notes and accounts payable: None.
4. Notes and accounts receivable: None.

5. Property transactions: None.

6. Rent expenses:

(1) NAN LIU Company rented the house located in Loung-Shua Lane, No.11 and No.19 in Bixiu Road, Qiaotou District, Kaohsiung City from the related parties Huang Hsieh Mei-Yun and Huang Ho-Chun in February, 2008 as a staff dormitory. The lease time was in February 2008 and the rent was NT 8000 per month. The ending of the year on December 31, 2018 and 2017 of rent was NT$ 200 thousand in 2018 and 2017. As of December 31, 2018 and 2017, the above amounts were settled.

(2) The Company rented the land in Bixiu No 613, Qiaotou District, Kaohsiung City with NT$ 10 thousand per month from related parties Huang Hsieh Mei-Yun and Huang Ho-Chun in July, 2011. Annual rental expenses were NT $240 thousand for 2017 and 2016. As of December 31, 2018 and 2017, the above amounts were settled.

7. Others:

(1) The main management remuneration information is as follows:

Items	2018	2017
Salary	$ 14,738	$ 18,782
Bonus	2,411	2,641
Service allowance	690	690
Total	$ 17,839	$ 22,113

8. Pledged Assets

The Groups assets pledged as collateral were as follows:

Items	December 31, 2018	December 31, 2017
Restricted bank deposits	$ 45,834	$ 39,872
Total	$ 45,834	$ 39,872

9. Significant contingent liabilities and unrecognized commitments.

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

1. Amounts of unused letters of credit and deposits for purchasing raw material and machines were as follows:

December 31, 2018			December 31, 2017		
Letter of credit		L/C deposit	Letter of credit		L/C deposit
USD	635	$ —	USD	523	$ —
EUR	689	$ —	EUR	14,369	$ —

2. The Group unrecognized commitments are as follows.

	2018	2017
Payment of Property , plant and equipment	$ 273,941	$ 516,890

3. Significant contingent liabilities and unrecognized commitments

Significant contingent liabilities and unrecognized commitments of the Company as of the end of the reporting date, excluding those disclosed in other notes, were as follows:

	2018	2017
Less than one year	$ 10,699	$ 16,943
More than one year and less than five years	25,905	10,378
More than five years	139,728	—
Total	$ 176,332	$ 27,321

10. Major damage losses: none.

11. Major subsequent events: none.

12, Others:

(1) Capital risk management

The main goal of NAN LIU Group's capital management is to maintain integrated and positive capital ratios in order to support business operations and maximize shareholders' equity. NAN LIU Group manages and adjusts its capital structure based on economic conditions and debt ratios. It may adjust dividends or issue new shares to achieve the goal of maintaining and adjusting the capital structure. The Group controls finance by reviewing its debt equity ratio, and the debt equity ratio for reporting is as follows:

Items	December 31, 2018	December 31, 2017
Total liabilities	$ 5,053,487	$ 3,880,490
Total equity	3,066,003	2,873,348
Debt to equity ratio	164.82%	135.05%

(2) Financial instruments

1. The kinds of financial instruments

	December 31, 2018	December 31, 2017(Note)
Financial assets		
Financial assets measured at amortized costs：		
Cash and cash equivalents	$ 1,089,253	
Notes receivable	87,049	
Accounts receivable	1,351,276	
Other receivables	39,533	
Deposit of due date over three months	23,762	
Refundable deposit and pledged financial assets	63,119	
	$ 2,653,992	
Loan and accounts receivable:		
Cash and cash equivalents		$ 1,015,577
Notes receivable		68,797
Accounts receivable		1,322,011
Other receivables		29,386
Refundable deposit and pledged financial assets		57,903
		$ 2,493,674
Financial liabilities		
Financial liabilities measured at amortized costs:		
Short term loan	$ 1,070,000	706,435
Short-term bills payable , net	—	399,858
Accounts payable	1,350,308	1,318,038
Long term loan(include Current portion)	2,336,825	1,265,510
Guarantee deposits	984	1,112
	$ 4,758,117	3,690,953

Note: The Group apply IFRS9 from January 1, 2018 and doesn't restate Comparative statement of financial position by related transition rules.

2. Financial risk management policies

The Group uses a comprehensive risk management and control system to clearly and effectively identify, measure and control all of its risks (including market, credit, liquidity and cash flow risk).

The Group's management evaluates economic conditions and the effects of market value risks to control the related risks effectively, optimize its risk position, and maintain proper liquidity and central control of market risks.

3. Market risk

Market risk refers to the result of changes in market prices, such as exchange rates, interest rates, and equity instrument price changes that will affect the Company's risk-benefit or value of financial instruments. The objective of market risk management is to control the degree of market risk within bearable range and to maximize the return on investment.

(1) Foreign exchange risk:

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

A. Exchange rate risk exposures

At the balance sheet date, the book value of monetary assets and liabilities that denominated in non-functional currency were as follows. This includes offset currency items denominated in non-functional monetary items of consolidated financial statements.

	December 31, 2018			December 31, 2017		
Item	Foreign currency	Exchange rates	NTD	Foreign currency	Exchange rates	NTD
Financial assets						
Monetary items						
USD	$ 37,145	30.715	$ 1,140,900	$ 32,758	29.760	$ 974,887
RMB	7,243	4.472	32,389	8,159	4.565	37,248
EUR	38	35.421	1,346	37	35.570	1,330
Financial liabilities						
Monetary items						
USD	11,404	30.715	350,280	19,020	29.760	566,041
EUR	14,589	35.200	513,542	11,633	35.570	413,782
YEN	690	0.2783	192	—	—	—

B. Sensitivity analysis

The Group's exchange rate risk mainly arises from the conversion of cash and cash equivalents, receivables (payable), other receivables (payable), and loans that are denominated in nonfunctional currency. As of the year ended December 31, 2018 and 2017, if the NTD/USD, NTD/RMB, NTD//EUR exchange rate appreciates/depreciates by 1% with all other factors remaining constant, As of the year ended December 31, 2018 and 2017, the company's income before income tax would increase/decrease by $1,674 thousand and

$111 thousand respectively. The analysis uses the same basis as the one used in the prior period.

(2) Interest rate risk:

The Group's loans are based on a floating rate and do not have interest rate swap contracts to change from a floating to a fixed rate. In response to interest rate risk, the Group assesses the bank and currency borrowing rates regularly and maintains good relations between financial institutions to decrease financing costs, strengthen the management of working capital, reduce its reliance on banks and diversify the risk of interest rate changes.

The Group’s exposure to interest risk to its financial liabilities is described in the liquidity risk of the Note. The following sensitivity analysis is according to the non-derivative instrument’s interest risk at the reporting date. The analysis assumed that the amount of floating interest rate bank loans at the end of the reporting period had been outstanding for the entire period. When reporting interest rate to top management of the Group, the floating interest rate used should increase or decrease by 1%, which also represents a reasonable possible change assessment by management.

All variables remaining the same, a hypothetical increase/decrease of 1% in the interest rate would result in an increase/decrease in the Group's net income by approximately $26,031 thousand and $16,789 thousand for the year ended December 31, 2018 and 2017, mainly due to floating rate loans.

(3) Credit risk:

The Group's primary credit risk is the collection of receivables. Consequently, the Group has continuously assessed the collectability of accounts and notes receivable, and reserved provision for doubtful accounts. Therefore, the Group’s credit risk is very low.

A. Because customers or counterparty of financial instruments can’t execute contracts’ obligation, the Group has financial losses risk. The major reason is counterparty can’t follow the payment term.

B. The Group follow the internal credit policy, the Company has to manage and analysis credit risk before the Company set the payment term. The internal risk control considers financial situation, trade experience and others reason to evaluate customers’ credit risk. The limit of personal risk, the management level assigns the team by evaluation of internal or external. The management level monitor regularly usage of credit.

C. The Group provide presumption for amendment of IFRS 9. When payment of contract over due date for 90 days, the credit risk of financial assets increases prominently. The overdue 30 days of account receivables haven’t losses of doubtful debts for recent two years, the overdue 30 days of account receivables haven’t relation of credit default actually. Most of the Group’s customers are brand distributor of international companies. These customers take care their goodwill, default risk is low. They have enough ability to complete the cash flow of contract obligation during short period. It will not decrease executing contract ability for customers even maybe long term economic or operation unfavorable situation appear. Apart of customers have foreign exchange control or difference of reconciliation timing, even there are over due date account receivable but credit risk not increases. To amend presumption by the actually account receivable situation, the credit risk of customers significantly increasement is overdue 90 days.

D. The Group provide presumption to amend IFRS 9, it is recognized for credit default when the contract payment is overdue 180 days. It uses actual default period to calculate and analysis for recent two years for the Group’s customers.

E. The Group use simple method and use preparing matrix for base to evaluate expected credit losses from grouping of account receivable by customers’ type.

F. The Group uses the losses rate for specific historical period and current information by Taiwan Institute of Economic Research Prosperity forecast report to evaluate loss allowance of account receivable.

	Not overdue day (Note)	Overdue during 60 days	Overdue during 90 days	Overdue during 180 days	Overdue 180 days	Total
December 31, 2018						
Expected credit losses rate	0%	5.00%	28.00%	90.00%	100.00%	
Total book value	$ 1,148,714	$ 292,843	$ 14,717	$ 8,137	$ 6,151	$ 1,470,562
Loss allowance	−	(14,642)	(4,121)	(7,323)	(6,151)	(32,237)
Book value	$ 1,148,714	$ 278,201	$ 10,596	$ 814	$ −	$ 1,438,325

Note: the Note receivables all are not overdue day.

(4) Liquidity risk:

The Group manages and maintains sufficient cash and cash equivalents to support its operations and ease the effects of fluctuations in cash flows. The Group's management supervises the utilization of bank facilities to ensure compliance with loan agreements.

Bank loans are an important source of liquidity for the Group. The following table analyzes non-derivative financial liabilities based on the earliest possible repayment date.

Items	December 31, 2018				
	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Contractual cash flows
Short-term loans	$ 1,070,000	$ —	$ —	$ —	$ 1,070,000
Short-term notes and bills payable	—	—	—	—	—
Notes payable	563,057	—	—	—	563,057
Accounts payable	605,212	—	—	—	605,212
Other accounts payable	163,114	—	—	—	163,114
Payables on equipment	18,925	—	—	—	18,925
Long-term loans (including due within one year or one operating cycle)	126,000	1,105,000	512,825	593,000	2,336,825

Items	December 31, 2017				
	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Contractual cash flows
Short-term loans	$ 706,435	$ —	$ —	$ —	$ 706,435
Short-term notes and bills payable	399,859	—	—	—	399,859
Notes payable	486,140	—	—	—	486,140
Accounts payable	602,969	—	—	—	602,969
Other accounts payable	147,956	—	—	—	147,956
Payables on equipment	80,973	—	—	—	80,973
Long-term loans (including due within one year or one operating cycle)	—	1,265,510	—	—	1,265,510

(5) The cash flow risk of changes in interest rate:

Changes in the Group's cash flow risk primarily comes from floating rate bank loans. The Group's bank loans are based on a long-term floating rate. When interest rates rise, the Group negotiates to decrease interest rates or borrow short-term loans to manage its interest rate risk. Overall, the Group's cash flow risk from changes in interest rates is low.

(3)Financial instruments with off-balance sheet credit risk: None.

(4) Fair value estimation

The book value and fair value of financial assets and Financial Liabilities of the Group is as follows.(It includes fair value level information, the book value of unfair value evaluation of financial instruments is closed fair value. Equity instruments investment of no offer price in active market and evaluation of fair value unreliably is not necessary to disclose fair value information)

December 31, 2018

Item	Book value	Fair value			
		The First level	The second level	The third level	Total
Financial Assets：					
Amortised cost of a financial asset					
Cash and cash equivalents	$ 1,089,253	$ —	$ —	$ —	$ —
Notes receivable and accounts receivable	1,477,858	—	—	—	—
Restricted assets	45,834	—	—	—	—
other current assets	23,763	—	—	—	—
Refundable deposit	17,285	—	—	—	—
Financial liabilities:					
Amortised cost of a financial liabilities					
Short term loan	1,070,000	—	—	—	—
short-term notes and bills payable	—	—	—	—	—
Notes payable and accounts payable	1,331,383	—	—	—	—
Payables on equipment	18,925	—	—	—	—
Current portion of long-term liabilities	126,000	—	—	—	—
long-term liabilities	2,210,825	—	—	—	—
guarantee deposit received	984	—	—	—	—

December 31, 2017

Item	Book value	Fair value			
		The First level	The second level	The third level	Total
Financial Assets：					
Loan and accounts receivable					
Cash and cash equivalents	$ 1,015,577	$ —	$ —	$ —	$ —
Notes receivable and accounts receivable	1,420,194	—	—	—	—
Restricted assets	39,872	—	—	—	—
other current assets	18,031	—	—	—	—
Refundable deposit					
Financial liabilities:					
Amortised cost of a financial liabilities	706,435	—	—	—	—
Short term loan	399,859	—	—	—	—
short-term notes and bills payable	1,237,065	—	—	—	—
Notes payable and accounts payable	80,973	—	—	—	—
Payables on equipment	—	—	—	—	—
Current portion of long-term liabilities	1,265,510	—	—	—	—
long-term liabilities	1,112	—	—	—	—

(2)Fair value evaluation technique for financial instruments not measured at fair value.

The methods and assumptions adopted by the combined company to estimate financial instruments not measured at fair value are as follows:

If financial liabilities measured at amortized costs have transactions or quote data within market makers, then the most recent closing price and quote price data are the basis for assessment of fair value. If there is no market price as the reference, the evaluation method is then used for estimation. Estimates and assumptions reached through the evaluation method are discounted cash flows used to estimate the fair value.

(3) Fair value evaluation techniques for financial instruments measured at fair value

a. Non-derivative financial instruments

If financial instruments have open quotes in active markets, these quotes represent the fair value. The market prices of major exchanges and notes considered popular in over-the-counter market government bonds are all used as the basis of the fair value for the equity instruments of listed companies and debt instruments with open quotes in active markets. If open quotes of financial instruments can regularly be obtained in a timely fashion from exchanges, brokers, underwriters, industry associations, pricing service institutions or competent authorities, and the prices actually and regularly foster fair market trading, then the financial instrument has open quotation in an active market. If the aforementioned conditions are not met, the market is considered not active. In General, wide bid/offer spread, significant increase of trading spreads, or slim trading volume are indicators of an inactive market.

The Group holds financial assets that have standard terms and conditions and are trading in active markets, such as shares from listed companies, mutual funds and bonds, their fair value is determined by market price quotes.

Fair value for other financial instruments other than the aforementioned financial instruments with active markets is obtained through evaluation techniques or quotes made by counterparties.

b. Derivative financial instruments

The Group currently has no derivatives financial instruments.

(4) Transfer between Class 1 and Class 2

There was no transfer in the year ending December 31, 2018 and 2017.

13. Disclosure items

(1) Significant transactions and (2) Business investments

1. Offer loans to others: As note I.

2. The endorsement for others: As note Ⅱ.

3. Final marketable securities: none.
4. Accumulated to buy or sell the same marketable securities amount to NT $300 million or more than 20% of the paid-up capital: none
5. Real estate amounting to NT $300 million or more than 20% of the paid-up capital: none.
6. Disposal real estate amounting to NT $300 million or more than 20% of the paid-up capital: none.
7. Purchase and sale with related parties amounting to NT $100 million or more than 20% of the paid-up capital: As noteⅢ.
8. Receivables from related parties amounting to NT $100 million or more than 20% of the paid-up capital: none.
9. Engaging in derivatives transactions: none.
10. Others: Business relations between parent company and subsidiaries, important dealing conditions and amounts: As note Ⅳ.
11. Investee company name/location related information: As note Ⅴ.

(2) Investment information in China:

1. China investee company name, business items, amount of paid-up capital, investment methods, capital transaction conditions, shareholding ratio, investment gains and losses, final investment book value, investment income repatriation and China investment limits: As note Ⅵ.
2. Significant transactions with China investee company through direct or indirect third regions and their prices, terms of payment, unrealized gains and losses:
   (1) Purchase amount percentage and the final balance percentage of payment: As note Ⅲ.
   (2) Sales amount percentage and the final balance percentage of receivables: none.
   (3) Property transaction amount and the amount of profits and losses: none.
   (4) The note endorsement guarantee or collateral providing balance and purpose: none.
   (5) The highest of the financing balance, ending balance, interest rate range and total amount of current interests: none
   (6) Other statement or financial condition that has a significant impact on transactions, such as providing or receiving services: none

NAN LIU Enterprise Co., Ltd. and Subsidiary

Financings Provided

For the year ending on December 31, 2018

Note I

Unit: Thousand NT$

No. (Note 1)	Financing Company	Counter-party	Financial Statement Account (Note2)	Related party	Maximum Balance for the period (Note3)	Ending Balance (Note8)	Amount Actually Drawn	Interest Rate	Nature for Financing (Note4)	Transaction Amount (Note5)	Reason for Financing (Note6)	Allowance for Bad Debt	Collateral		Financing Limits for each borrowing company (Note7)	Financing Company's total Financing amount Limits (Note7)	remarks
													Item	Value			
1	NANLIU ENTERPRISE(SAMOA) CO.,LTD.	Nan liu Enterprise Co., Ltd	Receivables from related parties	Yes	$ 267,220	$ 267,220	$ 267,220	3.5%	The need for financing	$ —	Repayment of loans	$ —	—	$ —	$ —	NTD 1,226,401 The Company's Equity NTD 3,066,003× 40%= 1,226,401	—

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:
(1) Enter '0' for the Issuer.
(2) The investees are numbered in serial order starting from '1'.
Note 2: Financing provided need to fill the field, including of related parties receivables, stockholders' current account, prepayments, temporary payments and so on.
Note 3: Maximum Balance for the ending of current year.
Note 4: The financing activities include trading partner and short term financing.
Note 5: It need to fill transaction amount if the financing activities is trading partner. The transaction amount is the transaction amount for the nearest year between financing company and counter party.
Note 6: It need to describe reason for financing and counter party if it's short term loan. For example, repayment of loans, payment for equipment, working capital and so on.
Note 7: It should fill Financing Limits for each borrowing company and total Financing amount Limits and follow the Company's "Procedures for Loaning of Funds". It's necessary to describe calculation method in remark field
Note 8: Public Companies follow item 1 Article 14 of "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies". Each financing provided need to be approved by board of directors and announce the amount, risk even the Financing Company doesn't borrow money to the counter party. It need to announce the amount after repay. It need to announce the highest lending limit for announcement application amount even the board of directors approved the loan can borrow several times during one year or roll over.

NAN LIU Enterprise Co., Ltd. and Subsidiary
ENDORSEMENTS/GUARANTEES PROVIDED
For the year ending on December 31, 2018

Note II

Unit: Thousand NT$

No	Endorsement guarantor Company name	Guarantee object by endorsement		Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance of Endorsement /Guarantee for the Period	Ending Balance of Endorsement/ Guarantee	Amount Actually Drawn	Amount of Endorsement / Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Endorsement/ Guarantee Maximum Amount	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Remarks
		Company name	Nature of Relationship											
0	Nan Liu Enterprise Co., Ltd.	NANLIU MANUFACTURING (INDIA) PRIVATE LIMITED	Directly possesses more than 50% shares of common stock of the subsidiary	$ 6,132,006	$152,625	$$152,625	$ —	$ —	4.98%	$ 6,132,006	Y	N	N	

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:
(3) Enter '0' for the Issuer.
(4) The investees are numbered in serial order starting from '1'.
Note 2: Relationship between the endorser/guarantor and the Company is classified into the following six categories (just mark the category number):
(1) Companies with business relationship.
(2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
(3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
(4) More than 50% voting shares of the subsidiary directly held by the endorser/guarantor parent company or indirectly held bysubsidiary.
(5) Companies which guarantee each other according to contract based on contractor relationship.
(6) Joint venture endorsed/guaranteed by shareholders based on their holding ratio.

NAN LIU Enterprise Co., Ltd. and Subsidiary

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the year ending on December 31, 2018

Note Ⅲ

Unit: Thousand NT$

Purchase (sales) company	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Remarks
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Nan Liu Enterprise Corporation limited	Nan Liu Enterprise (Pinghu) Corporation limited	Indirect subsidiary	Purchase	$ 1,222,167	21.45%	With the same general terms and conditions	—	—	$(248,670)	21.29%	—

Note 1: If related party transaction terms are different from general terms, situations and reasons for the differences should be specified in the unit price and credit period columns.

Note 2: In case of advance payment (prepayment), reasons, terms of the contract agreement, amount and differences from the general situation shall be specified in the note column.

Note 3: Paid-in capital refers to the parent company's paid-in capital. When the issuer's shares have no denomination, or its denomination is not NT $10, regarding a maximum transaction amount on 20% of paid-in capital, the amount is calculated based on 10% of ownership's equity attributable to the parent company in the balance sheet.

NAN LIU Enterprise Co., Ltd. and Subsidiary
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
For the year ending on December 31, 2018

Note IV

Unit: Thousand NT$

No	Company Name	Counter Party	Nature of Relationship	Intercompany Transactions			
				Financial statements item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets
0	Nan Liu Enterprise Co., Ltd.	Nanliu Enterprise (Pinghu) Ltd.	1	Purchase	$ 1,222,167	The same as other companies	18.01%
0	Nan Liu Enterprise Co., Ltd.	Nanliu Enterprise (Pinghu) Ltd.	1	Accounts payable	$ 248,670	The same as other companies	3.06%

Note 1: Business operating information between the parent company and subsidiary shall be indicated in the column number and number shall be filled in as follows:
1. The parent company fills out 0.
2. The subsidiary company starting from the Arabic number 1 in the sequence.

Note 2: There are three types of relations with dealers. They are marked as follows:
1. The parent company to subsidiary.
2. The subsidiary to the parent company.
3. The subsidiary to subsidiary.

Note 3: In employing the ratio of trading conditions for combined revenue or assets, if it belongs as an asset liability item, the balance calculation includes the consolidated total assets. If it belongs as a profit and loss item, the balance is calculated considering the interim cumulative amount in total.

Note 4: Whether important transactions are listed in table shall be decided by the company according to the major principles.

NAN LIU Enterprise Co., Ltd. and Subsidiary

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)

For the year ending on December 31, 2018

Note V

Unit: Thousand NT$; shares; %

Investment company name	Investee company name	Location	Main businesses and products	Original investment amount		Balance as of December 31,2018			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Remarks
				December 31, 2018	December 31, 2017	Shares	Percentage	Carrying amount			
Nan Liu Enterprise Co., Ltd.	NANLIU ENTERPRISE (SAMOA) CO., LTD.	Samoa	Investment business	$ 1,643,224	$ 1,488,208	52,948	100.00%	$ 3,610,994	$ 417,935	$ 417,935	
NANLIU ENTERPRISE(SAMOA) CO.,LTD.	NANLIU MANUFACTURING(INDIA) PRIVATE LIMITED	India	Manufacturing and processing of nonwovens fabric	$ 153,774	$ 48	34,570	100.00%	$ 141,874	Note3	Note3	

Note 1: If a public company has a foreign holding company and considers consolidated financial statements as its primary financial statements in accordance with local laws and regulations, for information on foreign investee companies, the company may only disclose relevant information at the holding company level.

Note 2: For situations not specified in Note 1, please complete according to the following rules:

(1) "Investee company name", "Area", "Main Business", "The original investment amount" and "Ending shareholding situation", etc., should be filled in according to the Company's (public) reinvestment situation and reinvestment of directly or indirectly controlled Investment. The relationship (if they are subsidiaries or subsidiaries of subsidiaries) between investee companies and the Company (public) should be specified in Note column.

(2) In the "Investee company's current profit and loss" B column, the investee company’s' profit and loss for the period should be entered.

(3) In the "Investment gains and losses recognized for the period" B column, only the gains and losses of subsidiaries and investee companies with the equity method recognized by the Company (public) must be indicated here, and others may not be included. When filling in "gains and losses of subsidiaries recognized for the period", the Company should ensure that profits or losses of subsidiaries for the period already include the gains and losses of reinvestment recognized in accordance with rules.

Note 3: The income of Investee Company is included in income of Investment Company. It doesn't to describe to reduce confusion.

NAN LIU Enterprise Co., Ltd. and Subsidiary
Information on Investment in Mainland China
For the year ending on December 31, 2018

NoteⅥ

Unit: Thousand NT$

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits/Losses	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018	Remarks
					Outflow	Inflow							
Nanliu Enterprise (Pinghu) Ltd.	Manufacturing and processing of nonwovens fabric	$ 1,846,701	2	$ 1,487,607	$ —	$ —	$ 1,487,607	$ 499,535	100.00%	$ 499,535	$ 3,201,605	$ —	

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment by Investment Commission, MOEA
$ 1,487,607	$ 1,877,537	$ -

Note 1: Investments are divided into the following three categories (Please enter the category number):
(1) Direct investment in mainland China.
(2) Investments in mainland China through companies in the third region (please specify the investment company in the third region).
(3) Other methods
Note 2: Investment gains and losses recognized in the current period column:
(1) In case of preparation, it should be specified if there is no investment income.
(2) The recognition basis of investment gains and losses is divided into the following three categories and should be specified:
(a) Certified financial statements audited by CPA firms in the Republic of China that have partnership with international CPA firms.
(b) Financial statements audited by the CPA firm of Taiwan's parent company.
(c) Others.
Note 3: The amounts in this table should be shown in New Taiwan Dollars.

14. Operating segments information:

(1) General information:

The Group has four reportable segments, including Thermal-bonded nonwovens fabrics, Spunlace nonwovens fabrics, Biotechnology, and B2 Post-processing. They are mainly engaged in manufacturing and subcontracting thermal-bonded nonwoven fabrics, wet wipes, facial masks and skin care products. The segments are classified based on the nature of the products.

In accordance with SFAS 8 “Segments", operating and reporting segments are identified. If operating segments reach the quantitative thresholds, core principles of the compilation should be taken into account to determine whether to separately or collectively disclose reportable segments. If the operating segments do not reach the quantitative thresholds, they are included in other segments. The measured amount is provided to major decision makers to allocate resources to segments and assess performance. In addition, accounting policies adopted by operating segments and a summary of significant accounting policies is described in Note 2. There are no significant inconsistencies.

(2) Measurement of segment information:

The Group's segments use the same accounting policy as the Group. The Group uses the net income from operations as the measurement for segment profit and the basis for performance assessment.

(3) Segment profit/losses and asset information:

For the year ending on December 31, 2018

Items	Parent company	Subsidiaries of subsidiaries in China	Adjustment and elimination	Total
Net revenue from external customers	$ 3, 149, 739	$ 3, 636, 599	$ —	$ 6, 786, 338
Net revenue from sales among intersegments	328	1, 222, 167	(1, 222, 495)	—
Segment revenue	$ 3, 150, 067	$ 4, 858, 766	$ (1, 222, 495)	$ 6, 786, 338
Segment income	$ 223, 382	$ 573, 787	$ —	$ 797, 169
Segment assets	$ 2, 480, 339	$ 1, 374, 122	$ —	$ 3, 854, 461

For the year ending on December 31, 2017

Items	Parent company	subsidiaries in China	Adjustment and elimination	Total
Net revenue from external customers	$ 2, 990, 924	$ 3, 442, 896	$ —	$ 6, 433, 820
Net revenue from sales among intersegments	10, 561	1, 097, 318	(1, 107, 879)	—
Segment revenue	$ 3, 001, 485	$ 4, 540, 214	$ (1, 107, 879)	$ 6, 433, 820

Segment income	$ 197,094	$ 535,414	$ —	$ 732,508
Segment assets	$ 1,331,949	$ 1,465,530	$ —	$ 2,797,479

(4) Reconciliation for segment income (loss):

(a). Measurement of segments gain or loss:

The Group's segments use the same accounting policy as the Group. The Group uses income from operations as its measurement for segment profit and the basis for performance assessment.

(b) Reconciliation for segment income (loss):

The segment's operating income reported to the chief operating decision-maker was measured in a manner consistent with revenue and expenses in the income statement. The Group did not provide the amount of total assets and total liabilities to the chief operating decision-maker for decision making. The reconciliation of reportable segment income or loss and income before tax for operating segments is provided as follows:

Item	2018	2017
Reportable segments income	$ 797,169	$ 732,508
Unallocated amounts:		
Non-operating income and expense	77,094	(12,251)
Income before income tax	$ 874,263	$ 720,257

(5)Geographic information

The company distinguishes revenue information based on the geographic location of customers and non-current assets based on the geographic location of assets.

1. Revenue from external customers

Area	2018	2017
Taiwan	$ 1,309,712	$ 1,272,214
China	3,151,676	2,977,669
Japan	857,073	673,846
Asia	1,288,586	1,302,121
Others	179,291	207,970
Total	$ 6,786,338	$ 6,433,820

The revenue of Geographic information is based on head office of customers.

2. Non-current assets

Area	December 31, 2018	December 31, 2017
Taiwan	$ 2,517,783	$ 1,372,092
China	1,544,324	1,566,459
Total	$ 4,062,107	$ 2,938,551

(6) Major customers

Name	2018	
	Amount	Percentage of net revenue %
Customer A	$ 720,573	10.62%
Total	$ 720,573	10.62%

Name	2017	
	Amount	Percentage of net revenue %
Customer A	$ 634,642	9.86%
Total	$ 634,642	9.86%