Stock code: 6504

http://mops.twse.com.tw

NAN LIU ENTERPRISE CO., LTD.

2018 Annual Report

Annual Report Website: Market Observation Post System (http://mops.twse.com.tw)

Related Information: Same as above.

<u>Notice to readers</u>

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

Printed on May 13, 2019

1. Contact Information of the Spokesperson:

Spokesperson: Huang, Huo-cun

Title: General Manager

Tel: (07) 611-6616

Email: nanliu98@nanliugroup.com

Deputy Spokesperson: Chang, San-hua

Title: Deputy General Manager

Tel: (07) 611-6616

Website: samchang@nanliugroup.com

2. Contact Information of the Head Office, Branch Offices and Plants:

Head Office

Address: No. 699, Silin Rd., Yanchao Dist., Kaohsiung City

Tel: (07) 611-6616, Fax: (07) 616-8938

Yanchao Plant: No. 699, Silin Rd., Yanchao Dist., Kaohsiung City Tel: (07) 611-6616

Qiaotou Plant : No. 88 Bixiu Road, Qiaotou Dist., Kaohsiung City Tel: (07) 611-6618

Spunlace Plant: No. 108-8, Szu-Li Rd, Yanchao District, Kaohsiung City, Tel: (07) 614-1799

China Pinghu Plant: No. 2188, Xinkai Road, Pinghu Economic Development Zone, Zhejiang Province, China, Tel: +86-573-85136616

3. Contact Information of Share Transfer Agency

Name: Stock Transfer and Registrar Department, Yuanta Securities Co., Ltd.

Address: B1, No. 210, Section 3, Chengde Rd, Datong District, Taipei City (103)

Tel: (02) 2586-5859

Website: http://www.yuanta.com.tw (click "Stock Transfer and Registrar Services")

4. Contact Information of the Certified Public Accountants for the Latest Financial Report

Name: Shu-Tung Wang and Hsiang-Ning Hu

CPA Firm: Yangtze CPAs & Co.

Address: 3F, No. 338, Ziyou 4th Rd, Zuoying District, Kaohsiung City (813)

Tel: (07) 348-0086

Website: http://www.yzcpa.com.tw

5. Overseas Trade Places for Listed Negotiable Securities:

None

6. Company Website:

http://www.nanliugroup.com

E-mail: jin@nanliugroup.com

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I. Letter to Shareholders

Thank you for your continuous support and care for Nan Liu, and we hope that you can keep giving us more attention and support!

The following is the report on 2018 business results.

A. 2018 Business Report

(1) Achievements of 2018 Business Plan

The Company's major businesses in 2018 included the sale of Spunlace nonwoven fabrics, Air Through & Thermal Bond Nonwoven Fabrics, Disposable surgical gowns fabrics, hygiene consumables (most of sales on baby wet wipes), and facial mask/skin care products. In 2018, net sales was NT$6,786,338 thousand, up 5.48% compared with 2017. Taking into cost of goods sold of NT$5,510,590 thousand, total operating expenses of NT$478,579 thousand, and other non-operating loss and expenses of NT$77,094 thousand, the income before income tax came in at NT$874,263 thousand. Estimated income tax expense was NT$281,497 thousand, and the net income was NT$592,766 thousand with an EPS of NT$8.16.

(2) 2018 Consolidated Financial Expenditure and Profitability

Unit: NT$1000

Consolidated Statements of Comprehensive Income	2018	2017	Change %
Net Sales	6,786,338	6,433,820	5.48%
Cost of goods sold	5,510,590	5,203,169	5.91%
Gross profit	1,275,748	1,230,651	3.66%
Total Operating expenses	478,579	498,143	-3.93%
Net operating profit	797,169	732,508	8.83%
Other non-operating income and expenses	77,094	-12,251	729.29%
Income before income tax	874,263	720,257	21.38%
Net Income	592,766	541,377	9.49%

(3) Consolidated Profitability Analysis

Unit: %

		2018	2017
Return on assets		8.11	9.10
Return on equity		19.96	19.35
Capital ratio	Net operating profit	109.80	100.90
	Income before income tax	120.42	99.21
Net profit margin		8.73	8.42
After-tax earnings per share (NT$)		8.16	7.46

The company faced some challenges in 2018. First, the international trend of USD was strong in 2018. Second, CNY depreciated over 5%, compared to USD. The consolidated sales revenue and profit did not as originally expected. Under above challenges, all employees pledged more efforts and consistently develop new products. The capacity utilization was full in 2018. The sales is growing up.

In general, the sales grew slightly. The China plant contributed positive effects in operation, profit. With the great teamwork and efforts of all employees, the net income in 2018 reached NT$592,766 thousand (EPS NT$8.16). Construction of the Yanchao new plant was finished in 2019. The Yanchao new plant will manufacture from the second quarter in 2019. The revenue and profit will forward to a great target.

B. Summary of 2019 Business Plan

(I) Business Policy and Implementation

(1) Our new vision is implemented in the Company's daily operations, and our business philosophy is strengthened and fulfilled to achieve the goal of organizational optimization.

(2) Integration of supply chain management: we aim to have in place competitive and strategic raw materials suppliers, meet our customers' flexible and rapid demands, and reduce inventory costs to increase cash flow.

(3) Strengthen education and training systems, create a passionate and excellent work environment, improve staff morale, and boost operational efficiency.

(4) Continue enhancing product development capabilities and production technologies: obtain leading technologies and upgrade production capabilities; become a research and development center for our customers; and cooperate with technology experts at home and abroad, such as technical research and academic institutions.

(5) Implement green-energy policies and reduce carbon emissions to simultaneously lower costs and protect the environment, exercise social responsibility as a global citizen, and enhance overall image of the Company.

(6) Persistently implement prudent accounting practices and strengthen financial risk management to improve profitability.

(II) Major Marketing Strategy

(1) Buildup of capacity: add new production lines and enhance the benefits of economies of scale.

(2) Leadership in quality and technology: with customer-oriented approaches and the development of new products, promote the Company's international branding.

(3) Automation: consistently improve enterprise resource planning (ERP) systems, strengthen operational controls, and integrations to improve core competitive power.

(4) Adopt more aggressive strategies to enhance the position of the production base in Asia.

(III) Future Development Strategy

Uphold the principle of the "cycle of virtues" — that is, to profitably provide customers with outstanding quality, delivery and service, so that they are incentivized to purchase even more products from the Company, and thereby looking after the interests of shareholders and employees. In so doing, all four stakeholders — shareholders, employees, and customers, the community — can achieve win-win outcomes.

(IV) External competition, the Regulatory Environment and the General Business Environment Effects

While input prices are rising at home and abroad, the Company has strengthened its cost control measures. At the same time, our international platform offers improved conditions for customer orders through competitive advantages, and fluctuations in raw material prices are incorporated into price negotiations.

The Company will continue to strengthen its knowledge of the market environment; integrate regulatory and customer standards; reinforce accounting and legal requirements; promote environmental and labor protection initiatives; and enhance corporate governance and corporate social responsibility.

With increasing demands for the use of green energy and requirements for carbon reduction, we intend to hold ourselves to world-class standards in the pursuit of business growth.

Overall, while adverse external environments and rising production costs pose increasingly rigorous challenges, the Company believes that customers' demands can be satisfied through constant innovation and improving processes to maintain a competitive advantage and maximize profits for its shareholders. We wish you ladies and gentlemen health and success.

With best wishes, and to good health and success for all,

Chairman: Mr. Huang, Chin-san.

General Manager: Mr. Huang, Huo-cun.

Accounting Manager: Ms. Chuang Chun- chin

II. Company Profile

1. Company Introduction

(I) Founding Date: December 1978

(II) Contact Information of the Head Office, Branch Offices and Plants:

Name	Address	Tel
Head Office:	No. 699, Silin Rd., Yanchao Dist., Kaohsiung City	(07) 611-6616
Qiaotou Plant:	No. 88 Bixiu Road, Qiaotou Dist., Kaohsiung City	(07) 611-6618
Spunlace Plant	No. 108-8, Szu-Li Rd, Yanchao District, Kaohsiung City	(07) 614-1799
Pinghu Plant	No. 2188, Xinkai Road, Pinghu Economic Development Zone, Zhejiang Province, China	(+86-573-85136616)

(III) Company History

1978	Established the Company, NANLIU ENTERPRISE CO., LTD, on 166 Dingjing Road in Kaohsiung, producing and selling household cleaning fabrics. The capital was NT$1 million.
1980	NANLIU ENTERPRISE CO., LTD combined with NANLIU ENTERPRISE AGENCY at the present site of No. 88, Bixiu Road, Qiaotou District, Kaohsiung City. Its capital was NT$6.6 million. At the same time, the production of grinding materials was developed successfully. The company owned 1200 square meters of working area.
1985	The capital increased to NT$10 million. The Company added nonwoven production lines and began integral operation from fibers to finished products. The high-quality kitchen cleaning fabrics were to be sold to Japan, whose agency was OHE in Hege county, Hainan Township. At the same time, the quality passed the requirements of the 20th Japanese Food Sanitation Law.
1988	The Company purchased two high-performance nonwoven production lines and specialized in producing the lining of bra to support Wacoal, Triumph of Taiwan and other manufacturers. The capital increased to NT$29 million.
1991	The Company purchased the No.1 thermal-bonded machine with a carding machine from Spinnbau (Germany) and a hot melt machine from Ramisch. The Company used Danish Danaklon fibers to produce hot-melt nonwovens to support diaper manufacturers from Taiwan and overseas.
1993	The capital increased to NT$66 million. In December of this year, the Company purchased a needle-punch machine from Dilo Company.
1994	Purchased the No. 2 thermal-bonded machine with a carding machine from Spinnbau and a hot melt machine from Ramisch.
1995	Purchased the No.1 Thru-Air machine with a carding machine from Hergeth (Germany) and Thru-Air machines from Hirano Company (Japan), which was finished in March. Another hot melt machine was added in April.
1997	The capital increased to NT$96 million, and the Company purchased the third thermal-bonded production line.
1998	The No. 3 thermal-bonded machine, the line with Thibau carding and a Kuster high-speed thermal-bonded roller (Germany) was tested successfully and produced well. The capital increased to NT$126 million.
1999	Another NT$34.02 million was added to the capital, and profits were transferred into the capital to achieve capital of NT$197.82 million. The second facility was built. The Company purchased a spunlace line. The Nanliu facilities achieved ISO9001 certification.

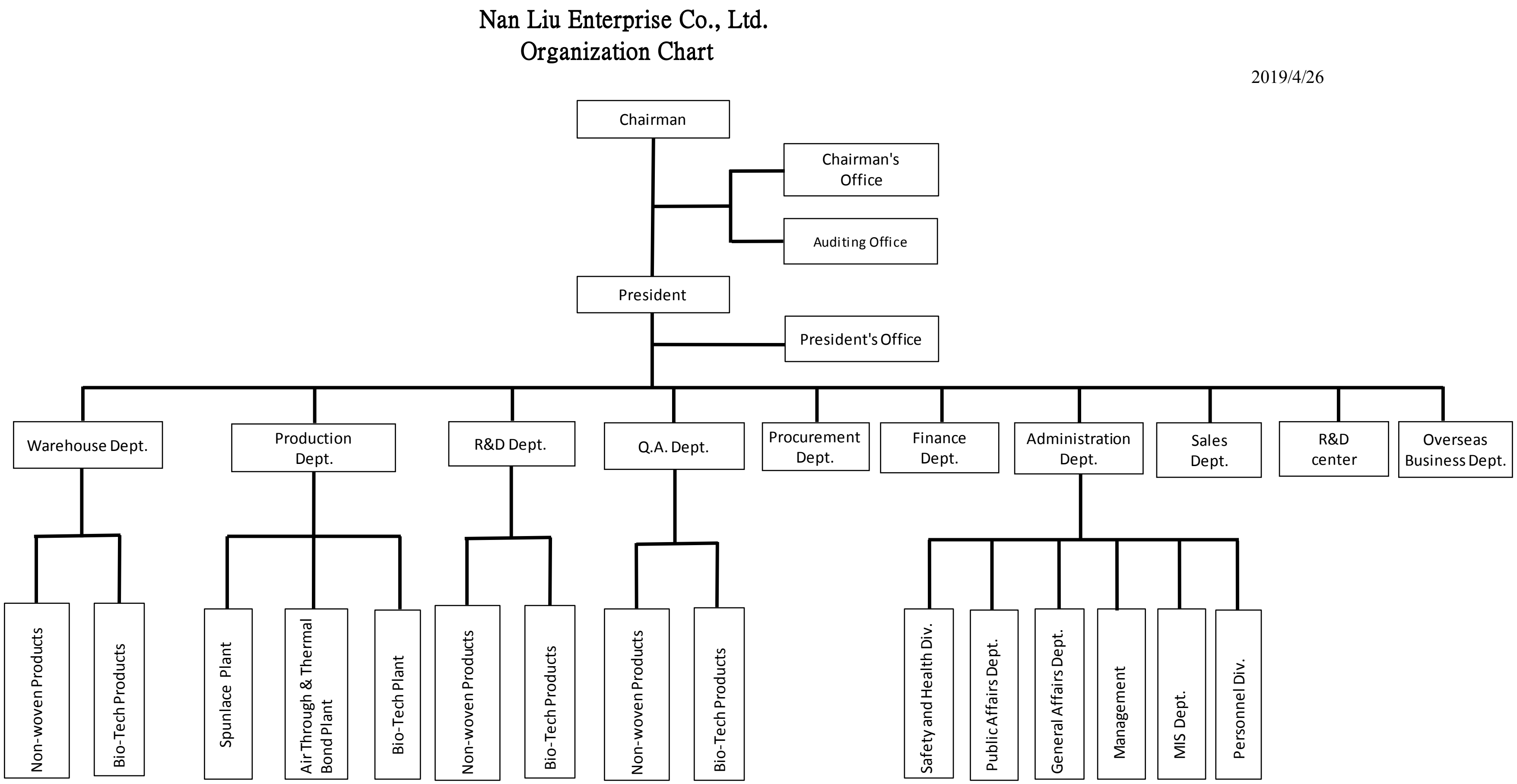
2000	Installation and testing of the Spunlace machine and wet wipe converting machine were completed in September. The Spunlace machine produces high-tech and high-quality spunlace nonwoven fabrics used widely in household wipes, soft wet tissues, paper pants, traveling towels, PU artificial leathers, etc. Capital increased to NT$250 million. Stock was offered publicly on July 7.
2001	Profits were transferred into capital to the level of NT$275 million. The product orders of spunlace fabrics at Yanchao Plant exceeded the production capacity. Revenue grew by 22%.
2002	Profits were transferred into capital to the level of NT$297 million. Annual revenue exceeded NT$1 billion, growing by 25%. Plans were made to purchase the second spunlace production line. Company stock was registered on the Taiwan Secondary Stock Market on December 25.
2003	Profits were transferred into capital to the level of NT$326.7 million. A new 400 square meter clean-room quality workshop was installed. Development and manufacturing of cream and liquid cosmetics were begun. The annual revenue reached NT$1.16 billion.
2004	Profits were transferred into capital to the level of NT$349.569 million. The second spunlace production line was installed to begin production in the third quarter of 2005 and contribute NT$600 million to the annual revenue. Biotech care products occupied 28% of the total revenue. The annual revenue reached NT$1.3 billion.
2005	Profits were transferred into capital to the level of NT$384.57 million. The second spunlace product line went online in the third quarter. Biotech care products occupied 35.28% of the total revenue. The annual revenue reached NT$1.42 billion. Construction began on Mainland China's Pinghu Plant.
2006	Profits were transferred into capital to the level of NT$423 million. Biotech care products occupied 30.6% of the total revenue. The annual revenue reached NT$1.53 billion. Surgical gown fabrics that had been developed successfully began the process to receive certification.
2007	The annual revenue reached NT$1.69 billion. Surgical gown fabrics received their quality certification. The spunlace production line of Mainland China’s Pinghu Plant was installed. With an area of 4,500 square meters, the biotech plant had a GMPC-based production environment and management and adopted medical-grade EDI ultrapure water equipment.
2008	A combined annual profit of NT$1.9 billion was achieved. Pinghu Plant obtained GMPC and ISO 2000 quality certification and a production permit for cosmetic and hygiene products. Established Nan Liu Enterprise Co., Ltd. (Singapore) in December.
2009	Profits were transferred into capital to the level of NT$468 million. A combined annual revenue of NT$2.32 billion was achieved. The certificate of "Operational Headquarters in Taiwan" was obtained from the Ministry of Economic Affairs. Pinghu Plant: High-Tech Woodpulp Spunlace Fabrics passed European Standard- EN 13795 and AAMI. (Association of Advanced Medical Standard).
2010	Profits were transferred into capital to the level of NT$528 million. A combined annual revenue of NT$2.86 billion was achieved. The ISO 14001:2004 certificate on the Environmental Management System was obtained. Medical fabrics for surgical gowns and drapes were approved by major clients and received orders.
2011	Profits were transferred into capital to the level of NT$600 million. A combined annual revenue of NT$3.52 billion was achieved. The ISO 9001:2008 certificate on the Quality Management System was obtained. The CNS certificate was obtained from Bureau of Standards, Metrology & Inspection, Ministry of Economic Affairs. Two automatic converting lines were added for cosmetic facemasks in addition to one 80-pc wet wipe

	converting line and one travel pack wet wipe converting line.
2012	Capital increased to NT$645 million by cash. A combined annual revenue up to NT$3.7 billion was achieved. FSC™-COC (Chain of Custody) certified. ISO 13485 (Medical Devices Quality Management Systems Standards) certified. ISO 22716 (Cosmetic GMP) certified.
2013	Capital increased by cash to NT$726 million. Combined annual revenue increased to NT$4.568 billion. Approved by Taiwan Stock Exchange for Initial Public Offering on May 7, 2013. The widest spunlace machine (6.2 m width) was installed and began operation in Q4 at the Pinghu plant. Automatic wet wipe converting lines were added to the Taiwan and China plants. Ranked 32 in the Top 40 companies list by Global Nonwovens Industry for 2013.
2014	Combined annual revenue increased to NT$5.34 billion. Installed two additional facial mask processing lines at each of the Taiwan and China plants. Installed another 3.8 m Air through production line at the Pinghu Plant that will begin operation in Spring 2015. Honored with the award of Technical Textiles merit and the 11th Outstanding Enterprise Manager of Southern Taiwan. Qualified as a candidate for the Excellent Performance Award by the Ministry of Economic Affairs. Ranked 25 of Top 40 companies list by Global Nonwovens Industry for 2014.
2015	Combined annual revenue increased to NT$5.92 billion. Established the Nanliu (Taiwan) Charities Foundation in January. Established the Nanliu (Pinghu) Charities Foundation in January as the first foreign company in Pinghu to set up a Charities Foundation. Honored with the 3rd Excellent Performance Award by the Ministry of Economic Affairs in May. Chairman Huang, Chin-shan was awarded the Honorary Doctor of Engineering of National Kaohsiung University of Applied Sciences in May. Two new automatic facial mask processing lines were added in each of the Taiwan and Pinghu plants in Q2. Chairman Huang, Chin-shan took over as the president of Asia Nonwoven Fabrics Association in December. Installed extra 3.8 m Thru-Air production lines in the Pinghu Plant that began operation in Q4.
2016	Consolidated net sales increased to NT$6.09 billion. Through OHSAS 18001 certification (Occupational Health and Safety Management Systems). Nanliu (Pinghu) was awarded 9th place for Industrial sales by Pinghu Economic Development Zone and 14th place for Tax payments in March. Attended IDEA 2016 Global Nonwovens Exhibition at Boston MA, USA in May. Ranked 24th in the Top 40 companies list by Global Nonwovens Industry for 2016 and ranked 4th in Asia. An automatic wet wipe line was added to the Pinghu plant in Q4.
2017	Commencing construction of the new Yanchao plant in February. Awarded ISO 9001 certification (Quality management systems) by SGS international in March, ISO 9001-2015 certification and ISO 14001-2015 certifications in March. Attended 2017 INDEX exhibition in Geneva, Switzerland during April. The new Regulations approved by Ministry of Health and Welfare of Executive Yuan from June 1, 2017. Cosmetic management include baby wet wipes. Yanchao plant was approved and registered in May. Nan liu was the first approved company in Taiwan. NANLIU MANUFACTURING (INDIA) PRIVATE LIMITED registered in September.

	Awarded Innovation Quality Management by SGS in December. Awarded ISO13485-2016 certification in December.
2018	Expansion of 1rd and 2nd warehouses which total area around 15,000 square meters completed in March. Pinghu plant ranked top 10 companies revenue and taxes payment list by Pinghu Economic Development Zone in April. Nanliu India Plant start to fill soil at Ahmedabad Gujarat in June. The consolidated net sales was over NTD 6.8 billion.
2019	Construction of the Yanchao new plant was finished. Nanliu was established for 40 years. ISO 45001:2018 Occupational health and safety management systems certification in January. The head office moved to Yanchao new plant in February. The cotton non-woven production line and 6M spunlace non-woven production line test run in March. The India plant fill soil completely and ready to construction in April.

III. Corporate Governance Report

1. Organization:



Nan Liu Enterprise Co., Ltd.

Department Functions

Department		Primary Duties
Present's Office		1. Execute the resolutions of the Board of Directors. 2. Take charge of the formulation, implementation, communication, and negotiation of the business objectives. 3. Study, formulate, execute, and follow up on the projects. 4. Formulate the guidelines and strategies for the Company's future development.
Auditing Office		1. Formulate and improve the Company's internal control system. 2. Plan and execute the audit on the Company's systems, prepare the audit report on a regular basis, and follow up on the progress.
Overseas Business Department		1. Take charge of operations of overseas subsidiaries.
R&D center		1.Take charge of research and development of products.
Business Department	International Trade Division	Take charge of the development and sales of overseas markets, client credit and purchase orders, shipments and payment collection, feedback of market information and customer service.
	Domestic Trade Division	1. Take charge of development and sales of domestic markets, client credit and purchase orders, shipments and payment collection, feedback of market information and customer service. 2. Take charge of development and sales of new domestic markets, development of sales channels, product advertising, feedback of market information, and customer service. 3. Take charge of administration, purchase orders, shipments and related promotions related to post offices. 4. Work with post offices to develop and market new products.
Finance Department	Finance Division	Take charge of financial analysis, financing, operations and management of foreign exchange, and management of treasury.
	Accounting Division	Plan and execute accounting, budgets, and tax affairs. Disclose the information on businesses.
Administration Department		1. Take charge of payroll, bonuses, performance evaluation, and training programs. 2. Plan the Company's human resources and organizational development. 3. Take charge of the Company's asset management and safety and health management 4. Take charge of general affairs, transceiver, staff meals, and security.
Information Department		Take charge of formulation and implementation of the Company's computerized operation plan, maintenance of software and hardware, preparation of internal documents, and solutions for the use of computers.
Procurement Department		Take charge of procurement, outsourcing, and inventory management.

PP Plant	Plant Affairs Section	1. Take charge of equipment maintenance and improvement in efficiency. 2. Manage raw materials and finished products in warehouses. 3. Take charge of production planning and scheduling, preparations for production reports, and follow-up.
	Production Section	1. Production of PP thermal-bonded nonwovens. 2. Production of AT nonwovens. 3. Production of cotton resin needle-punched nonwovens.
Biotech Plant	Plant Affairs Section	1. Take charge of equipment maintenance and improvement in efficiency. 2. Manage raw materials and finished products in warehouses. 3. Take charge of production planning and scheduling, preparations for production reports, and follow-up.
	Warehouse Section	1. Plan the warehoused stock and shipments. 2. Control the inventory.
	Production Section	Production and processing of masks, cosmetic products, wet wipes, and household cleaning supplies.
Spunlace Plant	Plant Affairs Section	1. Take charge of equipment maintenance and improvement in efficiency. 2. Manage raw materials and finished products in warehouses. 3. Take charge of production planning and scheduling, preparations for production reports, and follow-up.
	Electromechanical Section	Plan the maintenance of production machines.
	Warehouse Section	1. Plan the warehouse stock and shipments. 2. Control the inventory.
	Production Section	Production of spunlace nonwovens.
Quality Assurance Department	Quality Assurance Section	Ensure the quality of raw materials provided by suppliers. Ensure the quality of the Company's products. Take charge of customer complaints, formulate preventive measures, and follow up on the progress. Formulate the Company's quality policy.
R&D Department		Production of spunlace nonwovens, improvements in the formula, and development and application of new products. Production of PP nonwovens, improvements in the formula, and development and application of new products. Production of cosmetic products, improvements in the formula, and development and application of new products.

2. Board of Directors, Supervisors, General Manager, Deputy General Managers, Assistant Managers, and Directors of Departments and Subsidiary Agencies Directors and Supervisors

March 31, 2018

Unit: Share; %

Job Title	Nationality or place of registration	Name	Gender	Date elected	Term	First Date elected	Shares held upon election		Shares currently held		Shares held by spouse or minor children		Shares held in the name of other persons		Main working (education) experience (Note 3)	Current positions in the Company or other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage			Title	Name	Relation
Chairman	Republic of China	Bixiu Investments Co., Ltd.	–	2016.06.13	3	2002.09.23	5,090,929	7.89	5,090,929	7.01	–	–	–	–	–	None	–	–	–
		Representative: Huang Chin-san	Male	2016.06.13	3	2002.09.23	5,288,978	8.20	5,288,978	7.29	1,851,159	2.55	–	–	Department of Accounting, Ling Tung University Master of Industrial Engineering and Management, National Kaohsiung University of Applied Sciences Honorary Doctor of Engineering	Chairman of Bixiu Investments Co., Ltd. Chairman of Nanliu Enterprise Co., Ltd (SAMOA) Chairman of NAN LIU ENTERPRISE CO., LTD. (Pinghu) Honorary Director of Taiwan Nonwoven Fabrics Industry Association Chairman of Asia Nonwoven Fabrics Association (ANFA)	Director	Huang, Huo-cun	Brother
Director	Republic of China	Tian Zi Ding Investments Co., Ltd.	-	2016.06.13	3	2002.09.23	8,727,659	13.53	8,731,659	12.03	–	–	–	–	–	None	–	–	–
		Representative: Huang, Huo-cun	Male	2016.06.13	3	2002.09.23	1,491,015	2.31	1,505,015	2.07	693,316	0.95	–	–	Department of Chinese Medicine, Beijing University of Chinese Medicine	General Manager Chairman of Tian Zi Ding Investments Co., Ltd. Deputy Chairman of NAN LIU ENTERPRISE CO., LTD. (Pinghu)	Director	Huang Chin-san	Brother

Job Title	Nationality or place of registration	Name	Gender	Date elected	Term	First Date elected	Shares held upon election		Shares currently held		Shares held by spouse or minor children		Shares held in the name of other persons		Main working (education) experience (Note 3)	Current positions in the Company or other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage			Title	Name	Relation
Independent Director	Republic of China	Huang Tung-rong	Male	2016.06.13	3	2016.06.13	—	—	—	—	—	—	—	—	Master’s degree, Accounting Department, National Chi Nan University. Supervisor, Taiwan Industrial Bank	Managing Partner, Universal United CPA (CPA). Supervisor, Lien Chang Electronic Enterprise (stock code: 2431). Independent Director, Channel Well Technology (stock code: 3078).	—	—	—
Independent Director	Republic of China	Huang Jin-feng	Female	2016.06.13	3	2016.06.13	—	—	—	—	—	—	—	—	Ph. D., Textile Science and Technology Management, North Carolina State University. Ph. D., Textile Science, Illinois University. Full-time Associate Professor, Oriental Institute of Technology, (formerly known as Oriental Institute). Dean, Garment Engineering. Associate Professor, National Taiwan University of Science and Technology.	Drafter and Review Committee member, Customs Officers and Textile Technician Exams, Special Exam of Civil Servants, Ministry of Examination, Executive Yuan. Adjunct Associate Professor, Department of Fiber and Composite Materials, Feng Chia University.	—	—	—
Independent Director	Republic of China	Huang Chun-ping	Male	2016.06.13	3	2012.06.29	—	—	—	—	—	—	—	—	Ph.D. candidate, Global Business, Institute of China and Asia-Pacific Studies, National Sun Yat-sen University General Manager of Li Yang Development Co., Ltd.	Lecturer of Department of Business Administration, Cheng Shiu University Deputy Director of Incubation Center, Cheng Shiu University	—	—	—

Job Title	Nationality or place of registration	Name	Gender	Date elected	Term	First Date elected	Shares held upon election		Shares currently held		Shares held by spouse or minor children		Shares held in the name of other persons		Main working (education) experience (Note 3)	Current positions in the Company or other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage			Title	Name	Relation
Director	Republic of China -	Wang, Chin-Hung	Male	2016.06.13	3	2016.06.13	—	—	—	—	—	—	—	—	Ph.D. Philosophy, National Cheng Chi University. Master of Business Administration, National Chiao Tung University. Senior Vice President, Taipei Exchange. Senior Executive Officer of Premier's office Executive Yuan R.O.C. Executive Director, SME Guidance Center of Taipei City Government. Associate Researcher of NICI.	Director of Cross-Strait Business General Association. CSO of Quadlink Technology Inc.	—	—	—
Director	Republic of China	Yang Rui-hua	Male	2016.06.13	3	2013.04.30	181,033	0.28	181,033	0.25	7,000	0.01	-	-	Zhongzheng Senior High School Manager of Senlong Chemical Fiber Co., Ltd.	Director of Nan Liu Enterprise Co., Ltd. (Pinghu)	-	-	-

Job Title	Nationality or place of registration	Name	Gender	Date elected	Term	First Date elected	Shares held upon election		Shares currently held		Shares held by spouse or minor children		Shares held in the name of other persons		Main working (education) experience (Note 3)	Current positions in the Company or other companies	Any managerial officer, director, or supervisor who is a spouse or relative within the second degree of kinship		
							Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage			Title	Name	Relation
Supervisor	Republic of China	Su Chao-shan	Male	2016.06.13	3	2008.06.16	–	–	–	–	–	–	–	–	Executive Master of Business Administration, National Sun Yat-sen University Department of Law, National Taiwan University Professor and Dean of College of Business and Information, Shih Chien University Chairman of Bank of Kaohsiung Assistant Manager of Mizuho Bank Director of Bankers Association of Kaohsiung	Supervisor of Laser Tek Taiwan Co., Ltd.	–	–	–
Supervisor	Republic of China	Chung Mao-Chih	Male	2016.06.13	3	2007.06.07	1,497,451	2.32	1,497,451	2.06	–	–	–	–	Department of Accounting, Ling Tung University Business Administration Program, Tunghai University Manager of Pan Kuo-Chin CPAs & Co.	Xin Shi Dai Accountancy and Tax Agent	–	–	–
Supervisor	Republic of China	Hsieh, Chiu-Lan	Female	2016.06.13	3	2016.06.13	–	–	–	–	–	–	–	–	Bachelor of Laws, National Taiwan University	Responsible person of Hsieh, Chiu-Lan law firm	–	–	–

Note 1: For representatives of corporate shareholders, please note the name of corporate shareholders and fill in the following form: Major Shareholders of Institutional Shareholders.

Note 2: In case of discontinuity in the first term of the Company's directors or supervisors, please provide the explanation as Note 1.

Note 3: For the current positions in the CPA firm or affiliates in the first term mentioned above, please explain the titles and duties of such positions: Not applicable.

2. Major Shareholders of Institutional Shareholders

March 31, 2018

Names of institutional shareholders (Note 1)	Major shareholders of institutional shareholders (Note 2)
Bixiu Investments Co., Ltd.	Huang, Shih-chung 30%
	Huang, Jen-tsung 30%
	Huang, Hui-ju 30%
	Huang, Chin-san 10%
Tian Zi Ding Investments Co., Ltd.	Huang, Huo-cun 17%
	Huang, WU SU-CHEN 17%
	HUANG,YU-TSE 8%
	HUANG,WEN-HAN 8%
	HUANG,YUN-EN 8%
	HUANG,WAN-YI 8%
	Sheng-Yi Investments Co., Ltd. 17%
	Shang-Yi Investments Co., Ltd. 17%

Note 1: For representatives of institutional shareholders, please note the names of institutional shareholders and the name of shareholders holding 10% or more of company shares or top ten shareholders.

Names of institutional shareholders (Note 1)	Major shareholders of institutional shareholders (Note 2)
Sheng-Yi Investments Co., Ltd.	HUANG,SHENG-YU 20%
	LIN,HUI-TZU 20%
	HUANG,YU-TSE 30%
	HUANG,WEN-HAN 30%
Shang-Yi Investments Co., Ltd.	Huang, Shang Yuan 20%
	HSIEH,MIN-CHIA 20%
	HUANG,YUN-EN 30%
	HUANG,WAN-YI 30%

Note 2: If major shareholders of institutional shareholders are representatives of institutional shareholders, please note the name of the second-layer institutional shareholders: Not applicable.

Directors and Supervisors (2)

Condition / Name	Has more than 5 years of work experience and the following professional qualifications			Compliant to the requirements of independence (Note 1)										Currently serving as the independent director of other public companies
	Currently serving as an instructor or higher post in a private or public college or university in the field of business, law, finance, accounting, or the business sector of the Company	Currently serving as a judge, prosecutor, lawyer, accountant, or other professional practice or technician that must undergo national examinations and specialized license.	Work experience necessary for business administration, legal affairs, finance, accounting, or business sector of the Company	1	2	3	4	5	6	7	8	9	10	
Bixiu Investments Co., Ltd. Representative Huang, Chin-shan	—	—	✓	—	—	—	—	—	✓	✓	—	✓	—	
Tian Zi Ding Investments Co., Ltd. Representative Huang, Ho-cun	—	—	✓	—	—	—	—	—	✓	✓	—	✓	—	
Huang, Tung-rong	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Huang, Jin-feng	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Huang Chun-ping	✓	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Wang, Chin-Hung	—	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Yang Rui-hua	—	—	✓	—	—	✓	✓	✓	✓	✓	✓	✓	✓	
Su Chao-shan	✓	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Chung Mao-Chih	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Hsieh, Chiu-Lan	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

Note 1: For any director or supervisor who fulfills the following relevant condition(s) 2 years before being elected or during the term of office, please provide the ✓ sign in the field next to the corresponding condition(s).

(1) Not an employee of the company or any of its affiliates;

(2) Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;

(5) Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as of its top five shareholders;

(6) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;

(7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, provided that this restriction does not apply to any member of the compensation committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Compensation Committees of Companies whose Stock is Listed on the TWSE or Traded on the GTSM";

(8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;

(9) Not been a person of any conditions defined in Article 30 of the Company Law; and

(10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3. General Manager, Deputy General Manager, Assistant Manager, and Supervisors of Departments and Branch Agencies

March 31, 2018 Unit: Share; %

Job Title (Note 1)	Nationality or place of registration	Name	Gender	Date elected	Shares held		Shares held by spouse or minor children		Shares held in the name of other persons		Main working (education) experience (Note 2)	Current positions in or other companies	Any managerial officer who is a spouse or a relative within the second degree of kinship			Number of employee stock warrant
					Number of shares	Percentage	Number of shares	Percentage	Number of shares	of shares			Job Title	Name	Relations	
General Manager	Republic of China	Huang, Huo-cun	Male	2006.11.30	1,505,015	2.07%	694,316	0.95%	—	—	Beijing University of Chinese Medicine Department of Chinese Medicine	Chairman of Tian Zi Ding Investments Co., Ltd., Deputy Chairman of Nan Liu Enterprise Co., Ltd. (Pinghu)	—	—	—	—
Vice President	Republic of China	Yang Rui-hua	Male	1997.09.01	181,033	0.25%	7,000	0.01%	—	—	Zhongzheng Senior High School Manager of Senlong Chemical Fiber Co., Ltd.	Director of Nan Liu Enterprise Co., Ltd. (Pinghu)	—	—	—	
Vice President	Republic of China	Chang, San-hua	Male	2011.01.03	9,000	0.01%	—	—	—	—	National Kaohsiung University of Applied Sciences Department of Industrial Engineering and Management	—	—	—	—	
Finance Manager	Republic of China	Chuang, Chun-chin	Female	1999.07.01	145,156	0.20%	—	—	—	—	Kaohsiung Municipal Kaohsiung High School of Commerce National Open College of Continuing Education affiliated to National Cheng Kung University Accountant, TOKO DENSHI CO., LTD.	—	—	—	—	
Audit Officer	Republic of China	Chen, Shu-chiu	Female	2012.11.28	1,000	0.00%	—	—	—	—	Department of Accounting, Providence University Certified Internal Auditor (CIA) RSM International Auditor, Pontex Group	—	—	—	—	

Note 1: General Manager, Deputy General Manager, Assistant Managers, Supervisors of Departments and Branch Agencies and persons who hold positions equivalent to General Manager, Deputy General Manager, or Assistant Managers shall be disclosed.

Note 2: For the current positions in the CPA firm or affiliates in the first term mentioned above, please explain the titles and duties of such positions: Not applicable.

4. Remuneration of Directors, Supervisors, General Manager and Deputy General Manager

(1) Remuneration paid to directors (including independent directors) in 2018:

December 31, 2018 Unit: NT$1,000, %

Job Title	Name	Director's remuneration								Proportion of NIAT after summing items A, B, C, and D (Note 10)		Employee remuneration for other activities								Proportion of NIAT after summing items A, B, C, D, E, F, and G (Note 10)		Whether the person receives remuneration from other non-subsidiary companies that The Company has invested in (Note 11)
		Remuneration (A) (Note 2)		Retirement pension (B)		Director's remuneration (C) (Note 3)		Expense on professional practice (D) (Note 4)				Salaries, bonuses and special expenses (E) (Note 5)		Retirement pension (F)		Employee's remuneration (G) (Note 6)						
		The Company	All companies listed in this financial report (Note 7)	The Company	All companies listed in this financial report (Note 7)	The Company	All companies listed in this financial report (Note 7)	The Company	All companies listed in this financial report (Note 7)	The Company	All companies listed in this financial report (Note 7)	The Company	All companies listed in this financial report (Note 7)	The Company	All companies listed in this financial report (Note 7)	The Company		All companies listed in this financial report (Note 9)		The Company	All companies listed in this financial report (Note 7)	
																Cash amount	Shares Sum	Cash amount	Shares Sum			
Chairman	Bixiu Investments Co., Ltd. Representative Huang, Chin-San	—	—	—	—	4,198	4,198	510	510	0.79%	0.79%	8,518	8,518	—	—	259	—	259	—	2.27%	2.27%	—
Director	Tian Zi Ding Investments Co., Ltd. Representative Huang, Huo-cun																					
Independent Director	Huang, Tung-rong																					
Independent Director	Huang, Jin-feng																					
Independent Director	Huang Chun-ping																					
Director	Wang, Chin-Hung																					
Director	Yang Rui-hua																					
	Remuneration of Directors provide service to the Company: None.																					

Table of remuneration ranges

Remuneration range for each director in The Company	Name of director			
	Sum of the first 4 items (A+B+C+D)		Sum of the first 7 items (A+B+C+D+E+F+G)	
	The company (Note 10)	All companies listed in this financial report (Note 10)	The company (Note 10)	All companies listed in this financial report (Note 10)
Less than NT$2,000,000	Bixiu Investments Co., Ltd. (representative Huang, Chin-san), Tian Zi Ding Investments Co., Ltd. (representative Huang, Huo-cun), Huang, Tung-rong, Huang, Jin-feng, Huang, Chun-ping, Wang, Chin-Hung, Yang, Rui-hua,	Bixiu Investments Co., Ltd. (representative Huang, Chin-san), Tian Zi Ding Investments Co., Ltd. (representative Huang, Huo-cun), Huang, Tung-rong, Huang, Jin-feng, Huang, Chun-ping, Wang, Chin-Hung, Yang, Rui-hua,	Huang, Tung-rong, Huang, Jin-feng, Huang, Chun-ping, Wang, Chin-Hung	Huang, Tung-rong, Huang, Jin-feng, Huang, Chun-ping, Wang, Chin-Hung
NT$2,000,000 (inclusive)–NT$5,000,000	—	—	Bixiu Investments Co., Ltd. (representative Huang, Chin-san), Tian Zi Ding Investments Co., Ltd. (representative Huang, Huo-cun), Yang, Rui-hua	Bixiu Investments Co., Ltd. (representative Huang, Chin-san), Tian Zi Ding Investments Co., Ltd. (representative Huang, Huo-cun), Yang, Rui-hua
NT$5,000,000 (inclusive)–NT$10,000,000	—	—	—	—
NT$10,000,000 (inclusive)–NT$15,000,000	—	—	—	—
NT$15,000,000 (inclusive)–NT$30,000,000	—	—	—	—
NT$30,000,000 (inclusive)–NT$50,000,000	—	—	—	—
NT$50,000,000 (inclusive)–NT$100,000,000	—	—	—	—
More than NT$100,000,000	—	—	—	—
Total	7 people	7 people	7 people	7 people

Note 1: The names of directors shall be listed separately (for institutional shareholders, the names of institutional shareholders and representatives shall be listed separately), and the payments shall be disclosed collectively. Directors who also serve as General Manager or Deputy General Manager are already listed in the table and the table below (3).

Note 2: Remuneration of directors of the recent year (including salaries, job remuneration, severance, bonuses, and performance fees).

Note 3: Remuneration paid to directors of the recent year upon the approval of the Board of Directors.

Note 4: Business expenses paid out to directors in the recent year (including transport, special expenses, various allowances, accommodation, vehicles, and provision of physical goods and services). If housing, vehicle or other means of transportation, or personal expense is provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall be disclosed. If a driver is provided, please note the remuneration paid to said driver. However, such remuneration shall not be included.

Note 5: Remuneration for directors concurrently holding positions in the Company (for positions that include the General Manager, Deputy General Manager, other managerial officers, or employees) shall include salaries, job remuneration, severance, bonuses, performance fees, transport fees, special expenses, various subsidies, accommodation, vehicles, and provision of physical items and services. If housing, vehicle or other means of transportation, or personal expense is provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall be disclosed. If a driver is provided, please note the remuneration paid to said driver. However, such remuneration shall not be included.

Note 6: For directors concurrently holding positions in the Company of the recent year (including the General Manager, Deputy Manager, other managerial officers, or employees) and receiving the remuneration (including stock and cash), distribution of the recent year compensation of Employees upon the approval of the Board of Directors shall be disclosed. If such remuneration cannot be estimated, distribution of the remuneration of the recent year shall be based on the proportion of the remuneration distributed last year and filled in Schedule (4).

Note 7: Total remuneration in various items paid out to the Company's directors by all companies (including The Company) listed in the consolidated statement shall be disclosed.
Note 8: For the total remuneration in various items paid out to the Company's directors, the name of each director shall be disclosed in the corresponding range of the remuneration.
Note 9: Total remuneration in various items paid to every director of The Company by all companies (including The Company) listed in the consolidated statement shall be disclosed. The name of the director shall also be disclosed in the proper remuneration range.
Note 10: Net income refers to the net income of the recent year; if IFRS is adopted, the net income refers to the net income of the parent company only or individual financial report for the recent year.
Note 11: (a) The remuneration the Company's director receives from other non-subsidiary companies that The Company has invested in shall be disclosed in this column.
(b) If the director receives remuneration from investments in other companies that are not subsidiaries of The Company, said remuneration shall be included in Column I in the remuneration range table. The name of the column shall also be changed to "All investments in other companies".
(c) Remuneration in this case shall refer to remuneration, fees (including remuneration as a company employee, director, or supervisor), business expenses, and other related payments received by the director of The Company for being a director, supervisor, or managerial officer of other non-subsidiary companies that The Company has invested in.
＊The remuneration disclosed in the table is different from the income stipulated in the Income Tax Act. The purpose of the table is for the disclosure of information instead of taxation.

(2) Supervisor's remuneration

Unit: NT$1,000, %

Job Title	Name	Supervisor's remuneration						Proportion of NIAT after summing items A, B, and C (Note 8)		Whether the person receives remuneration from other non-subsidiary companies that The Company has invested in (Note 9)
		Remuneration (A) (Note 2)		Remuneration (B) (Note 3)		Business execution fees (C) (Note 4)				
		The Company	All companies listed in the financial report (Note 5)	The Company	All companies listed in this financial report (Note 5)	The Company	All companies listed in this financial report (Note 5)	The Company	All companies listed in this financial report (Note 5)	
Supervisor	Su Chao-shan	–	–	1,799	1,799	180	180	0.33%	0.33%	None
Supervisor	Chung Mao-Chih									
Supervisor	Hsieh, Chiu-Lan									

Table of remuneration ranges

Remuneration range for each supervisor in The Company	Name of the supervisor	
	Sum of the first 4 items (A+B+C)	
	The company (Note 6)	All companies listed in this financial report (Note 7) D
Less than NT$2,000,000	Chung, Mao-chih, Su, Chao-shan , Hsieh, Chiu-Lan	Chung, Mao-chih, Su, Chao-shan , Hsieh, Chiu-Lan
NT$2,000,000 (inclusive)–NT$5,000,000	–	–
NT$5,000,000 (inclusive)–NT$10,000,000	–	–
NT$10,000,000 (inclusive)–NT$15,000,000	–	–
NT$15,000,000 (inclusive)–NT$30,000,000	–	–
NT$30,000,000 (inclusive)–NT$50,000,000	–	–
NT$50,000,000 (inclusive)–NT$100,000,000	–	–
More than NT$100,000,000	–	–
Total	3 people	3 people

Note 1: The names of directors shall be listed separately (for institutional shareholders, the names of institutional shareholders and representative shall be listed separately) and payments shall be disclosed collectively.
Note 2: Supervisor's remuneration of the recent year (including supervisor's salary, job remuneration, severance, various bonuses, and performance fees).
Note 3: The remuneration paid to supervisors of the recent year upon the approval of the Board of Directors.
Note 4: Business expenses paid out for supervisors of the recent year (including transport, special expenses, various allowances, accommodation, vehicles, and provision of physical goods and services). If housing, vehicle or other means of transportation, or personal expense is provided, the nature and cost of the asset provided, the rental calculated based on the actual cost or the fair market value, fuel, and other payments shall be disclosed. If a driver is provided, please note the remuneration paid to said driver. However, such remuneration shall not be included.
Note 5: Total remuneration in various items paid out to The Company's supervisors by all companies (including The Company) listed in the consolidated statement shall be disclosed.
Note 6: For the total remuneration in various items paid out to the Company's supervisors, the name of each supervisor shall be disclosed in the corresponding range of the remuneration.
Note 7: Total remuneration in various items paid to every supervisor of The Company by all companies (including The Company) listed in the consolidated statement shall be disclosed. The name of the supervisor shall also be disclosed in the proper remuneration range.
Note 8: Net income refers to the net income of the recent year; if IFRS is adopted, the net income refers to the net income of the parent company only or individual financial report for the recent year.
Note 9: (a) The remuneration the Company's supervisor receives from other non-subsidiary companies that The Company has invested in shall be disclosed in this column.
(b) If the supervisor receives remuneration from investments in other companies that are not subsidiaries of The Company, said remuneration shall be included in Column D in the remuneration range table. The name of the column shall also be changed to "All investments in other companies".
(c) Remuneration in this case shall refer to remuneration, compensation (including remuneration as a company employee, director, or supervisor), business expenses, and other related payments received by the supervisor of The Company for being a director, supervisor, or managerial officer of other non-subsidiary companies that The Company has invested in.

＊The remuneration disclosed in the table is different from the income stipulated in the Income Tax Act. The purpose of the table is for the disclosure of information instead of taxation.

(3) Remuneration for the General Manager and Deputy General Manager

December 31, 2017
Unit: NT$1,000, %

Job Title	Name	Salary (A) (Note 2)		Gratuity/Pension (B)		Bonuses and special expenses (C) (Note 3)		Employee's remuneration (D) (Note 4)				Proportion of NIAT after summing the 4 items of A, B, C, and D (%) (Note 9)		Whether the person receives remuneration from other non-subsidiary companies that The Company has invested in (Note 11)
								The Company		All companies listed in this financial report (Note 5)				
		The Company	All companies listed in this financial report (Note 7)	The Company	All companies listed in this financial report (Note 7)	The Company	All companies listed in the financial report (Note 7)	Cash Sum	Shares Sum	Cash Sum	Shares Sum	The Company	All companies listed in this financial report (Note 7)	
General Manager	Huang, Huo-cun	5,666	5,666	–	–	1,173	1,173	202	–	202	–	1.19%	1.19%	None
Vice President	Yang Rui-hua													
Vice President	Chang, San-hua													

Table of remuneration ranges

Range of remuneration paid to each General Manager and Deputy General Manager in The Company	Names of the General Manager and Deputy General Manager	
	The Company	All companies listed in the financial report
Less than NT$2,000,000	Chang, San-hua	Chang, San-hua
NT$2,000,000 (inclusive)–NT$5,000,000	Huang, Huo-cun, Yang Rui-hua	Huang, Huo-cun, Yang Rui-hua
NT$5,000,000 (inclusive)–NT$10,000,000	–	–
NT$10,000,000 (inclusive)–NT$15,000,000	–	–
NT$15,000,000 (inclusive)–NT$30,000,000	–	–
NT$30,000,000 (inclusive)–NT$50,000,000	–	–
NT$50,000,000 (inclusive)–NT$100,000,000	–	–
More than NT$100,000,000	–	–
Total	3 people	3 people

(4) Names of managerial officers provided with employee's compensation and state of payments

December 31, 2017
Unit: NT$1,000, %

	Job Title	Name	Shares Sum	Cash Sum	Total	Percentage (%) of total amount to net income after tax
Managerial Officer	General Manager	Huang, Huo-cun	0	262	262	0.04%
	Vice President	Yang Rui-hua				
	Vice President	Chang, San-hua				
	Finance Manager	Chuang, Chun-chin				
	Audit Officer	Chen, Shu-chiu				

＊ For managerial officers receiving remuneration (including stock and cash), distribution of the employee's remuneration of the recent year upon the approval of the Board of Directors shall be disclosed. If such remuneration cannot be estimated, the remuneration to be distributed in current year shall be based on the proportion of the remuneration distributed last year. Net income refers to the net income of the recent year; if IFRS is adopted, the net income refers to the net income of the parent company only or individual financial report of the recent year.

5. Analysis of percentage of total remuneration paid by the Company and all companies listed in the consolidated financial report to the Company's directors, supervisors, General Manager and Deputy General Manager to the net income after tax in the last two years, as well as policies, standards, and packages for payment of remuneration, the procedures for determining remuneration, and its linkage to business performance and future risk exposure

(1). Analysis of percentage in last two years

Title	Percentage of total remuneration of parent company in 2018 to the net income after tax (%) (Note 1)		Percentage of total remuneration of parent company in 2017 to the net income after tax (%) (Note 2)	
	The Company	All companies listed in the consolidated financial report	The Company	All companies listed in the consolidated financial report
Director	2.27%	2.27%	2.70%	2.70%
Supervisor	0.33%	0.33%	0.32%	0.32%
General Manager and Deputy General Manager	1.20%	1.20%	1.59%	1.59%

Note 1: Distributions of earnings of 2018 are based on the amount approved by the Board of Directors prior to the proposal for distribution of earnings before the Shareholders' Meeting.
Note 2: Distributions of earnings of 2016 are based on the amount approved by the 2017 Shareholders' Meeting.
Note 3: Net income after tax refers to all companies listed in 2018 and 2017 consolidated financial statements.

(2). Policies, standards, and packages for payment of remuneration, the procedures for determining remuneration, and its linkage to business performance and future risk exposure.

<1> The remuneration of directors and supervisors is distributed in accordance with Article 17 of the Articles of Incorporation (see the official website). In accordance with Article 20 of the Articles of Incorporation, if the Company makes a profit, less than 2% as compensation for directors and supervisors. However, the Company's accumulated losses shall first have been covered. The payment procedure of remuneration refer to result of ‘Annual Internal Board of Directors Performance Evaluation’. Distribution of directors' and supervisors' reasonable remuneration depend on the Company's general performance, risk of industry in the future and development trend, personal performance and contribution for the Company. The remuneration paid to directors and supervisors shall be based on the level of participation in the operations, contributions, and the standards of

the same trade; the bonuses paid to directors and supervisors shall be based the Company's earnings and personal business performance and the standards of the same trade. Accordingly, the Company's business performance is closely related to the remuneration of directors, supervisors, General Manager, Deputy General Manager, and employees.

<2> The remuneration of directors and supervisors includes traveling expenses, business expenses, and director's remuneration. If a director is also an employee of the Company, he/she may receive the employee bonus; in addition to the basic salary, job remuneration, performance bonuses, and employee bonuses may be distributed to General Manager and Deputy General Manager based on the official rank and performance.

3. Implementation of Corporate Governance:

(1) Implementation of the Board of Directors:

<1> Six meetings were held by the Board of Directors in the recent year (2018) with their attendance shown as follows:

Job Title	Name	2018			Remarks
		Attendance in person B	Delegated presence	Attendance rate in person(%) 【B/A】	
Chairman	Bixiu Investments Co., Ltd. Representative: Huang, Chin-san	6	–	100%	
Director	Tian Zi Ding Investments Co., Ltd. Representative: Huang, Huo-cun	6	–	100%	
Independent Director	Huang Tung-Rung	6	–	100%	
Independent Director	Huang Jin-Feng	5	1	83%	
Independent Director	Huang Chun-ping	6	–	100%	
Director	Wang Chin-Hung	6	–	100%	
Director	Yang Rui-hua	6	–	100%	

<2> Three meetings were held by the Board of Directors as of the publication date of the annual report with the attendance of supervisors shown as follows:

Job Title	Name	2019			Remarks
		Attendance in person B	Delegated presence	Attendance rate in person(%) 【B/A】	
Chairman	Bixiu Investments Co., Ltd. Representative: Huang, Chin-san	3	-	100%	
Director	Tian Zi Ding Investments Co., Ltd. Representative: Huang, Huo-cun	3	-	100%	
Independent Director	Huang Tung-Rung	3	-	100%	
Independent Director	Hwang Jin-Feng	3		100%	
Independent Director	Huang Chun-ping	3	-	100%	
Director	Wang Chin-Hung	3	-	100%	
Director	Yang Rui-hua	3	-	100%	

Other items that shall be recorded:

1. For matters specified in Article 14-3 of Taiwan's Securities and Exchange Act or Board resolutions where other independent directors have expressed opposition or qualified opinions that have been noted in the record or declared in writing, the date of the Board meeting, session number, content of proposal, opinions of all independent directors, and the Company's disposal of such opinions shall be stated.

Session number of the Board of Directors meeting and date	Major resolutions	Article 14-3 of the Securities and Exchange Act	Independent director has a dissenting or qualified opinio
The first time of the Board of Directors in 2018, 2018/03/13	1. Approved Distribution of the 2017 Compensation of Employees, Directors and Supervisors.	V	
	6. Amendments to Parts of Regulations Governing Procedure for Board of Directors Meetings and the rules of Independent directors Responsibility category.	V	
	Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None.		

	The results of the decision: all attendees agreed to pass.		
The second times of the Board of Directors in 2018, 2018/05/08	3. Approved distribution of the 2017 Compensation of managers, Directors and Supervisors proposed by Remuneration Committee.	V	
	Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The fourth times of the Board of Directors in 2018, 2018/08/08	3. Approved amendments to parts of Rules and Procedures for the Board of Directors.	V	
	Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The sixth time of the Board of Directors in 2018, 2018/12/25	5. Approved 2019 Compensation of managers, 2018 Bonus distribution of managers,2018 Compensation of Employees, 2018 Compensation of Directors and Supervisors by Remuneration committee.	V	
	Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The first time of the Board of Directors in 2019, 2019/03/06	3. Approved Distribution of the 2018 Compensation of Employees, Directors and Supervisors.	V	
	5. Amendments to Parts of the Articles of Incorporation.	V	
	6. Amendments to Parts of Regulations for Election of Directors and Supervisors.	V	
	7. Approved re-election of the directors.	V	
	8. Amendments to Parts of Rules of Procedure for Shareholders Meetings.	V	
	9. Amendments to Parts of Procedures of the Acquisition and Disposal of Assets.	V	
	10. Amendments to Parts of Procedures for Loaning of Funds.	V	
	11. Amendments to Parts of Procedures for Making of Endorsements/Guarantees.	V	
	12. Approved the convening of the 2018 Shareholders' Meeting.	V	
	13. Approved to receive candidate nomination of shareholder proposals of directors and independent directors for 2018 shareholder's meeting.	V	
	14. Approved candidate nomination of directors and independent directors for 2018 shareholder's meeting.	V	
	Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The second time of the Board of Directors in 2019, 2019/04/16	1. Approved Audit Committee Charter.	V	
	2. Approved appointment of corporate governance manager.	V	
	3. Approved change of CPA (Internal change of same CPAs firm).	V	
	4. Amendments to Parts of Procedures for Loaning of Funds.	V	
	5. For setting up Audit Committee, amendments to parts of related rules.	V	
	Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The third times of the Board	3. Approved distribution of the 2017 Compensation of managers, Directors and Supervisors proposed by Remuneration Committee.	V	

of Directors in 2019, 2019/05/08	Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.

The Company's independent directors have expressed no opposition or qualified opinions.

2. For the avoidance of conflict of interest by directors, the names of directors, content of proposal, reasons for the avoidance of conflict of interest, and the participation in the vote shall be stated: None.
3. Assessment of objectives and implementation status in the area of strengthening the powers of the Board of Directors for current and recent years:

The Company has formulated 'Regulations Governing Procedure for Board of Directors Meetings' according to Regulations Governing Procedure for Board of Directors Meetings of Public Companies. The Company follow the government rules to approved Regulations Governing Procedure for Board of Directors Meetings and updated it. The Company uploaded the attendance to the Board of Directors meetings to Market Observation Post System. Major resolutions made by the Board of Directors have been disclosed on the Company's website and maintained by responsible departments. Information on the Company's finances is also disclosed on the website from time to time. Established by the Company in 2011, the Remuneration Committee is responsible to assist the Board of Directors in managing the remuneration. The directors and supervisors expiration of the term will be in 2019 and re-elect all the directors. To replace functions of supervisors with establishing Audit Committee, will be application after shareholders' meeting.

To implement the corporate governance and enhance the functions of the Board of Directors of the Company and establish performance targets to improve the efficiency of the operations of the Board, the Company has formulated the "Regulations Performance Evaluation of the Board of Directors" and the performance evaluation measures are listed as follows.

- Participation in the operation of the company.
- Improvement of the quality of the board of directors' decision making.
- Composition and structure of the board of directors.
- Election and continuing education of the directors.
- Internal control.

The Board of Directors of the Company conducts an annual internal performance evaluation and conducts an annual performance evaluation at the end of each year. It is completed and collected all information before the first board of directors meeting in the following year. The board of directors reports the results of the Board's assessment in the following year. The results of the Board's performance evaluation of the year 2018 were good and reported to the Board of Directors on March 6, 2019 and the contents were posted on the Company's website.

<3> Operations of the Audit Committee or supervisors' participation in the Board meeting:

The directors and supervisors expiration of the term will be in 2019 and re-elect all the directors. To replace functions of supervisors with establishing Audit Committee, will be application after shareholders' meeting. The Audit Committee will be composed of three independent directors. For helping board of directors, the main function of the Audit Committee is to supervise the quality and ethics of accounting, internal audit officer, financial reporting flow and financial control.

The Committee shall convene at least once quarterly. The powers of the Committee are as follows:

1. The adoption of or amendments to the internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
2. Assessment of the effectiveness of the internal control system.
3. The adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of the procedures for handling financial or business activities of a material nature, such as acquisition or disposal of assets, derivatives trading, loaning of funds to others, and endorsements or guarantees for others.
4. Matters in which a director is an interested party.

5. Asset transactions or derivatives trading of a material nature.
6. Loans of funds, endorsements, or provision of guarantees of a material nature.
7. The offering, issuance, or private placement of equity-type securities.
8. The hiring or dismissal of a certified public accountant, or their compensation.
9. The appointment or discharge of a financial, accounting, or internal audit officer.
10. Annual and semi-annual financial reports.
11. Other material matters as may be required by this Corporation or by the competent authority.

(2) Supervisors' participation in the Board of Directors

<1> Six meetings (A) were held by the Board of Directors in the recent year (2018) with their attendance shown as follows:

Job Title	Name	Attendance in person B	Delegated presence	Attendance rate in person(%) 【B/A】	Remarks
Supervisor	Su Chao-shan	6	-	100%	
Supervisor	Chung Mao-Chih	6	-	100%	
Supervisor	Hsieh, Chiu-Lan	6	-	100%	

<2> Three meetings (A) was held by the Board of Directors in 2019 with their attendance shown as follows:

Job Title	Name	Attendance in person B	Delegated presence	Attendance rate in person(%) 【B/A】	Remarks
Supervisor	Su Chao-shan	3	-	100%	
Supervisor	Chung Mao-Chih	3	-	100%	
Supervisor	Hsieh, Chiu-Lan	2	1	67%	

Other items that shall be recorded:

1. Composition and responsibilities of the supervisors:
   (1) Communication between supervisors and the Company's employees and shareholders (such as channel and method).
   Supervisors may communicate with the Company's employees, shareholders and stakeholders at any time according to their responsibilities. Currently, the communication channel functions smoothly.
   (2) Communication between supervisors and internal audit director and accountants (such as matters, methods, and results of communication with respect to the Company's finances and business).
   A. Supervisors with no objection to the audit director shall submit an audit report submitted by the audit director of audit items to supervisors in the following month after the audit is completed.
   B. The audit director shall attend meetings of the Board of Directors and prepare the audit service report to which supervisors have no objection.
   C. Supervisors may carry out face-to-face communication and communication in written form with accountants on finance from time to time.
2. If the supervisors stated any opinions while attending Board meetings, the date, session, contents of the case discussed, and resolution of the Directors' Meeting as well as The Company's disposition of opinions stated by the supervisors shall be described. None

(3) State of corporate governance, gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps

Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps
	Yes	No	Summary	
1. Did the Company stipulate and disclose best practice principles for corporate governance according to the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies?	✓		The Company has stipulated best practice principles for corporate governance according to the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies and disclosed them in the Investor Area on the Company's website.	No material gap was found.
2. Equity structure and shareholders' rights of the Company (1) Did the Company establish an internal procedure for handling shareholder proposals, inquiries, disputes, and litigations? Are such matters handled according to the internal procedure?	✓		(1)The Company treats major and minor shareholders equally and encourages them to attend the shareholders' meeting and participate in the election of directors and supervisors or amendments to the Company's Articles of Incorporation. The Company also allows shareholders to ask questions or propose properly. In addition, shareholders may instantly and frequently obtain related information on the Company via the Market Observation Post System or phone and have the right to share profits. The Company convenes the shareholders' meeting according to the Company Act and related regulations and formulates Rules and Procedures for the Shareholders' Meeting (see Meeting Handbook of 2019 Annual Shareholders' Meeting). All resolutions are made in accordance with Rules and Procedures for the Shareholders' Meeting. The resolutions made in the shareholders' meeting comply with related regulations and the Company's Articles of Incorporation. The spokesperson or deputy spokesperson is dedicated to processing shareholder proposals or disputes. The Company will seek the assistance of legal consultants if necessary.	No material gap was found.
(2) Did the Company maintain a register of major shareholders with controlling power as well as a register of persons exercising ultimate control over those major shareholders?	✓		(2) The Company's stock transfer and registrar agency is Yuanta Securities Co., Ltd., which helps the Company control major shareholders and ultimate controlling shareholders. The Company regularly discloses the pledge, increase/decrease in the Company's shares, or major matters that may result in the change in shares for the supervision of shareholders.	No material gap was found.
(3) Did the Company establish and enforce risk control and	✓		(3)The Company has established rules for specific companies or groups with	No material gap

<table>
<tr><th rowspan="2">Assessed items</th><th colspan="3">State of operations</th><th rowspan="2">Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td>firewall systems with its affiliated businesses?</td><td></td><td></td><td>related business operations and financial transactions and supervision measures for subsidiaries and disclosed related information on affiliates in accordance with regulations.</td><td>was found.</td></tr>
<tr><td>(4) Did the Company stipulate internal rules that prohibit company insiders from trading securities using information not disclosed to the market?</td><td>✓</td><td></td><td>(4) The Company has set Regulations Governing Prevention of Insider Trading to prevent insider trading.</td><td>No material gap was found.</td></tr>
<tr><td>3. Composition and responsibilities of the Board of Directors:
(1) Has a policy of diversity been established and implemented for the composition of the Board of Directors?</td><td>✓</td><td></td><td>(1) The Company has established the Corporate Governance Best Practice Principles and the Rules for Electing Directors and Supervisors. The composition of the board of directors shall be determined by taking diversity into consideration. An appropriate policy on diversity based on the company's business operations, operating dynamics, and development needs be formulated and include, without being limited to, the following two general standards:
1. Basic requirements and values: Gender, age, nationality, and culture.
2. Professional knowledge and skills: A professional background, professional skills, and industry experience.
At present, the Company has 7 directors, of which 3 are independent directors and one of the independent directors is female. The professional background of the directors includes management, accounting, finance and experience in non-woven industries. And for the accountants, university professors, etc. The Company has 3 supervisors. The professional background of the supervisor members covers law, accounting, finance, etc. Professional advice from the help of lawyers and university lecturers allows us to think in a different angle thereby enhancing the company's business performance and management efficiency. The following is the implementation of the diversification of the directors of the Company:
<table>
<tr><th>Diversified core items / Name of Director</th><th>Gender</th><th>Management</th><th>Leadership</th><th>Industry knowledge</th><th>Accounting</th><th>Finance</th></tr>
<tr><td>Huang, Chin-san</td><td>Male</td><td>V</td><td>V</td><td>V</td><td></td><td></td></tr>
<tr><td>Huang, Huo-cun</td><td>Male</td><td>V</td><td>V</td><td>V</td><td></td><td></td></tr>
<tr><td>Huang Tung-Rung</td><td>Male</td><td>V</td><td></td><td></td><td>V</td><td></td></tr>
<tr><td>Hwang Jin-Feng</td><td>Female</td><td></td><td></td><td>V</td><td></td><td></td></tr>
<tr><td>Huang Chun-ping</td><td>Male</td><td>V</td><td></td><td></td><td></td><td></td></tr>
</table></td><td>No material gap is found.</td></tr>
</table>

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<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td></td><td></td><td></td><td><table>
<tr><td>Wang Chin-Hung</td><td>Male</td><td>V</td><td></td><td></td><td></td><td>V</td></tr>
<tr><td>Yang Rui-hua</td><td>Male</td><td></td><td>V</td><td>V</td><td></td><td></td></tr>
</table></td><td></td></tr>
<tr><td>(2) In addition to Salary and Remuneration Committee and Audit Committee established according to law, has the Company voluntarily established other functional committees?</td><td>✓</td><td></td><td>(2) The Company has established the Remuneration Committee in accordance with regulations and laws. Other operations of corporate governance are processed by responsible departments. No other functional committee is established. In the future, the Company will evaluate the necessity of establishing other committees.</td><td>No material gap is found.</td></tr>
<tr><td>(3) Did the Company stipulate regulations for assessing the performance of the Board of Directors and the process of assessment? Are these performance assessments carried out regularly every year?</td><td>✓</td><td></td><td>(3) To implement the corporate governance and enhance the functions of the Board of Directors of the Company and establish performance targets to improve the efficiency of the operations of the Board, the Company has formulated the "Regulations Performance Evaluation of the Board of Directors" and the performance evaluation measures are listed as follows.
• Participation in the operation of the company.
• Improvement of the quality of the board of directors' decision making.
• Composition and structure of the board of directors.
• Election and continuing education of the directors.
• Internal control.
The criteria for evaluating the performance of the board members by themselves are listed as follows.
• Familiarity with the goals and missions of the company
• Awareness of the duties of a director
• Participation in the operation of the company
• Management of internal relationship and communication
• The director's professionalism and continuing education
• Internal control
The Board of Directors of the Company conducts an annual internal performance evaluation and conducts an annual performance evaluation at the end of each year. It is completed and collected all information before the first board of directors meeting in the following year. The board of directors reports the results of the Board's assessment in the following year. The results of the Board's performance evaluation of the year 2018 were good and reported to the Board of Directors on March 6, 2019</td><td>No material gap is found.</td></tr>
</table>

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<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td></td><td></td><td></td><td>and the contents were posted on the Company's website.</td><td></td></tr>
<tr><td>(4) Did the Company regularly implement assessments on the independence of the CPA?</td><td>✓</td><td></td><td>(4) The Company authorizes CPAs from Yangtze CPAs & Co and has avoided matters and persons that directly or indirectly have a conflict of interest to fully adhere to fair, rigorous honesty and independence. The CPAs signed “Independent Auditors’ Statement” for financial statements of ever quarter and annual report. Independent directors regularly evaluate the independence of CPAs and report the evaluation to the Board of Directors.
The Company conducts an independent assessment of the CPA annually by the Finance Department. The company also conducts the annual assessment of Independent Accountants at the end of each year. And they are completed before the most recent Board of Directors in the following year and the latest annual report of the Board of Directors evaluation result. As a result of the assessment by the Company's Finance Department, Wang Shu-Tung and Hu, Hsiang-Ning, are in compliance with the Company's independent evaluation criteria. The results of the assessment of the accountants of 2018 are reported in the board meeting on March 6, 2019 and published the contents on the company's website.
Note: CPA Independent Auditors’ Evaluation List:
<table><tr><th>Evaluation List</th><th>Yes</th><th>No</th></tr><tr><td>1.Whether the accountant has no direct or significant indirect financial relationship with the Company</td><td>V</td><td></td></tr><tr><td>2. Whether the accountant has not provided any financing or guarantee with the Company or the directors and supervisors of the Company</td><td>V</td><td></td></tr><tr><td>3. Whether the accountant is not considering the possibility of the loss of customers and affect the company's audit work</td><td>V</td><td></td></tr><tr><td>4. Whether the accountant has no close business relationship and potential employment relationship with the Company?</td><td>V</td><td></td></tr><tr><td>5. Whether the accountant has not received any fees or charges related to the audit project</td><td>V</td><td></td></tr><tr><td>6. Whether the members of the accountants and the audit team are</td><td>V</td><td></td></tr></table></td><td>No material gap is found.</td></tr>
</table>

Assessed items	Yes	No	Summary			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps
			State of operations			
			not currently in the company's office or in the last two years as directors and supervisors or managers who have a significant impact on the audit work			
			7. The non-audit services provided by the accountant to the Company do not directly affect the important items of the audit project	V		
			8. whether the accountant has not advertised or intermediated the shares or other securities issued by the Company	V		
			9. Whether the accountant did not act as a defender of the Company or on behalf of the Company in coordination with conflict of other third parties	V		
			10.Whether the accountant has not relationship with the directors and managers of the Company or the persons who have a significant impact on the audit project	V		
			11. The audit CPA has not served within one year as the directors, supervisors and managers of the company	V		
			12. Whether the accountant is not part of the company's regular staff who receive fixed salary	V		
			13. Whether the accountant has not involved in the management of the Company's decision-making process	V		
			14. As of now the auditing report has not been changed in seven years	V		
			15. So far, the accountant has not been punished	V		
4. Whether the company has set up full-time/part-time units/persons for corporate governance related matters? (Including but not limited to providing the directors and supervisors to carry out the business required information, handling the matters relating to the meetings of the board of directors and the shareholders' meeting, registrations and changes in the registrations in the company, making the minutes of the board of directors and the shareholders' meeting)	✓		The corporate governance is managed by the General manager’s office and the finance department. The finance department manager Chuang, Chun chin is appointment of corporate governance manager by board of directors on March 6, 2019. To protect the rights and interests of shareholders and 2.Strengthen the powers of the board of directors. The manager Chuang, Chun chin has financial and accounting experience for listed companies over 18 years. It is required that the corporate governance affairs mentioned in the preceding paragraph include at least the following items: 1. Handling matters relating to board meetings and shareholders meetings according to laws.			No material gap is found.

Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps
	Yes	No	Summary	
			2. Producing minutes of board meetings and shareholders meetings. 3. Assisting in onboarding and continuous development of directors and supervisors. 4. Furnishing information required for business execution by directors and supervisors. 5. Assisting directors and supervisors with legal compliance. Implementation of corporate governance by corporate governance manager in 2019 is as follows. 1. Assisting duty implementation for directors and independent directors, providing necessary information for board meeting and continuing professional education. (1) Updating revised law and rules for the Company operation and corporate governance related information to board of directors, and update new version irregularly. (2) Review security level of related information and keep communication smoothly between directors and each departments. (3) Independent directors follow corporate governance rules. It's necessary to assist to arrange meetings, when independent directors need to understand and discuss operation of the Company with internal auditor manager and CPA. (4) Assisting directors to plan and arrange annual education. 2. Assisting directors to follow procedures and resolutions of directors meetings and shareholders' meeting. (1) To report corporate governance situation to board of directors, independent directors, supervisors or audit committee, confirm hold shareholders' meeting and board meetings legally and rules of corporate governance. (2) Assisting and reminding directors prepare the rules for resolution of board meetings. (3) To announce resolution of board meetings on MOPS after board meetings for investors' reference. 3. Preparing the agenda of board meetings, noticing directors no later than before 7 days, preparing related information of board meetings, reminding interest	

<table>
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<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td></td><td></td><td></td><td>recusal for directors before the meetings and preparing board of resolution no later than before 20 days.
4. Booking the date of shareholders' meeting by rules, preparing meeting notice, meeting handbook, meeting minutes during legal period and announce on MOPS, application for change registration when amendment of rules or re-elect directors.
Education of corporate governance manager in 2019.
<table><tr><th>Education date</th><th>Organizer</th><th>Course Title</th><th>Hours</th><th>Total hours</th></tr><tr><td>2019.05.08~2019.05.08</td><td>Taiwan Corporate Governance Association</td><td>Important tax rules recently and solution of OBU company operation.</td><td>3.0</td><td>3.0</td></tr></table>Note: Because the corporate governance manager just on board recently, she didn't finished the annual education. She will finish education hours of the first years in 2019 by rules.</td><td></td></tr>
</table>

5. Has the Company established a communication channel with stakeholders? Has a stakeholders' area been established on the Company's website? Are major corporate social responsibility (CSR) topics concerning the stakeholders addressed appropriately by the Company?	✓		The Company has setup a stakeholder area page with contact information in the company website. The corporate social responsibility issues concerning the interested parties are addressed via phone and email listed in the contact us page of our website. (1) Shareholders 1. Call Shareholders' Meeting to Order in the second quarter every year. Voting rights for resolutions adopted at a shareholders' meeting can be performed by electronic transmission to join the meeting. 2. The Company announced financial statements by quarter, issued Annual report and Business Report by year for investors reference. 3. Announcement for revenue of previous month by total amount and department on TWSE website every month. 4. Setup Investor Area on the Company's website and update new information of the Company. Announce the name, telephone number and email of investors' window on the Company's website for investors' inquiry and feedback. 5. Attending to investor conference hosted by Taiwan or foreign securities Corp. irregularly. There are three times in 2018. 6. Meetings with analysts from Taiwan or foreign by visit plant or conference call irregularly. There are 41 times in 2018. (2) Customers 1. To visit customers irregularly and collect replying information. 2. The Company has a toll-free hotline, 0800-556-668, and arranges responsible personnel to process customer complaints. The Company also purchases product liability insurance of NT$50 million to enhance its corporate social responsibilities. 3. Setup Customers Center on website to increase channel for collecting customers' request. 4. Customers filled Customer satisfaction survey every year to upgrade product and service quality. Customers' satisfaction level is satisfied in 2018. (3) Suppliers Customer satisfaction survey 1.Evaluation The Company follow internal control procedure and supply rules to evaluate new suppliers or major suppliers based on the quality, price, service, and speed; to build long-term partnerships. 2.Management To evaluate for major suppliers and exist transactions' suppliers by quality, due date and cooperation. For example, The evaluations of Biotechnology department are 105 times. The Company take care the relationship of suppliers for stable cooperation. The Company emphasize environmental protection and human rights to fulfill corporate governance in the supply chain.	No material gap is found.

Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps
	Yes	No	Summary	
			(4) Employees The Company attaches great importance to employee benefits and arrange activities that promote employees' health, such as gatherings. The Company setup Employees area and connection window on the Company's website. Providing the service phone number and email address for employees.	
6. Has the Company delegated a professional shareholder services agent to handle the shareholders' meeting?	✓		The Company authorizes Stock Transfer and Registrar Department, Yuanta Securities Co., Ltd. to process the stock transfer and registrar services in accordance with Regulations Governing Handling of Stock Affairs.	No material gap is found.
7. Information disclosure (1) Did the Company establish a website to disclose information on financial operations and corporate governance?	✓		The Company has set up a website (http://www.nanliugroup.com, including a Chinese version and English version), which is connected to the Market Observation Post System. On the website, the Investor Area discloses the Company's finances and corporate governance from time to time.	No material gap is found.
(2) Did the Company adopt other means of information disclosure (such as establishing an English language website, delegating a professional to collect and disclose company information, implementing a spokesperson system, and disclosing the process of investor conferences on the Company website)?	✓		To improve the transparency of the disclosure of information, the Company has set up the sound spokesperson system and a public information system to allow shareholders and stakeholders to fully understand the Company's finances and corporate governance.	No material gap is found.
8. Did the Company have other important information for better understanding the Company's corporate governance system (including but not limited to interests and rights of employees, care for employees, relation with investors, relation with suppliers, relation with interested parties, continuing education of directors and supervisors, execution of risk management policies and risk measuring standards, execution of customer policies, liability insurance for the Company's directors and supervisors)?	✓		(1) Interests and rights of employees, care for employees. Please refer to Employer/employee relationship of the Annual report. (2) Relation with investors. The company have good communication with investors. It's including of announcement of finance information, to attend investor conference hosted by Securities for communication with investors and provide investors' opinions to the Company management level. The company will keep good communication with investors. Please refer related information to investor area on website. (3) Relation with suppliers and relation with interested parties. Please refer to Investor area and Stakeholder area on website. (4) Continuing education of directors and supervisors. Please refer continuing education of directors and supervisors in 2018 on MOPS (Market Observation Post System - Corporate Governance) website. The	No material gap is found.

Assessed items	State of operations			Gaps with the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps
	Yes	No	Summary	
			company follow the related rules. (5) Execution of risk management policies and risk measuring standards. Please refer to Risk of the Annual report. (6) Execution of customer policies. Please refer to Production and Sales Status of the Annual report. (7) Liability insurance for the Company's directors and supervisors. Liability insurance has been covered for directors and supervisors. The reports of the Liability insurance such as the insured amount, the coverage scope and the insurance rate for the year of the 2019 has been report to the Board of Directors on March 6, 2019.	

9. Please descript the improvement of the result of Corporate Governance Evaluation System by the Corporate Governance Center of the Taiwan Stock Exchange announced in the last year. (The evaluation results which were not included in the assessment did not need to be listed)

The scores of the Company's Corporate Governance evaluation in 2018 are in the block of 6% to 20% of all evaluated companies. The following will be the improvement plans of the Company:

- To disclosure corporate governance manager, management related corporate governance in annual report. Description of operation and implement situation for corporate governance in annual report and the Company's website.
  The Company increase related description to follow the rules in 2018 Annual report and the Company's website.
- To disclosure stakeholders' identity, focus issues, communication channel and feedback method in Annual report or on the Company's website.
  The Company will disclosure related stakeholders' information on the Company's website in 2019.
- To disclosure Ethical Corporate Management Principles and thoroughly prescribe the specific ethical management practices and the programs to forestall unethical conduct Prepared CSR report by international rules in Annual report or on the Company's website.
  The Company will disclosure related Ethical Corporate Management Principles on the Company's website.

(4)The formation, responsibility, and operation of the Salary and Remuneration Committee:

<1>Information on the members of the Salary and Remuneration Committee

Identity (Note 1)	Condition / Name	Has more than 5 years of work experience and the following professional qualifications			Compliant to the requirements of independence (Note 2)								Number of salary and remuneration committee memberships concurrently held in other public companies	Remarks (Note 3)
		Currently serving as an instructor or higher post in a private or public college or university in the field of business, law, finance, accounting, or the business sector of the Company	Currently serving as a judge, prosecutor, lawyer, accountant, or other professional practice or technician that must undergo national examinations and specialized license.	Has professional experience necessary for business administration, legal affairs, finance, accounting, or business sector of the Company.	1	2	3	4	5	6	7	8		
Independent Director	Huang, Tung-rong		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Huang, Jin-feng	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	-	
Independent Director	Huang Chun-ping	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	-	

Note 1: For identity, please annotate whether the person is a director, independent director, or other.

Note 2: For any committee member who fulfills the relevant condition(s) 2 years before being elected or during the term of office, please provide the ✓ sign in the field next to the corresponding condition(s).

(1) Not employed by the Company or an affiliated business.

(2) Not a director or supervisor of the Company or an affiliated business. This does not apply in cases where the person is an independent director of the Company, its parent company, or a subsidiary where the Company holds, directly and indirectly, more than 50% of the voting shares.

(3) Not a natural person shareholder who holds more than 1% of issued shares or is ranked top 10 in terms of the total quantity of shares held, including the shares held in the name of the person's spouse, minor children, or others.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship in the 3 preceding items.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds more than 5% of the total number of issued shares of the Company or is ranked top 5 in terms of quantity of shares held.

(6) Not a director (member of the governing board), supervisor (member of the supervising board), managerial officer, or shareholder holding more than 5% of shares of a specified company or institution that has a financial or business relationship with the Company.

(7) Not a professional individual or owner, partner, director (member of the governing board), supervisor (member of the supervising board), or managerial officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting, or consultation services to the Company or to any affiliated business, or spouse thereof.

(8) Where none of the circumstances in the subparagraphs of Article 30 of the Company Act applies.

<2> Operations of the Salary and Remuneration Committee

(1) The Company has a Remuneration Committee composed of 3 members.

(2) The duration of the current term of service is from June 13, 2016 to June 12, 2019. In the recent year, a total of two Remuneration Committee meetings (A) were held. The following lists member qualifications and presence at these meetings:

Job Title	Name	Actual presence (B)	Delegated presence	Rate of actual presence (%) (B/A) (Note)	Remarks
Committee chair	Huang Tung-Rung	2	–	100%	
Member	Huang Chun-ping	2	–	100%	
Member	Huang Jin-Feng	2	–	100%	

The term/date of Remuneration Committee meetings	The content of proposal and follow up	Meetings' resolution	Follow-up of Remuneration Committee opinions by the Company
The third term, the fourth times Remuneration Committee meetings 2018.5.8	Discussion of distribution of the 2017 Compensation of Employees, Directors and Supervisors proposed by Remuneration Committee	All members of Remuneration Committee meetings agreed.	Proposal board meeting by Remuneration Committee meetings and all directors agreed.
The third term, the fifth times Remuneration Committee meetings 2018.12.25	1. Bonus distribution rules of the Company and distribution amount of managers. 2. The salary structure and payment amount of managers in 2019. 3. 2018 Compensation of Employees and 2018 Compensation of Directors and Supervisors.	All members of Remuneration Committee meetings agreed.	Proposal board meeting by Remuneration Committee meetings and all directors agreed.

Other items that shall be recorded:

1. If the Board of Directors chooses not to adopt or revise recommendations proposed by the Salary and Remuneration Committee, the date of the Directors' Meeting, session, contents discussed, results of meeting resolutions, and the Company's disposition of opinions provided by the Salary and Remuneration Committee shall be described in detail (also, where the salary and remuneration approved by the Directors' Meeting is better than that recommended by the Salary and Remuneration Committee, the differences and the reason for the approval shall be described in detail): None.
2. Where resolutions of the Salary and Remuneration Committee include a dissenting or qualified opinion that is on record or stated in a written statement, the date, session, contents discussed, opinions from every member, and disposition of the members' opinions shall be described in detail: None.

(5) Performance of Social Responsibilities:

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
1. Implementation of corporate governance				
(1) Has the Company stipulated corporate social responsibility (CSR) policies and systems and reviewed the effectiveness of CSR actions?	✓		(1) The Company has stipulated corporate social responsibility policies to fulfill the corporate social responsibilities in accordance with the global trend of a balanced environment and social and corporate governance.	No material gap is found.
(2) Has the Company provided regular training on CSR topics?	✓		(2) The Company continues to promote the business philosophy and corporate social responsibilities in various meetings.	No material gap is found.
(3) Has the Company established an exclusively (or concurrently) dedicated unit for promoting CSR? Is the unit empowered by the Board of Directors to implement CSR activities at upper management levels? Does the unit report the progress of such activities to the Board of Directors?	✓		(3) The company has established an exclusively (or concurrently) dedicated unit for promoting CSR: General Manager's Office. The General Manager's Office's duty include stipulated corporate social responsibility (CSR) policies and systems, management rules, implement plan. The related department managers have responsibility for implement. And they are completed before the most recent Board of Directors in the following year.	No material gap is found.
(4)Has the Company established a relevant salary and remuneration policy and combined its employee performance assessment system with CSR policies? Has the Company established a clear reward and penalty system?	✓		(4) The Company intends to formulate a reasonable salary remuneration policy to promote education, training courses and advocacy matters on a regular basis. The company has provided regular training on CSR topics. Currently, the Company is planning to combine the training and performance assessment to establish a clearer reward and penalty system.	No material gap is found.
2. Developing a sustainable environment				
(1) Is the Company committed to improving usage efficiency of various resources and utilizing renewable resources with reduced environmental impact?	✓		(1) The Company has promoted the recycling of waste pallets which are used to stack goods and the recycling of wet wipes. In particular, with the installation of water recycling system and the reuse of water, there was a significant reduction in the amount of water used. The factory processes wastewater using the process of reverse osmosis to achieve a certain water quality standards. Parts of recycling water are reused for production lines. Others is then widely used in toilets and watering greeneries in the company. The decrease in water consumption from the year 2014 to 2017 was around 90%. Also in 2019, the company will continue to maintain this performance standard. In terms of waste reduction, the target will be achieved by, reducing the use of non-renewable resources, making good use of	No material gap is found.

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
(2) Has the Company referred to the nature of its industry to establish a suitable environment management system (EMS)?	✓		resources and energy, limiting the generation of waste to the maximum possible when design products, and classifying the recyclable wastes. For 2019, the target for the reduction in the waste products is 10%. (2) The company has passed ISO 14001: 2015, International environmental management system certification and OHSAS 18001: 2007, Occupational Health and Safety Management Systems certification. The development of environmental management manual, follows the "plan, Do, Check and action" (PDCA) concept for the establishment and maintenance of environmental management system in order to control and achieve continual improvement of processes and products. The Company is committed to maintain the environment in accordance with related regulations and standards and achieve GMP-certified production environment and management. The Environmental Safety Division is responsible for regular maintenance of landscaping; the Administration Department and each plant promote a 5S competition; the General Affairs Division works with responsible personnel to maintain a clean environment.	No material gap is found.
(3) Is the Company concerned with changes to the global climate and how it may affect business activities? Has the Company implemented greenhouse gas (GHG) inventory checks and stipulated strategies for reducing energy consumption, carbon emissions, and GHG production?	✓		(3) The Company has formulated the "Low Carbon Policy" as a guide for future carbon reduction projects. This includes optimization of energy efficiency and installing solar panels. In 2016, the company started to install photovoltaic equipment for energy saving and carbon reduction. In 2017, the company began to use energy efficient motors and gradually dispose of some existing high-power motors. For 2019, the target for annual energy saving is 5%. To save water and energy consumption, the factory processes wastewater using the process of reverse osmosis to achieve a certain water quality standards. Parts of recycling water are reused for production lines. Others is then widely used in toilets and watering greeneries in the company. The Company has installed water-saving devices, faucets for special purposes, and energy-saving light bulbs and reduced the number of light tubes in corridors and places stationed with fewer employees.	No material gap is found.
3. Sustaining community services (1) Has the Company referred to relevant laws and international human rights instruments to stipulate relevant management	✓		(1) The company has referred to Labor Standards Act and international human rights instruments, such as gender equality, rights of employment, and prohibition of	No material gap is

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
policies and procedures?	✓		discrimination, to stipulate relevant management policies and procedures. In addition, the Company has established the Employee Welfare Committee to supervise and protect employees' interest. The Company also encourages employees to participate in activities held by the Employees' Welfare Committee and grants employees bonuses and gifts during folk festivals.	found. No material gap is found.
(2) Has the Company established an employee appeal system and channels, and are employee appeals handled appropriately?			(2) Based on humane management, the Company has set up communication forums, suggestion boxes, and group meetings to allow employees to unilaterally or bilaterally communicate with supervisors.	
(3) Has the Company provided employees with safe and healthy work environments as well as regular classes on health and safety?	✓ ✓		(3) The company has passed OHSAS 18001:2007 Occupational Health, ISO 45001:2018 International Organization for Standardization and Safety Management Systems certification and ISO 14001:2015 international environmental management system certification, in order to prevent occupational hazards and to ensure labor safety and health. Also, to ensure that safety and health matters comply with the relevant laws and regulations in order to reduce the loss of life and property. The Company has formulated the "Safety and Health Management Procedures" in accordance with the relevant laws and regulations on labor safety and health, labor safety and health organization management and self-inspection measures. Our company employees, contractors, third-party manufacturers and suppliers who carry out operational activities in factories. The company held regularly safety and health education training for disaster prevention during working period. The Company holds an annual health examination and fire drill on a regular basis and continuously provides training, promotion seminars, communication forums, and consultation to encourage employees to make improvements, care for the environment, and jointly create a healthy and energetic enterprise through a voluntary safety and health management system.	No material gap is found. No material gap is found.
(4) Has the Company established a system to regularly communicate with its employees and used appropriate means to notify employees of operational changes that may result in material impacts?	✓		(4) The Company holds a labor conference on a regular basis to build up a harmonious communication mechanism between the Company and employees and uses appropriate means to notify employees of operational changes that may result in material impacts.	No material gap is found.
(5) Has the Company established an effective competency development career training program for employees?	✓		(5) The Company holds internal training programs and expatriate professional training	No material gap is found.

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
(6) Has the Company established relevant policies and systems of appeal for consumer rights for the processes of research and development, purchasing, production, operations, and services?	✓		programs from time to time to cultivate employees' competencies and strengths. The training programs for employees are described below. (6) The Company has a toll-free hotline, 0800-556-668, and arranges responsible personnel to process customer complaints. The Company also purchases product liability insurance of NT$50 million to enhance its corporate social responsibilities.	No material gap is found.
(7) Is the Company compliant with relevant laws and international laws governing the marketing and labeling of its products and services?	✓		(7) The company has passed ISO 9001:2015 quality management system certification, ISO 13485:2016 Medical devices quality management system certification, ISO 22716:2007 Cosmetics quality management system certification. The Company is compliant with relevant laws and international laws governing the marketing and labeling of its products and services. The Company follows the related laws and regulations governing its business operations.	No material gap is found.
(8) Has the Company assessed any record of a supplier's impact on the environment and society before engaging in commercial dealings with said supplier?	✓		(8) The company has passed FSC-COC 2017(Chain of Custody) certification, to use raw materials from verified forest to reduce the impact on the environment. FSC chain of custody certification verifies that FSC-certified material has been identified and separated from non-certified and non-controlled material. And to exclude illegally harvested timber, genetically modified timber, breach of trading or public power forest. The Company evaluates new and existing suppliers based on the quality, price, service, and speed; to build long-term partnerships, the Company will emphasize environmental protection and human rights to fulfill corporate governance in the supply chain.	No material gap is found.
(9)Do contracts between the Company and its major suppliers include terms whereby the Company may terminate or rescind the contract at any time if said supplier has violated the Company's corporate social responsibility policy and has caused a significant impact upon the environment and society?	✓		(9) The contracts between the Company and its major suppliers do not include terms whereby the Company may terminate or rescind the contract at any time if said supplier has violated the Company's corporate social responsibility policy.	The Company will follow the need in the future and the government rules.
4. Improvement of information disclosure (1) Does the Company disclose relevant and reliable information relating to CSR on its official website or the Market Observation Post System (MOPS)?			Information relating to CSR is disclosed on the Company's website and the prospectus.	No material gap is found.

<table>
<tr><th rowspan="2">Assessed items</th><th colspan="3">State of operations</th><th rowspan="2">Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td colspan="5">5. If the Company makes its own corporate social responsibilities according to the rule of Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies, please state the implement and differences:
The Company has formulated “Codes of Corporate Social Responsibility” and follow in the future. Regularly to help the surrounding schools, public interest groups and vulnerable groups (living alone old men or old women, single-parent families, emergency relief).
In order to contribute to the society, the chairman has set up private Nan liu Charity Foundation, with full-time staff of an Executive Secretary, Executive Officer and volunteers, directly dedicated to assist the elderly living alone and single-parent family in emergency and other related matters. The current plan to set up a central kitchen, to provide meal to living alone old men or old women.</td></tr>
<tr><td colspan="5">6. Other important information for better understanding of corporate social responsibilities (such as the Company's systems and measures and the implementation of environmental protection, social engagement, social contribution, social service, social charity, customer interest, human rights, safety and health, and other CSR activities):
(1) Business Performance
To fulfill the corporate governance, the Company has established the effective internal control system and independent directors to improve the practical experience of the management team. Also, the Company has stipulated Rules and Procedures for the Shareholders' Meeting to strengthen the competency of the Board of Directors. To secure shareholders' equity and improve the transparency of the disclosure of information, the Company has the spokesperson and deputy spokesperson responsible for the instant disclosure of important information and arranges responsible personnel to communicate with shareholders. In addition, the Company has obtained a certain level of revenue and profit over the past three years and has been committed to create shareholder values.
(2) Environmental Protection
The company has passed ISO 14001:2015 international environmental management system certification and OHSAS 18001:2007 Occupational Health and Safety Management Systems certification. The Company has formulated the "Environment Management Procedures" and established a recycling system to reduce the impact of disposal of waste on human bodies and the environment and has been committed to maintain the environment in accordance with related regulations and standards and achieve a GMP-certified production environment and management. In addition, the Environmental Safety Division is responsible for regular maintenance of landscaping; the Administration Department and each plant promote a 5S competition; General Affairs Division works with responsible personnel to maintain a clean environment. To save water and energy consumption, the Company has installed water-saving devices, except faucets for special purposes, and energy-saving light bulbs and reduced the number of light tubes in corridors and places stationed with fewer employees.
(3) Employee Interest and Care
The Company has passed ISO 45001:2018 International Organization for Standardization. Consistently upholding stable and sustainable operation, the Company attaches great importance to employee benefits by allocating monthly benefits and arranging activities that promote employees' health, such as gatherings, an annual health examination, wedding and funeral allowances, group insurance, and casualty insurance. In addition, the Company has stipulated regulations governing retirement and set up a Supervisory Committee of Business Entities’ Labor Retirement Reserve according to the Labor Standards Act to allocate a labor retirement reserve based on a certain percentage of monthly salary to a pension account at the Bank of Taiwan. According to Labor Pension Act, starting from July 1, 2005, the amount of labor pension borne by the employer shall not be less than six percent of</td></tr>
</table>

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	

the worker's monthly wage. The labor pension shall be calculated based on the principal and accrued dividends from an employee's individual account of labor pension and paid on a monthly or lump-sum basis. The regulations of and measures for the labor relations formulated by the Company are well implemented in accordance with applicable laws. In addition, the Company held the following training programs to improve employees' competency and strengths in 2018.

<1> Occupational Safety and Health has 383 person-time, 1019 hours.

<2> Management has 62 person-time, 148 hours.

<3> Professional training has 14 person-time, 329 hours.

<4> Continue education has 1123 person-time, 1941 hours.

<5> Ethical Corporate Management has 9 person-time, 62 hours.

<6> Risk Management has 28 person-time, 163 hours.

<7> R & D has 8 person-time, 56 hours.

(4) Investor Relations

According to the Company Act and related regulations, the Company holds an annual shareholders' meeting and notifies shareholders of the meeting; the Company treats major and minor shareholders equally and encourages them to attend the shareholders' meeting and participate in the election of directors and supervisors or amendments to the Company's Articles of Incorporation; the Company reports material finances, including the disposal of assets and endorsements and guarantees, to the shareholders' meeting. The Company also allows shareholders to ask questions or propose properly, records the shareholder's meeting minutes, and discloses related information on the Market Observation Post System. In addition, to ensure that shareholders fully understand and participate in the determination of the Company's major matters, the Company will provide an annual report for the stock transfer and registrar agency prior to the annual shareholders' meeting and have the spokesperson and deputy spokesperson deal with the recommendations, doubts, and disputes related to shareholders.

Since listed in the emerging stock market on May 7, 2013, the Company has disclosed related information in accordance with the Taiwan Stock Exchange Guidelines for Stock Review and appointed responsible personnel from the Department of Finance, Audit Office and Accounting Division to collect and disclose information online that may affect investors' decisions upon the review and approval of responsible supervisors.

(5) Stakeholders' Interest

The Company has set up smooth communication channels with banks and other creditors, employees, customers, and suppliers and values and maintains their legitimate rights and interests.

1. The Company provides sufficient information for banks to make the best judgment and decision on the Company's operations and finances.
2. The Company has established the Employees' Welfare Committee and regularly holds labor conferences, where representatives from both the Company and labor participate, to take care of employees and maintain a smooth communication channel between both parties.
3. The Company appoints responsible personnel to deal with suppliers. No arrears or late payments exist so far. The Company regularly discloses the related information on finances on the Market Observation Post System and maintains good relations with suppliers.

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	

4. The Company has the spokesperson and deputy spokesperson to communicate with stakeholders.

(6) The Company has engaged in communities and charities through commercial activities, in-kind donations, volunteer service or other gratuitous professional services.

1. The Company has actively participated in community and artistic activities through contributions to social welfare and artistic performances.
2. Contributions:

(1) The Company made the following donations to the government and local groups from time to time:

A. Donated NT$5,110 thousand to Yanchao, Tianliao District district community people with food and clothes to keep warm activities.
B. Donated NT$1,130 thousand to Chung Hsing University, Fengjia University, Fortune Institute of Technology school activities.
C. Donated NT$500 thousand to Election expenses of political party and candidate.
D. Donated NT$500 thousand to Partial township study plan of Global Views.
E. Donated NT$10 thousand to Taiwan Fund for Children and families care activities.
F. Donated NT$1,110 thousand to community activities.
G. Donated NT$120 thousand to Police activities.
H. Donated NT$560 thousand to cultural, artistic, and sports activities.
I. Donated NT$480 thousand to cultural and educational foundations.
J. Donated NT$100 thousand to Kaohsiung Municipal Social Education Center.

(2)In order to contribute to the society, the chairman and his brother have set up private Nan liu Charity Foundation, with gratuitous volunteers, directly dedicated to provide meal to the elderly living alone and assist single-parent family in emergency and other related matters. Foundation donated unregularly to the society and local community as follows.

A. Donated NT$4,660 thousand for welfare fee and providing meal to the community elderly.
B. Donated NT$2,050 thousand to assist poor family and disability.
C. Donated NT$930 thousand to community elderly.
D. Donated NT$14,380 million to culture community.

(3) Southern charitable trust, for cultural, charitable, disadvantaged people support.

A. Tainan City Government Bureau of Social Affairs, donated NT$1,000 thousand for disadvantaged people project.
B. Donated NT$800 thousand to Southern Taiwan Pops Orchestra.
C. Donated NT$1,000 thousand to Ren-Yi High School disadvantaged people support.
D. Donated NT$600 thousand to Taiwan Law & Policy Research Foundation.

(4) Promoted industry–academia cooperation with colleges and universities, including the development of multifunction composite diaphragms and packaging technologies with National Kaohsiung University of Applied Sciences, industry–academia cooperation with Cheng Shiu University, talent incubation programs with Feng Chia University, on-the-job training programs with Shih Chien University, and academia cooperation with Fortune Instute of Technology.

Assessed items	State of operations			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
3. The Company processed waste in accordance with the Industrial Waste Disposal Plan and reported the flow of waste online according to applicable laws and regulations.				
7. Any review standards of certification bodies for which the Company’s CSR report has been qualified shall be described: None.				

(6) Implementation of Integrity Management:

Items assessed	State of operations			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps
	Yes	No	Summary	
1. Stipulating policies and plans for ethical corporate management				
(1) Has the Company clearly indicated policies and activities related to ethical corporate management in its bylaws and external documents, and are the Company's directors and management actively fulfilling their commitment to corporate policies?	✓		(1) The Company has formulated "Codes of Ethical Conduct of Supervisors, and Managerial Officers", and "Codes of Ethical Corporate Management" which is fully understood and followed by the Board of Directors and the management.	No material gap is found.
(2) Has the Company stipulated a plan to forestall unethical conduct? Has the Company clearly prescribed procedures, best practices, and disciplinary and appeal systems for violations within said plan? Is the plan implemented accordingly?	✓		(2) According to Code of Ethics for Directors, Supervisors, and Managerial Officers, if directors or managerial officers violate the code of ethics, the Company will punish them based on the disciplinary measures. In addition, the Company will emphasize in the annual meeting and managerial meetings that integrity is the foundation of the Company's business philosophy.	No material gap is found.
(3) Has the Company established preventive measures for the items prescribed in Article 7, Paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies or business activities with a higher risk of being involved in an unethical conduct within the Company's scope of business?	✓		(3) The Company has formulated "Rules of reporting illegal and immoral or dishonest case" and established internal and external reporting channels and handling systems to ensure a sustainable development. Also, the Company has established an effective accounting system and internal control system and reviewed and revised them from time to time to keep the systems sustained and effective.	No material gap is found.
2. Implementing ethical corporate management				
(1) Has the Company evaluated ethical records of its counterparty? Does the contract signed by the Company and its trading counterparty clearly provide terms on ethical conduct?	✓		(1) The Company evaluated the legality, reputation and credit of major clients and suppliers before doing business with them to avoid acts of bad faith.	No material gap is found.
(2) Has the Company established an exclusively (or concurrently) dedicated unit for promoting ethical corporate management that answer to the Board of Directors? Does said unit regularly report to the Board of Directors on the state of its activities?	✓		(2) The Office of Chairman is the dedicated unit for promoting the corporate integrity operation; the Audit Office is responsible to supervise, audit, and report on the integrity operation to supervisors and the Board of Directors.	No material gap is found.
(3) Has the Company established policies preventing conflicts of interest, provided proper channels of appeal, and enforced these policies and channels accordingly?	✓		(3) The Rules and Procedures for the Board Meeting stipulate the avoidance of conflicts of interest between directors. When discussing a proposal in the Board meeting, directors involved in the conflict of interest shall avoid participating in the resolution. The Company has set up a smooth channel for employees to directly complain or make appeals through immediate supervisors.	No material gap is found.
(4) Has the Company established effective accounting systems and internal control systems for enforcing ethical corporate	✓		(4) The Company has established an effective accounting system and internal control system and reviewed and revised them from time to time; the Company also has	No material gap is found.

Items assessed	State of operations			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of said gaps
	Yes	No	Summary	
management? Are regular audits carried out by the Company's internal audit unit or commissioned to a CPA?			full-time auditors to audit the accounting system and internal control system on a regular basis, provide opinions for improvements to keep the systems sustained and effective, and submit the audit report to supervisors and the Board of Directors.	
(5) Does the Company regularly organize internal and external training for ethical corporate management?	✓		(5) The Company promotes integrity in operation to employees on a regular basis. The ethical corporate education majorly is including of Anti-Money Laundering, risk analysis of Major financial fraud, whistle-blower protection, Fraud prevention in 2018. It's 9 person-time, 62 hours.	No material gap is found.
3. Status for enforcing whistleblowing systems in the Company				
(1) Has the Company established concrete whistleblowing and reward systems and accessible whistleblowing channels? Does the Company assign a suitable and dedicated individual for the case being exposed by the whistleblower?	✓		(1) The Company has established a reporting mail system and appointed a responsible department to deal with complaints in accordance with related regulations and procedures.	No material gap is found.
(2) Has the Company stipulated standard operating procedures (SOP) and relevant systems of confidentiality for investigating the case being exposed by the whistleblower?	✓		(2) The Company clearly defined in the Regulations Governing the Procedures of Communication and Responses that responsible personnel shall hold the identity of the informant confidential.	No material gap is found.
(3) Has the Company adopted protection against inappropriate disciplinary actions against the whistleblower?	✓		(3) The Company will hold the informant confidential and harmless in the process of reporting.	No material gap is found.
4. Improvement of information disclosure				
(1) Has the Company disclosed the contents of its best practices for ethical corporate management and the effectiveness of relevant activities upon its official website or Market Observation Post System (MOPS)?		✓	The Company has set up an exclusive area to disclose the related information on the Company's integrity operation.	The Company will process the information on a timely basis, subject to the actual needs.
5. Where the company has stipulated its own best practices on ethical corporate management according to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any gaps between the prescribed best practices and actual activities taken by the Company: No material gap is found.				
6. Other important information for better understanding of the integrity operation: None.				

(7) If the Company has stipulated best practices for corporate governance and other relevant bylaws, the means to search for these bylaws shall be

disclosed.

Currently, the Company has stipulated a Code of Ethics for Directors, Supervisors, and Managerial Officers, Rules and Procedures for the Shareholders' Meeting, Rules and Procedures for the Board Meeting, a scope of responsibilities of independent directors, and a sound internal control system and internal audit system to fulfill the operation and promotion of corporate governance. For related regulations and systems, please refer to the Company's website and external websites.

(8) Other Important Corporate Governance Information: None.

(9) Implementation of Internal Control System

1. Statement of Internal Controls:

NAN LIU ENTERPRISE CO., LTD.

Statement of Internal Control System

Date: March 6, 2019

The internal control system from January 1 to December 31, 2017, according to the result of self-assessment is stated as follows:

1. The Company acknowledges that the implementation and maintenance of internal control system is the responsibility of Board of Directors and management, and the Company has established such system. The system is aimed to reasonably assure that the goals such as the effectiveness and the efficiency of operations (including profitability, performance and asset protection), the reliability of financial reporting and the compliance of applicable law and regulations are achieved.
2. The internal control system has its innate restriction. An effective internal control system can only ensure the foregoing three goals are achieved; nevertheless, due to the change of environment and conditions, the effectiveness of internal control system will be changed accordingly. However, the internal control system of the Company has self-monitoring function and the Company will take corrective action once any defect is identified.
3. According to the effective judgment items for the internal control system specified in “Highlights for Implementation of Establishing Internal Control System by Listed Companies” (hereinafter referred to as “Highlights” has made judgment whether or not the design and execution of internal control system is effective. The judgment items for internal control adopted by “Highlights” are, based on the process of management control, for classifying the internal control into five elements: 1. Control environment; 2. Risk assessments, 3. Control activities, 4. Information and communication, 5. Monitoring. Each element also includes several items. For the foregoing items, refer to “Highlights”.
4. The Company has adopted the aforesaid judgment items for internal control to evaluate the effectiveness of design and execution of internal control system.
5. Based on the above-mentioned result of evaluation, the Company suggests that the internal control system, including the design and execution of internal control relating to the effectiveness and efficiency of operation, the reliability of financial reporting, the compliance of applicable law and regulations has been effective and they can reasonably assure that the aforesaid goals have been achieved.
6. This statement will be the main content for annual report and prospectus and will be disclosed publicly. If the above contents have any falsehood and concealment, it will involve in the liability as mentioned in Article20, 32, 171 and 174 of Securities and Exchange Law.
7. This statement has been approved by the meeting of Board of Directors on March 6, 2019, and those 7 directors in presence all agree at the contents of this statement.

NAN LIU ENTERPRISE CO., LTD.

Chairman: Mr. Huang Chin-San

General Manager: Mr. Huang, Huo-Cun

Notice to Readers

For the convenience of readers, the Supervisors’ Review Report have been translated into English from the original Chinese version prepared. 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 Supervisors’ Review Report shall prevail.

2. Any CPA commissioned to conduct a project review of the ICS shall disclose the CPA's audit report: Not applicable.

(10) Any legal penalty enacted upon The Company and its personnel, or any penalty, major defects, and state of improvements enacted by The Company upon its personnel for violating the rules of the ICS during the most recent year up to the publication date of this report: None.

(11) Major resolutions of the shareholders' meeting and the Board meeting in the most recent year up to the publication date of this report

2018 Major Resolutions of Shareholders' Meeting and Implementation Status

1. Approved 2017 Financial Statements and Business Report.

   Implementation Status: In accordance with the company law, all related financial information has been submitted to the government agency for review

2. Approved the Proposal for the Distribution of the 2017 Profit.

   Implementation Status: Approved ex-dividend date was on August 20, 2018 and distributed on September 18, 2018.

2018 major resolutions of the Board of Directors meetings

Session number of the Board of Directors meeting	Date	Major resolutions	Article 14-3 of the Securities and Exchange Act	Independent director has a dissenting or qualified opinion
The first time in 2018, The Board of Directors	2018.03.13	1. Approved the Proposal for the Distribution of 2017 Remuneration of Employees and Directors and Supervisors.	V	
		2. Approved 2017 Financial Statements and the Business Report.		
		3. Approved the Proposal for the Distribution of the 2017 Profit.		
		4. Approved the convening of the 2018 Shareholders' Meeting.		
		5. Approved issuance of the Internal Control effective review performance & Internal Control Letter.		
		6. Amendments to Parts of the Rules and Procedure for the Board of Directors & The rules of independent directors Responsibility category.	V	
		7.Approved the application of comprehensive credit lines		
		Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The second time in 2018, The Board of Directors	2018.05.08	1. Approved the 2018 Q1 Financial Statements.		
		2. Approved the application of comprehensive credit lines.		
		3. Approved distribution of the 2017 Compensation of Employees, Directors and Supervisors proposed by Remuneration Committee.	V	
		Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The third time in 2018, The Board of Directors	2018.05.29	1. Approved the record date for common share dividend		
		2. Approved the application of comprehensive credit lines.		

The fourth time in 2018,The Board of Directors	2018.08.08	1. Approved of the 2018 Q2 Financial Statements		
		2. Approved the application of comprehensive credit lines.		
		3. Approved amendments to parts of Rules and Procedures for the Board of Directors.	V	
The fifth time in 2018, The Board of Directors	2018.11.08	1. Approval of the 2018 Q3 Financial Statements		
		2. Approved the application of comprehensive credit lines.		
The Sixth time in 2018, The Board of Directors	2018.12.25	1. Approved 2019 annual business plan.		
		2. Approved 2019 annual audit plan.		
		3. Approved the application of comprehensive credit lines.		
		4. Approved change of company address.		
		5. Approved 2019 Compensation of managers, 2018 Compensation of Employees, 2018 Compensation of Directors and Supervisors by Remuneration committee.	V	
		Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		

2019 major resolutions of the Board of Directors meetings

Session number of the Board meeting	Date	Major resolutions	Article 14-3 of the Securities and Exchange Act	Independent director has a dissenting or qualified opinion
The first time in 2019, The Board of Directors	2019.03.06	1.Distribution of the 2018 Compensation of Employees, Directors and Supervisors.	V	
		2. Approved 2018 Financial Statements and the Business Report.		
		3. Approved 2018 Dividend Distribution.		
		4. Approved issuance of 2018 Internal Control Letter.		
		5. Amendments to Parts of the Articles of Incorporation.	V	
		6. Amendments to Parts of Regulations for Election of Directors and Supervisors.	V	
		7. Approved re-election of the directors	V	
		8. Amendments to Parts of Rules of Procedure for Shareholders Meetings.	V	
		9. Amendments to Parts of Procedures of the Acquisition and Disposal of Assets.	V	
		10. Amendments to Parts of Procedures for Loaning of Funds.	V	
		11. Amendments to Parts of Procedures for Making of Endorsements/Guarantees.	V	
		12. Approved the convening of the 2018 Shareholders' Meeting.	V	
		13. Approved to receive candidate nomination of shareholder proposals of directors and independent directors for 2018 shareholder's meeting.	V	
		14. Approved candidate nomination of directors and independent directors for 2018 shareholder's meeting.	V	
		15. Approved the application of comprehensive credit lines.		
		Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The second	2019.04.16	1.Approved Audit Committee Charter.	V	
		2.Approved appointment of corporate governance manager.	V	

time in 2019, The Board of Directors		3.Approved change of CPA(Internal change of same CPAs firm).	V	
		4.Amendments to Parts of Procedures for Loaning of Funds.	V	
		5.For setting up Audit Committee, amendments to parts of related rules.	V	
		Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		
The second time in 2019, The Board of Directors	2019.05.08	1. Approved the 2019 Q1 Financial Statements.		
		2. Approved the application of comprehensive credit lines		
		3. Approved distribution of the 2017 Compensation of managers, Directors and Supervisors proposed by Remuneration Committee.	V	
		Independent Directors' opinions: None. The Company's handling the opinions of independent directors: None. The results of the decision: all attendees agreed to pass.		

(12) As of the printing date of annual report, Directors or supervisors have different opinions that have been noted on the record or declared in writing in connection with the important resolutions passed by the Board of Directors: None.

(13) As of the printing date of annual report, dismissal situation of Chairman, General manager, Accounting manager, Finance manager, Auditor officer and RD manager: None.

4. Accounting Expenses

Name of the accounting firm	Name of the CPA		Audit period	Notes
Yangtze CPAs & Co.	Wang, Shu-Tung	Hu, Hsiang-Ning	January 1, 2018 ~ December 31, 2018	

Unit: NT$1,000

Name of the accounting firm	Name of the CPA	Accounting charge	Non-accounting charge					Audit period	Remarks
			System design	Business registrations	Human Resources	Others	Total		
Yangtze CPAs & Co.	Wang, Shu-Tung Hu, Hsiang-Ning	3,455	--	--	--	120	120	January 1, 2018~ December 31, 2018	Review Annual report

(1) The non-audit fee paid to certified CPA, certified Office of CPA and affiliated company accounts for over 1/4 to audit fee: None.

(2) Change of the CPA firm and the audit fee in the year of change is less than that in the previous year: None.

(3) The audit fee is reduced by over 15% compared with the previous year: None.

(4) Assessments on the Independence of CPA: refer to page 32~33.

The Company assesses the independence of the CPA as follows and reports the result to the Board of Directors:

A. Statement of independence of CPA.

B. The audit or non-audit service provided by CPAs shall be reviewed in advance to ensure that the non-audit service will not affect the result of the audit.

C. The same CPA has not consecutively provided the assurance service for more than 5 years.

D. An annual questionnaire about the competency of the CPA will be conducted to summarize the assessment of independence of the CPA.

5. Alternation of CPA: None.

6. The Company's Chairman, General Manager, or any Managerial Officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its CPA or at an affiliated enterprise: None.

7. Equity transfer or changes to equity pledge of directors, supervisors, managerial officers, or shareholders holding more than 10% of company shares in the most recent year to the publication date of this report.

Changes to the equity of directors, supervisors, managerial officers, and major shareholders

March 31, 2019, Unit: Share

Title	Name	2018		As of March 31, 2019	
		Net increase (decrease) in shares held	Net increase (decrease) in shares pledged	Net increase (decrease) in shares held	Net increase (decrease) in shares pledged
Chairman	Bixiu Investments Co., Ltd. Representative: Huang, Chin-san	—	—	—	—
Director Major shareholder	Tian Zi Ding Investments Co., Ltd. Representative: Huang, Huo-cun	—	—	—	—
Independent Director	Huang Tung-Rong	—	—	—	—
Independent Director	Huang Jin-Feng	—	—	—	—
Independent Director	Huang Chun-ping	—	—	—	—
Director	Wang Chin-Hung	—	—	—	—
Director. Vice President	Yang Rui-hua	—	—	—	—
Supervisor	Su Chao-shan	—	—	—	—
Supervisor	Chung, Mao-Chih	(748,000)	—	—	—
Supervisor	Hsieh, Chiu-Lan	—	—	—	—
General Manager	Huang, Ho-cun	—	—	—	—
Vice President	Chang, San-hua	—	—	—	—
Finance Manager	Chuang, Chun-chin	—	—	—	—
Audit Officer	Chen, Shu-chiu	—	—	—	—

(1) Information on equity transfer:

Name	Reason of equity transfer	Transaction date	Transaction counterpart	Relationship between Transaction counterpart with the Company, directors, supervisors and shareholders holding more than 10% of company shares	Shares	Transaction price
Chung, Mao-Chih	Donate	2018.08.10	Southern Charitable Trust	None	748,000	168

(2) Information on equity pledge: None.

8. Information on relationships among the top ten shareholders:

Name (Note 1)	Shares held by the shareholder		Shares held by spouse or minor children		Shares held in the name of other persons		Title or name and relationships of the 10 largest shareholders where they are related parties, spouses, or relatives within the second degree of kinship. (Note 3)		Remarks
	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage	Name (or name)	Relations	
Tian Zi Ding Investments Co.,	8,731,659	12.03%	—	—	—	—	—	—	—

Ltd. Representative: Huang,Ho-Chun	1,505,015	2.07%	—	—			Huang Chin-san	Brother	
NeiZhuang Investm Co., Ltd.	5,773,924	7.95%	—	—	—	—	—	—	—
Representative: Huang, Shih-Chun	1,787,028	2.46%	—	—	—	—	Huang Chin-san Huang Hsieh, Mei-yun Huang, Jen-tsung Huang, Hui-ju	Father and son Mother and son Brother Brother and Sister	
Huang, Chin-san	5,288,978	7.29%	1,851,159	2.55%	—	—	Huang Hsieh, Mei-yun Huang, Shih-chung Huang, Jen-tsung Huang, Hui-ju	Spouse Adult children Adult children Adult children	—
Bixiu Investment Ltd.	5,090,929	7.01%	—	—	—	—	—	—	—
Representative: Huang, Chin-San	5,288,978	7.29%	—	—	—	—	Huang Hsieh, Mei-yun Huang, Shih-chung Huang, Jen-tsung Huang, Hui-ju	Spouse Adult children Adult children Adult children	
Deutsche Bank Taipei Branch in custody for Smallcap Fund	3,090,000	4.26%	—	—	—	—	—	—	—
Fubon Life Insurance Co., Ltd	2,766,000	3.81%	—	—	—	—	—	—	—
Southern Charitable Trust	2,200,000	3.03%	—	—	—	—	—	—	—
Huang Hsieh, Mei-yun	1,851,159	2.55%	5,288,978	7.29%	—	—	Huang Chin-san Huang, Shih-chung Huang, Jen-tsung Huang, Hui-ju Huang, Huo-cun	Spouse Adult children Adult children Adult children Uncle	—
Huang, Shih-chung	1,787,028	2.46%	—	—	—	—	Huang Chin-san Huang Hsieh, Mei-yun Huang, Jen-tsung Huang, Hui-ju	Father and son Mother and son Brother Brother and sister	—
Huang, Jen-tsung	1,777,900	2.45%	—	—	—	—	Huang Chin-san Huang Hsieh, Mei-yun Huang, Shih-chung Huang, Hui-ju	Father and son Mother and son Brother Brother and sister	—

9. Number of shares held and percentage of stake of investment in other companies by the Company, the Company's director, supervisor, managerial officer, or an entity directly or indirectly controlled by the Company, and calculations for the consolidated shareholding percentage of the above categories.

December 31, 2018, Unit: 10,000 share, %

Shift in investment	Investment by the Company		Investments by the Directors, supervisors, managerial officers, and companies directly or indirectly controlled by The Company		Consolidated investment	
	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage
NANLIU ENTERPRISE CO., LTD (SAMOA)	47, 728	100%	-	-	47, 728	100%
Nan Liu Enterprise Co., Ltd. (Pinghu)	-	-	-	100%	-	100%
NANLIU MANUFACTURING (INDIA) PRIVATE LIMITED (In preparation)	-	-	-	100%	3, 457	100%

IV. Capital Overview

1. Source of capital:

A. Capital stock status

Unit: 1000 shares; NT$1000

Year	Nominal value per share (NT$)	Authorized stock		Paid-in capital		Remarks		
		Number of shares (share)	Monetary amount (NT$)	Number of shares (share)	Monetary amount (NT$)	Source of capital shares	Equity contributions made in the form of assets other than cash	Others
1999	10	19,782,000	197,820,000	25,000,000	25,000,000	Surplus conversion and capital cash increase	None	Note 1
2000	10	25,000,000	250,000,000	25,000,000	250,000,000	Surplus conversion	None	Note 2
2001	10	27,500,000	275,000,000	27,500,000	275,000,000	Surplus conversion	None	Note 3
2002	10	29,700,000	297,000,000	29,700,000	297,000,000	Surplus conversion	None	Note 4
2003	10	32,670,000	326,700,000	32,670,000	326,700,000	Surplus conversion	None	Note 5
2004	10	34,956,900	349,569,000	34,956,900	349,569,000	Surplus conversion	None	Note 6
2005	10	47,600,000	476,000,000	38,457,000	384,570,000	Surplus conversion	None	Note 7
2006	10	47,600,000	476,000,000	42,303,000	423,030,000	Surplus conversion	None	Note 8
2009	10	100,000,000	1,000,000,000	46,800,000	468,000,000	Surplus conversion	None	Note 9
2010	10	100,000,000	1,000,000,000	52,800,000	528,000,000	Surplus conversion	None	Note 10
2011	10	100,000,000	1,000,000,000	60,000,000	600,000,000	Surplus conversion	None	Note 11
2012	33	100,000,000	1,000,000,000	64,500,000	645,000,000	Capital cash increase	None	Note 12
2013	51	100,000,000	1,000,000,000	72,600,000	726,000,000	Capital cash increase	None	Note 13

Note:

1. Approved by the Ministry of Economic Affairs document number 88136434 on October 5, 1999.
2. Approved by the Ministry of Finance document number 96306 and Ministry of Economic Affairs document number 132602 on July 7, 2000.
3. Approved by the Ministry of Finance document number 153992 and Ministry of Economic Affairs document number 09001455350 on August 27, 2001.
4. Approved by the Ministry of Finance document number 0910146006 and Ministry of Economic Affairs document number 09101420360 on August 21, 2001.
5. Approved by the Ministry of Finance document number 0920136356 and Ministry of Economic Affairs document number 0932729920 on August 12, 2003.
6. Approved by the Financial Supervisory Commission document number 0930135288 and Ministry of Economic Affairs document number 09332793660 on August 09, 2004.
7. Approved by the Financial Supervisory Commission document number 0940132626 and Ministry of Economic Affairs document number 09432970340 on August 10, 2005.
8. Approved by the Financial Supervisory Commission document number 0950132996 and Ministry of Economic Affairs document number 09532910040 on July 27, 2006.
9. Approved by the Financial Supervisory Commission document number 0980040804 and Ministry of Economic Affairs

document number 09833204310 on August 14, 2009.

10. Approved by the Financial Supervisory Commission document number 0990044285 and Ministry of Economic Affairs document number 09901228350 on August 23, 2010.
11. Approved by the Financial Supervisory Commission document number 1000037649 and Ministry of Economic Affairs document number 10001221900 on August 12, 2011.
12. Approved by the Financial Supervisory Commission document number 1010024889 and Ministry of Economic Affairs document number 1010117900 on June 08, 2012.
13. Approved by the Financial Supervisory Commission document number 1020008354 and Ministry of Economic Affairs document number 10201085060 on March 20, 2013.

B. Stock type

March 30, 2019 Unit: share

Stock type	Authorized capital stock					Remarks
	Outstanding stocks			Unissued shares	Total	
	Already on the market (listed)	Not on the market (unlisted)	Total			
Common shares	72,600,000	–	72,600,000	27,400,000	100,000,000	The Company's stocks are listed stocks

Note: Please indicate whether the shares are listed or OTC companies (should be noted if it is limited listing or OTC traded).

2. Shareholder structure:

March 30, 2019 Unit: share

Shareholder structure / Quantity	Government Agency	Financial Agencies	Others Legal person	Individual	Foreign institutions And outsiders	Total
The number of people	0	5	21	1,498	55	1,579
Shares held	0	3,842,000	23,932,171	37,533,829	7,292,000	72,600,000
ɔportion of shares held (%)	0%	5.29%	32.96%	51.70%	10.05%	100.00%

3. Stock ownership distribution:

March 30, 2019 Unit: share

Stock holding classification	Number of shareholders	Shares held	Shareholding percentage
1 to 999	298	26,292	0.04%
1,000 to 5,000	969	1,757,949	2.42%
5,001 to 10,000	93	742,097	1.02%
10,001 to 15,000	41	532,155	0.73%
15,001 to 20,000	17	298,297	0.41%
20,001 to 30,000	31	797,084	1.10%
30,001 to 40,000	13	465,494	0.64%
40,001 to 50,000	9	402,932	0.56%
50,001 to 100,000	28	2,023,767	2.79%
100,001 to 200,000	28	4,275,021	5.89%
200,001 to 400,000	23	6,620,790	9.12%
400,001 to 600,000	6	3,042,168	4.19%
600,001 to 800,000	5	3,495,528	4.81%
800,001 to 1,000,000	3	2,785,182	3.84%
1,000,001 or more	15	45,335,244	62.44%
Total	1,579	72,600,000	100%

4. List of major shareholders

List of top 10 shareholders or shareholders with 5% or more of total issued stocks.

March 30, 2019 Unit: share

Stock type / Name of major shareholders	Shares held	Shareholding percentage
Tian Zi Ding Investment Limited	8,731,659	12.03%
Nei Chuang Investment Limited	5,773,924	7.91%
Huang Chin-San	5,288,978	7.29%
Bixiu Investment Limited	5,090,929	7.01%
Deutsche Bank Taipei Branch in custody for Smallcap Fund	3,090,000	4.26%
Fubon Life Insurance Co., Ltd	2,766,000	3.81%
Southern Charitable Trust	2,200,000	3.03%
Huang Hsieh Mei-Yun	1,851,159	2.55%
Huang Shi-Chung	1,787,028	2.46%
Huang Jen-Tsung	1,777,900	2.45%

5. The net value, surplus, dividend, and market price per share within the last two years.

Unit: thousand shares/NTD

Year \ Item			2017	2018	As of March 31, 2019 (Note 4)
Market price per share	Max		174.00	183.00	172.00
	Min		142.00	149.00	155.50
	Average		153.57	162.93	165.19
Net value per share	Before issuance		39.58	42.23	44.93
	After issuance		35.08	(Note5)	—
Earnings per share	Weighted average		72,600	72,600	72,600
	Earnings per share (before adjustment)		7.46	8.16	—
	Earnings per share (adjusted)		7.46	(Note5)	—
Dividend per share (DPS)	Cash dividend		4.5	5.0(Note5)	—
	Stock grants	—	—	—	—
		—	—	—	—
	Cumulative unpaid dividends		—	—	—
Return on investment analysis	P/E ratio (Note 1)		20.59	19.97	—
	Dividend yield (Note 2)		34.13	32.59(Note5)	—
	Cash dividend yield (Note 3)		2.93%	3.07%(Note5)	—

Note 1: P/E Ratio = Average closing price for each share for the year/earnings per share

Note 2: P/D Ratio = Average closing price for each share for the year/cash dividend per share

Note 3: Cash dividend yield = cash dividend per share/average closing price per share for the year

Note 4: for the sake of data accuracy, only data through March 31, 2019 are shown.

Note 5: has not been adopted by shareholder meeting resolution.

6. The Company dividend policy and implementation status

(1) Dividend policy stipulated within the articles of association

The Company's operation is based on long-term management, with the objective of stabilizing the Company's market competitive position. Thus, the Company will continue to make investments. To respond to the Company's future capital needs and long-term financial planning, the Company's dividend distribution will be based on a residual dividend policy. The Company's future capital budget planning will be used to balance the funding need for the next year. After reserving the required surplus capital, the remaining surplus will be distributed in the form of a cash dividend and stock dividend. However, the cash dividend shall not be less than 10% of the total dividend.

The company consistently adds production capacity to increase competing power. Every year, less than 50% of net income after tax is distributed as dividends and the rest of the earnings are reserved for future capital expenditures. To improve return on investment of shareholders, the payout ratio of 2018 is around 60% of net income. The dividend distribution is all on cash. A proposal of dividend distribution is first approved by the Board of Directors and then is submitted to the Annual Shareholders' Meeting.

（2）This year's proposed dividend distribution:

Nan Liu Enterprise Co., Ltd.
2018 Profit Distribution Table

Unit: NT$

Items	Amount (NT$)	Remarks
Beginning retained earnings	995, 307, 856	
Other consolidated profit/loss—confirm the benefit plans before measuring the numbers	(1, 674, 914)	
2018 Net income	592, 765, 837	
Subtracted: Legal reserve (10%)	(59, 276, 584)	
Subtracted: Special reserve	(71, 736, 240)	
Subtotal of distributable net profit	1, 455, 385, 955	
Distributable items		
Dividend to shareholders—cash dividend (NT$4.5/share)	363, 000, 000	
Unappropriated retained earnings	**1, 092, 385, 955**	

Chairman: Mr. Huang Chin-San General Manager: Mr. Huang, Huo-Cun Accounting Manager: Ms. Chuang, Chun-Chin

The Company's 2018 profit distribution has been approved by the Board of Directors. Shareholders on March 6, 2019. The resolution was NT$5.0 cash dividend per share, with the total amounting to NT$363,000,000. However, this has not been approved by the Annual shareholders' meeting.

7. The effects of stock grants drafted by this shareholders' meeting on The Company's operating performance and earnings per share: none

8. Employee, Director, and supervisor remuneration:
The Company's Board of Directors meeting passed the 2018 employee remuneration on March 6, 2019. The remuneration shall be listed based on a specific percentage according to the year's profit status. Directors' remuneration is listed into accounting based on expected issued amount. If the aforementioned listed amount is different from the actual issued amount, the change will be handled according to accounting estimates and adjusted and accounted for in the issuing year.
2018 remuneration of directors and employees: Unit: (NT$)

	Monetary Amount (NT$)	Note:
Directors/supervisors' remuneration (in cash)	5, 997, 442元	Accounts for 0.90% of income before income tax (Parent Company Only)
Employee remuneration (in cash)	8, 662, 972元	Accounts for 1.3% of income before income tax (Parent Company Only)
Total	14, 660, 414元	

Note: The Company provided NT$8,662,972 as employee cash bonus in 2018. The aforementioned employee remuneration is scheduled to be paid in 2019.

2017 remuneration of directors and employees: Unit (NT$)

	Monetary Amount (NT$)	Actual number issued (note)
Directors'/supervisors' remuneration (in cash)	4, 715, 512元	4, 715, 512元
Employee remuneration (in cash)	7, 367, 988元	7, 367, 988元
Total	12, 083, 500元	12, 083, 500元

Note: The appropriated remuneration of directors and employees is the same as proposed remuneration of directors and employees by the Board of Director. And it was paid after being approved by the 2017 annual shareholders' meeting.

9. Buyback of company stock: none

10. Handling of corporate bonds, special shares, overseas depository receipts, proof of employee stock options, mergers and acquisitions (including mergers, acquisitions and splits): none.

11. Funding application plan and implementation: None.

V. Operating summary

1. Business Activities

A. Business scope

(1) Main business contents

- ◆ Manufacturing, processing, trade and import and export of suede, imitation leather, nonwoven lining, fabrics for civil engineering, waterproof/fire-resistant filter bags, resin bond padding, shoe materials, nonwoven carpets, nylon carpets, and DuPont synthetic fiber bullet-proof vests.
- ◆ Manufacturing, trade, and import and export of scouring pads, industrial grinding wheels, and household aluminum foil products (aluminum foil dirt-prevention plates).
- ◆ Trade, import and export of household hardware, nonwoven fabrics, resin, carborundum, aluminum products, and their raw materials.
- ◆ Manufacturing, processing, trade and import and export of nonwoven air filters, cotton fabrics, and aluminum foil and aluminum tableware.
- ◆ Import, export and trade of household plastic products (tableware) and stainless steel cutlery.
- ◆ Agent of domestic and foreign manufacturers' distribution, quotation and bidding for abovementioned products.
- ◆ Industrial plant development and rental businesses.
- ◆ Development of specific professional areas.
- ◆ Cosmetics manufacturing, wholesale and retail.
- ◆ Paper processing.
- ◆ Cosmetic pigment manufacturing industry.
- ◆ Dehydrated food manufacturing industry.
- ◆ Supplementary food wholesale industry.
- ◆ Cleaning supplies wholesale and manufacturing industry.

(2) The business proportion of main products

Units: 1000 NT$; %

Main products	2018	
	Amount	%
Spunlace nonwoven fabrics	1,565,646	23.22%
Biotechnology products (note)	2,573,183	38.06%
Air through & Thermal bond nonwoven fabrics	1,500,283	23.32%
Disposable surgical gowns fabrics	987,999	15.36%
Others	2,837	0.04%
Total	6,433,820	100.00%

Data sources: offered by The Company Note: including wet wipes, facial mask and skincare products.

(3) The Company's products (services)

① Hygiene materials:

A. PP air through & Thermal bond nonwoven fabrics—baby/adult diaper and sanitary napkin surface material.

B. Spunlace nonwoven fabrics—medical grade operation protective clothing fabrics, dust-free electronic cleaning cloth, clean wipes, medical drape cloth, and ointment cloth.

C. Needle rolled nonwoven fabric—bra liner and shoulder pad cotton material.

D. Biotech products—wet wipes (infant, adult skin), masks, makeup remover cotton, emulsion liquid cosmetics (collagen day cream, placenta night cream, lotions, extracts, eye creams, marine creams, and skincare products).

② Industrial products:

A. Grinding wheels—stainless steel, copper PCB grinding, wood polishing, and electroplating polishing.

B. High-end air filter cloth.

C. Household articles—household cleaning rags, scouring pads, and other cleaning products.

(4) Planned product development

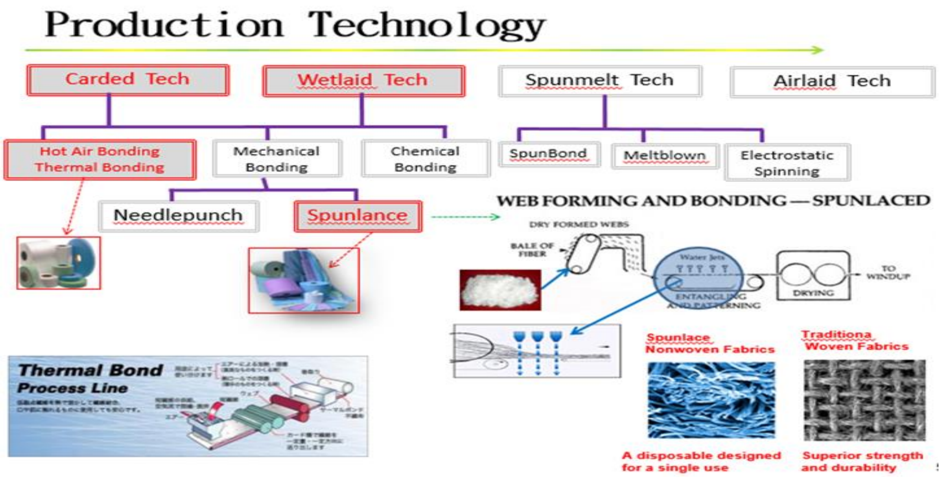
①Nonwoven fabrics: medical/surgical protective clothing, elastic composite nonwoven fabric, elastic spunlace nonwoven cloth, biodegradable environmentally friendly nonwoven cloth, 3D surface nonwoven fabric, and industrial wipes.

②Biotech products: top-grade facial masks, top skincare products, food grade collagen, plant extract, emulsions, liquid agent for cosmetics, washable wet wipes, far infrared mask.

B. Industry overview

1. Current state and development of the industry

Nonwoven fabric is made with unconventional combining or weaving methods. The process uses mechanical, thermal, and chemical means to glue, roll, melt, and spun bond together natural or artificial fibers. Because these products have some characteristics of cloth, they are called nonwoven fabrics. The nonwoven fabric industry is the youngest member of the textile industry and has the most development potential. This process breaks through conventional textile technology and fully utilizes modern physics and chemical concepts to derive a newly emerging technology. This industry also fully integrates textile, mechanical, chemical, plastic, and papermaking technology to significantly reduce production costs in the conventional textile industry and effectively increase production quantity. Currently, formed nonwoven fabric is suitable for use on non-clothing products, single-use sanitary items, or cosmetic/skincare products. This industry can be perceived as a secondary industry in the textile industry. Of all textile manufacturing processes, nonwoven fabric has the shortest production process and the largest production capacity. Initially, it was used to produce low-price products. In recent years, because industry, technology and production equipment have continued to advance, new applications are being developed. The level of products has also increased to become high value-added products. Taiwan's nonwoven fabric industry began in 1969 and has over 30 years of history. After long-term hard work by Taiwanese industry operators, the accumulated development results and manufacturing technology have an important place in the global market.



Data source: Nanliu

In addition to being widely used on conventional household sanitary products, nonwoven fabric can be used in more special environments after design change. For example, it can be used in medical/surgical clothing and as industrial and electronic wipes. Its quality requirements must achieve a certain cleanliness, permeability, and hairball residue level. As global travel becomes more common, resulting in frequent exchange, new viruses such as SARS and H1N1 can spread rapidly in this environment. Recently, natural disasters such as earthquakes and floods are also frequent occurrences and have caused severe damage and casualties. When regions of the world encounter such chaos, the need for sanitary and medical/protective equipment will significantly increase. This indicates that civilized cultures are placing more emphasis on health and safety and that the need for single-use nonwoven consumer products will increase.

Because nonwoven fabric is light, elastic, and breathable and can be made to have different uses (filter, absorber/perspiration evaporator, made to be air/moisture permeable, made to be used for planting, for polishing, and to insulate noise and heat) after going through different procedures. It can also be made into different forms and appearances. In recent years, production technology breakthroughs and introduction of different processing methods to make high-tech special artificial fibers have pushed nonwoven fabric to be used in unconventional fields. Conventional uses such as household sanitary products have extended to medical, aerospace, filtration, computer, and civil engineering industries. After special production and processing, nonwoven fabric can be classified as high-tech textile products in functional textile, which has stably increased in sales every year.

Nonwoven fabrics use

Clothing	Secondary clothing material	Filling material (men/women's clothing, children's clothing, short jacket, shirts, and hat material)
	Thermal insulation material	Filler cotton (wetsuit, pajamas), quilt
	Disposable clothing	Protective clothing, travel underwear, beachwear, casual wear
Home textiles	Kitchen	Scouring pad, table cloth, table napkins, filter material
	Furniture	Sheets, bed covers, mattress covers, sofa covers, cushion covers
	Decoration	Carpets, curtains, wallpaper, audio equipment
Artificial leather	Shoe materials	Surface material, inner material, middle material, anti-sliding material, reinforcing materials
	Bag material	Bag interior substrate, bag bottom material, leather upholstery
Industrial use	Filter material	Filters (liquids, gases, dust, grease)
	Wiping cloth	Dust cloth, wiping cloth
	Electronic equipment	Insulating material (cloth, battery cell separation cloth, coating material)
	Print fabric	Maps, calendars, labels, stickers
	Others	Aircraft skin coating material, material for the aerospace industry, body armor
Geotextile	Civil engineering	Asbestos mats, soil stabilization materials, water storage materials, artificial turf
	Building	Waterproof and moisture permeability fabrics, roofing materials, soundproofing materials, shockproof material
	Foundation	Highways, subways, airports, tunnels
Agriculture and gardening	Agriculture	Heat protection material, windproof materials, fruit protection material
	Gardening	Seedling and orchid growing materials
Life-related	A variety of packaging materials	Candy packaging, teabags, handbags
	Washing supplies	Towels, paper towels, tablecloths
	Makeup wipes	Cosmetic puff
	Other family use	Various water absorbing paper cloth

Medical nonwoven cloth	Hospital	Surgical masks, surgical caps
	Medical supplies	Compress towel substrate and adhesive tape
	Others	Artificial skin, artificial blood vessels
Hygiene products	Physical products	Sanitary napkins
	Diaper	Adult diapers, baby diapers

From the beginning of Taiwan's nonwoven fabric industry in the 1960s to the present, operators have experienced Taiwan's economic flight and prosperity after 10 great construction projects. After the 2000 financial crisis, Taiwan businessmen moved abroad. Later, the oil crisis, the American housing loan crisis, and the European debt crisis resulted in a global economic downturn. In 2011 and 2012, sales in Taiwan's nonwoven fabric industry declined. The sales value gradually improved after 2013, along with economic revival, expansion of the application market, and improvements in production technology. In 2017, Taiwan's nonwoven fabric export value was USD 407 million, and the export quantity was 106 thousand tons. The need of non-woven is up trend.

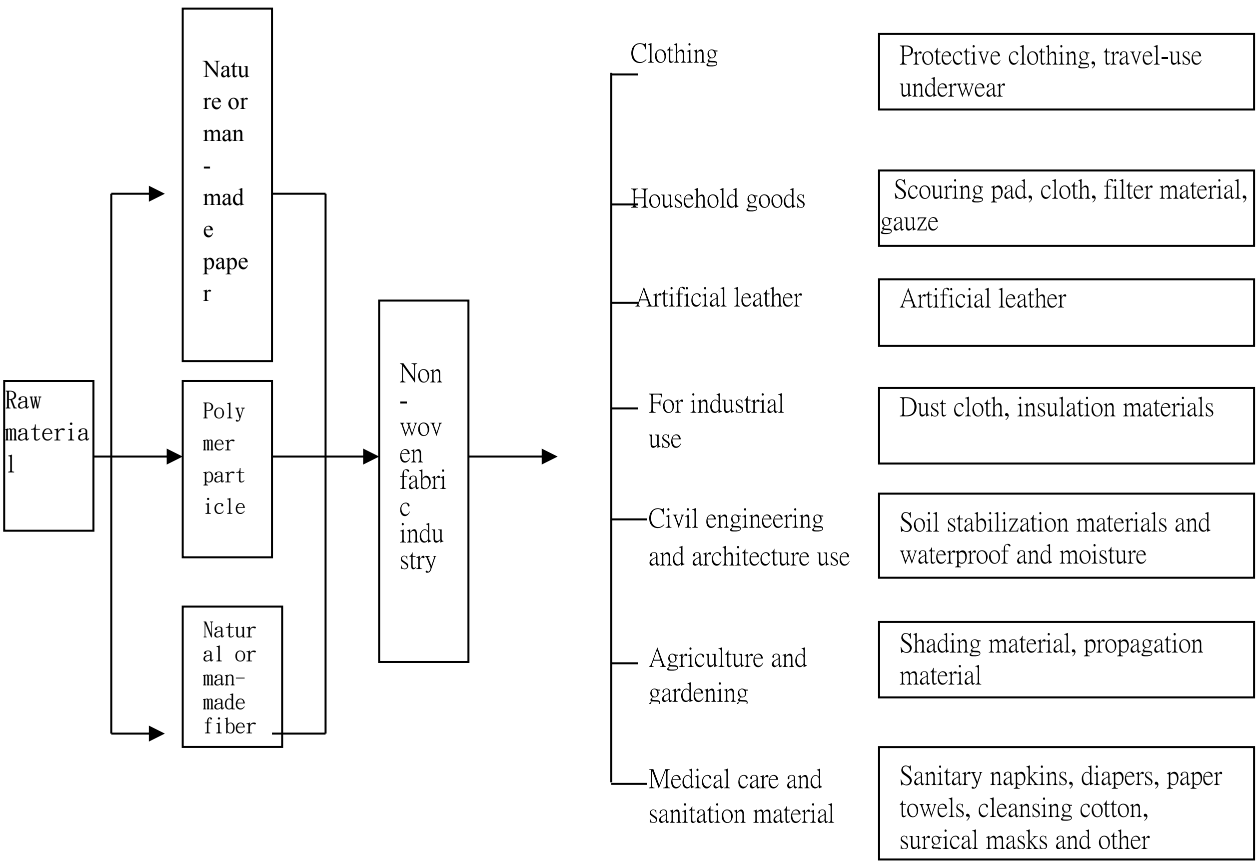
Statistics of Taiwan's nonwoven fabric industry production, import and export value and quantity within the last five years.

	2013年	2014	2015	2016	2017年	Unit
Production volume	153.1	181.5	183.7	188.0	200.4	1000 Ton
Export value	338.5	369.5	378.1	372.5	407.3	1000 USD
Import value	122.2	122.6	110.4	103.2	103.3	1000 USD
Export volume	82.3	93.4	94.0	98.2	106.0	1000 Ton
Import volume	26.6	26.7	24.7	26.6	26.1	1000 Ton

Data source: ANFA - 2017 Taiwan statistic report (2018.06.06)

2. Correlation among upstream, midstream, and downstream sections of the industry

Nan Liu Enterprise's main products are nonwoven fabric and cosmetic/beauty care products. The industry correlation diagram is as follows:



(3) Various product development trends

① Product diversification

In recent years, the nonwoven fabric industry has been affected by significant fluctuation in raw material prices, and the cost has significantly increased. China’s nonwoven fabric industry operators have also increased their production scale and taken a price-competition model of sales. As a result, gross profit has fallen for Nan Liu and other nonwoven fabric operators in recent years. Thus, relevant nonwoven fabric operators must diversify their development direction and products and use increased product added value to increase profitability.

② Cross-field nonwoven fabric composite technology development

In addition to diversifying industry development and products, the nonwoven fabric industry is also engaging in nonwoven fabric composite technology. For example, the top and bottom layers of spun bond nonwoven fabric and a middle layer of meltblown nonwoven fabric goes through composite processing to produce SMS nonwoven fabric. The Company is also actively developing medical use pulp spunlace composite nonwoven fabric, composite biodegradable nonwoven fabric, and composite elastic nonwoven fabric. As composite technology becomes more mature, the industry is able to expand the application of nonwoven fabric and increase added value.

③ World trend in environmentally friendly material

In recent years, environmental awareness has emerged, and single-use, disposable nonwoven fabric products such as wet wipes, medical use surgical garment, masks, and gauze all require the development of environmentally friendly materials. The nonwoven fabric industry is developing different fiber materials that will be able to quickly decompose into shorter molecular chains. This will allow the materials to decompose into smaller fragments in natural environments and reduce pollution. The industry is also developing fiber materials that can decompose into small CO_2, H_2O, or CH_4 molecules in the natural environment. This will allow materials to return to nature and lower their impact on the environment. The Company will continue to improve its composite technology and is currently in the initial stages of developing composite, decomposable nonwoven fabric.

Some parts of nonwoven fabric production use wood pulp, which can affect the ecological environment system. Thus, The Company will continue to focus on monitoring and controlling the nonwoven fabric industry chain. In 2012, The Company passed the FSC COC chain of custody verification. The use of FSC COC to monitor the nonwoven fabric production chain can achieve the protection of forests throughout the entire supply chain (upstream sources of wood raw materials, processing, manufacturing, sales, printing, products, sales to the end consumer). This prevents overconsumption of the world's forestry resources and mitigates the effects on existing ecological systems during the production and sales process, enabling the Company to fulfill its environmental and social responsibilities.

(4) Competition

The Company was founded in 1978, and its main business is the production and sales of hot-pressed nonwoven fabrics, spunlace nonwoven fabric, and biotechnology-related products (including wet wipes, masks, lotions and other skincare products). In recent years, the Company has expanded production lines to personal hygiene products including wet paper towels and beauty maintenance supplies such as masks and skincare products. Currently, listed domestic companies with similar products, capital, and operating scale include Kang Na Hsiung, Shinih, and Universal Incorporation. Their main operating items and operating revenue are as follows:

Unit: million NT$

Items \ Company	Nan Liu	Kang Na Hsiung	Shinih	Universal Incorporation
Major Business items	1.Spunlace nonwoven fabric (including Disposable surgical gowns fabrics) 35.99% 2.Air through & Thermal bond nonwoven fabrics 26.05% 3.Biotechnology products (including wet wipes) 37.92% 4.Others 0.04%	1. Sanitary napkin 50.8% 2. Diaper 7.8% 3. Wet wipes 33.7% 4. Nonwoven and others 7.7%	1. Nonwoven 98.1% 2. Bedding 0.6% 3 Other 1.3%	1.Spunbond and composite nonwoven fabric93.1% 2.Meltblown nonwoven fabric 0.8% 3.Bonded cloth and post-processing cloth 5.3% 4.Other0.8%
2017 consolidated net sales	6,786	3,534	3,205	914

Data source: the 2017 consolidated financial statement from various companies that are announced on MOPS website.

3. Long-term and short-term business development plans

(1) Short-term plan

• Consolidate existing clients, and attract more customers.
• Implement the Group's production policy to obtain the most advantageous configuration.
• Obtain high-end orders, and improve real profits.
• Improve resource utilization, and reduce resource consumption and waste.
•Promote environmentally friendly product production technology to obtain market opportunities.

(2) Long-term plans

• Integrate the group's resources, and provide customers with more complete services.
• Improve the cost structure, and provide our customers with more competitive prices.
• Enhance customer satisfaction, and expand the overall production scale. Pursue cost advantages to make prices more competitive.
• Create a win-win situation, ensure technology leadership, and increase market share.

2. Market, production, and sales status:

i. Market analysis

(1) Main product sales area

Unit: million NT$

Area \ Year		2018 (consolidated)		2017 (consolidated)	
		Amount	Ratio%	Amount	Ratio%
Taiwan		1,272	19.77%	1,310	19.30%
China		2,978	46.28%	3,152	46.45%
Export	Japan	674	10.48%	857	12.63%
	Asia	1,302	20.24%	1,288	18.98%
	Others	208	3.23%	179	2.64%
Total		6,434	100.00%	6,786	100.00%

(2) Market share

The Company's main business is the production and sales of Air through & Thermal bond nonwoven fabrics, spunlace nonwoven fabrics, and biotechnology-related products (including wet wipes, masks, lotions and other skincare products). In 2018, The Company's consolidated operating revenue was superior to that of similar companies in the industry, including Nan Liu, Shinih, and Universal Incorporation.

Unit: million NT$

Items \ Company		Nan Liu	Kang Na Hsiung	Shinih	Universal Incorporation
2017 (consolidated)	Net Sales	6, 786	3, 534	3, 205	914

Data source: the consolidated financial statement from various companies that are announced on MOPS website.

In addition, according to a statistic by Nonwovens Industry (a main United States nonwoven fabric monthly journal), the Company ranked 24rd among all nonwoven fabric companies in the world in 2017. The Company has exceeded the rankings of all similar companies in Taiwan and has become an important nonwoven fabric company in the Asia region. According to a survey of the 2000 largest companies by *CommonWealth Magazine*, The Company ranked 419rd among companies of the manufacturing industry in 2019.

(3) Future market supply and demand and growth

Nonwoven fabric is lightweight, elastic, and breathable and can be made to have absorption/moisture retention and breathable/moisture permeable characteristics or made into filters, planting material, wiping material, soundproofing material, and insulation materials through different processes. In addition, this material can be made into diverse forms and appearances. As production technology continues to show breakthroughs in recent years, high-tech special artificial fiber is being continuously developed. Processing methods are becoming more diversified, and nonwoven technology is being applied to unconventional fields. Nonwoven fabric has moved from conventional uses such as everyday hygiene supplies to being used in medical, aeronautic, filter, computer, and civil engineering fields. After special processing, nonwoven fabric can be classified as a high-tech textile product in functional textile. As such, its global sales have grown steadily each year.

① The downstream application product demand is growing steadily.

According to statistical data forecast from INDA, EDANA, and Nonwoven Materials & Products, nonwoven fabric will gradually replace the conventional textile market because its production quantity, speed, and cost are superior to conventional textiles. Not only do the European and American markets show steady demand growth for nonwoven fabric, rapid economic growth in Asia, the Middle East, and Latin America is driving demand for personal hygiene products such as wet wipes, diapers, and sanitary napkins. Demand for cosmetic and beauty care products such as facial masks and makeup remover pads is also growing at a rapid speed. Thus, demand in the nonwoven fabric industry is expected to grow steadily for the next five to ten years.

② The China market has created a huge market and business opportunity.

In terms of individual areas, China has the fastest growth in the nonwoven fabric industry. In 2012, China's nonwoven fabric production quantity was 2.163 million tons but reached 3.705 million tons by 2017. This is an annual compound growth rate of 71.3%, which far exceeds the global average. However, the 2013 growth showed only a 10.3% increase compared to 2012. This is mainly attributed to increasing Chinese labor costs, appreciation of the CNY, and raw material price increase. At the time, the European and American markets showed weak economic numbers, increased national debt, high unemployment rate, and other negative factors, which resulted in decreased demands. Still, China itself is showing growing demands, and increased salaries have raised the average income of its citizens. This, in addition to the two-child policy, has led to expected increased demand in the nonwoven fabric production, and demand is expected to grow. In the second half of 2016, the CNY depreciated significantly, and the impact on the exports was huge. However, due to the two-child policy and the increased national income, the domestic demand could maintain steady growth for disposable consumer goods.

Production quantity and import/export value and quantity in the nonwoven fabric industry in China for the last six years.

Item	2012年	2013年	2014	2015	2016	2017	Unit
Production volume	2,163	2,387	2,635	2,941	3,261	3,705	Thousand tons
Export value	1624.4	1971.9	2311.6	2,482.1	2,556.3	2,614	Million USD
Import value	839	849.8	947.9	859.4	842.6	897	Million USD
Export volume	484.9	559.3	656.2	730.9	832.5	894.2	Thousand tons
Import volume	138.3	139.7	152	138.0	132.7	147.3	Thousand tons

Data source: ANFA – 2017 China statistic (June 6, 2018)

③ Stable domestic demand

As the economy gradually began reviving in 2013, expanded market application and production technology advancements gave Taiwan's nonwoven fabric industry a highly competitive edge in the global market. In 2017, Taiwan's nonwoven fabric export value was USD 407 million, and the export quantity was 106 thousand tons. Compared with 2016, though the quantity grew by 7.94%, the amount decreased 9.34%. The need of non-woven is up trend.

(4) Competitive niche

① Continuing investment in research and development

The Company has invested in the production and development of nonwoven fabric since 1995. We have accumulated more than 20 years of production experience and built a technology team to improve our development abilities. Currently, The Company has professionals who were once part of the PGI group, and who have nonwoven fabric experience, leading the R&D team. The team has continually developed nonwoven fabric production technology and expanded its relevant applications. At present, the Company's research results include surgical medical protective clothing fabrics and industrial-strength cloth. In the future, we will expand into embedded anti-corrosion technology, water purification technology, flushable wipes, elastic diaper waists, strong wipes for 3D printing technology and other high value-added products. Regarding production technology and process improvement, the Company will adjust production equipment based on new material development and process improvements. Actual production site tests will be conducted to set the best production parameters, which will improve production yield and lower production costs. Furthermore, The Company will maintain close exchange with major European, American, Japanese, and Korean hygiene product companies to fully understand market trends. This will enable The Company to rapidly develop products that conform to market demands.

② Good stability product quality

The Company has actively obtained ISO 9001:2015 quality certification, CNS(Chinese National Standards) quality certification, ISO 14001:2015 environmental certification, ISO13485:2016 medical certification, OHSAS 18001:2007 occupational Health and Safety Management Systems certification, ISO 22716:2007 Cosmetics quality management system certification, GMPC(Good Manufacturing Practice of Cosmetic Products) excellent cosmetics manufacturing standards certification, AAMI American standard medical surgery clothing certification, EN13795 European standard medical surgery clothing certification, and FSC-COC:2017 (Chain of Custody) production and sales management certification. These certifications ensure that The Company manufactures and sells nonwoven fabric and related products under the strictest quality control and provide customers with peace of mind. In addition, The Company also uses related quality management tools (such as the SPC method) to continue to improve product quality. ISO 9001 and other quality management systems are implemented, and quality personnel are actively cultivated to ensure a solid foundation for product quality.

In addition to actively building a quality management system for various items, The Company also requires work personnel to strictly follow relevant production SOPs during the production process. The production environment is managed based on low temperature, germ-free, and cleanroom standards. To reduce possible pollution during the production process from personnel operations, The Company has introduced automated production equipment from Germany and Japan as well as conducted quality monitors and tests for various automatic detection systems. This ensures that all products from the factory conform to strict quality standards and relevant specifications.

(5) Advantageous and disadvantageous factors for development prospects and response measures

① Advantageous factors

A. Downstream product application demand is steadily growing

According to statistical data forecast from INDA, EDANA, and Nonwoven Materials & Products, nonwoven fabric will gradually replace the conventional textile market because its production quantity, speed, and cost are superior to conventional textiles. Not only do the European and American markets show steady demand growth for nonwoven fabric, rapid economic growth in Asia, the Middle East, and Latin America is driving demand for personal hygiene products such as wet wipes, diapers, and sanitary napkins. Demand for cosmetic and beauty care products such as facial masks and makeup remover pads is also growing at a rapid speed. Thus, demand in the nonwoven fabric industry is expected to grow steadily for the next five to 10 years. Therefore, The Company will have space for growth in the nonwoven fabric industry in the future.

B. Continual development of new application fields

The application scope of nonwoven fabric is continuing to expand and can be used in different applications after processing with different techniques. Nonwoven fabric products are continuing to be developed and innovated. In the United States, Japan, Europe, and other advanced nations, nonwoven fabric is still classified as an emerging industry that is environmentally friendly. Because there are diverse application fields, nonwoven fabric can be used in daily living supplies; medical protection; car materials; electronics and hi-tech; industrial, agricultural and textile products; and as shoe material and synthetic leather. Global demand for nonwoven fabric products is still steadily growing, and the production value will soon be higher than that of conventional textile products. Of these, nonwoven fabric is showing the fastest growth in everyday hygiene products and medical protection products.

C. Biotechnology products have a certain brand visibility

In addition to the production and sales of nonwoven fabric, The Company has gradually been diversifying in recent years. Currently, The Company has two brands, Silk

Soft and Netharria. Products from these two brands include masks, makeup emulsion, lotion, moisturizer, and shower gel. These products are sold in department stores, post offices, and farmer's associations. Currently, mask products have become one of the most popular items sold by the post office. Our masks have also been selected by the Cross-Strait Trade & Commerce Association of R.O.C. as a recommended souvenir. Thus, The Company's beauty care products have established initial brand recognition. We will continue to expand our sales channels and further enhance our brand awareness.

② Disadvantageous factors

A. Risk of price competition from Chinese companies

According to Taiwan Nonwoven Fabric Industry Association monthly journal data, Chinese companies are continuing to make significant investments in the nonwoven fabric industry by acquiring machinery and equipment. In recent years, China's nonwoven fabric industry production quantity has grown by an average of 10% annually. China's nonwoven fabric production value is the highest in Asia (except Japan) and is rapidly developing. This has formed a certain threat and pressure for Taiwan's industry. China's investment in nonwoven fabric is mostly centered around spunbond and meltblown production technology. Spunbond and meltblown have high investment costs and large production scale; therefore, high-quantity production is required to reach economies of scale for this new machine equipment. Thus, the current nonwoven fabric market is showing a trend of price competition.

Response measures:

The Company has focused on developing hot air/hot-press and spunlace technology nonwoven fabrics. Hot air/hot-press nonwoven fabric is soft, loose, and has good texture. Currently, they are widely used in diaper and sanitary napkin surface material. The Company has improved spunlace nonwoven fabric technology and materials, production technology, water quality purification technology, and post-processing technology (water resistance, alcohol resistance, and blood resistance). Currently, we have passed the American standard AAMI certification and European standard EN 13795 certification, which means that these materials can be used as medical and protective materials. Currently, surgical clothing made from spunlace nonwoven fabric has higher cost but is preferred by medical personnel because the materials are better than SMS composite nonwoven fabric. The Company is continuing with various new product development and product quality improvements and has clearly separated our market and product position from the spunbond and meltblown nonwoven fabric of our Chinese competitors.

B. Risk of substitute products

Currently, common nonwoven fabric formation technology used around the globe is similar and generally includes machine bonding, thermal bonding, spunbond, and meltblown technology. The Company's current main products are spunlace nonwoven fabric and hot air bonding/hot-press nonwoven fabric, which are classified as mechanical bonding and thermal bonding technology. Comparatively, some vendors have converted their investments toward spunbond and meltblown technology nonwoven fabric, then processing the products with composite processing to produce SMS nonwoven fabric. SMS nonwoven fabric such as polyester has a relatively low price. Not only does polyester have a price advantage, SMS nonwoven fabric has lower water permeability. Thus, SMS nonwoven fabric made with spunbond technology and meltblown technology and composite processing has become the primary replacement product for The Company's spunlace nonwoven fabric and air through & thermal bond nonwoven fabrics.

Response measures:

In addition to cost considerations, we must also consider the comfort and softness of nonwoven fabric products. Hot air/hot-press and spunlace technology produced nonwoven fabrics are more comfortable, softer, and more elastic. Although SMS produced surgical clothing can reach 40 g, the material tends to be transparent and has a plastic feel. Thus, surgical medical personnel still prefer surgical clothing made form spunlace nonwoven fabric and dislike wearing SMS nonwoven fabric surgical clothing that feels like a raincoat. Therefore, spunlace nonwoven fabric still has a certain market demand.

The Company is still developing various spunlace nonwoven fabric products such as elastic composite nonwoven fabric, elastic pulp spunlace nonwoven fabric, biodegradable environmentally friendly spunlace nonwoven fabric, flushable wet wipes, and industrial use wipe to increase the added value and application of spunlace nonwoven fabrics.

C. A large amount of investment must be made to maintain competitiveness in the nonwoven fabric industry

As production technology improves in the nonwoven fabric industry, new products are developed, sales are expanded, and branches are opened overseas, nonwoven fabric industry personnel must continue to invest funds to purchase new machinery and equipment to expand production capacity. This is required to gain and maintain a competitive advantage. Thus, the nonwoven fabric industry requires significant funding, and relevant operators should have sufficient funding and flexibility capital allocation to engage in expansions and asset investment.

Response measures

The Company maintains a good relationship with financial institutions. Currently, The Company has a low cost of borrowing money and still has sufficient bank financing. In the long term, The Company not only reserves a surplus from the annual profit but also uses listing plans and capital market instruments to obtain sufficient and stable long-term investment funds. This fund is used to fulfill expansion needs, improve the Company's financial structure, and reduce financial risk.

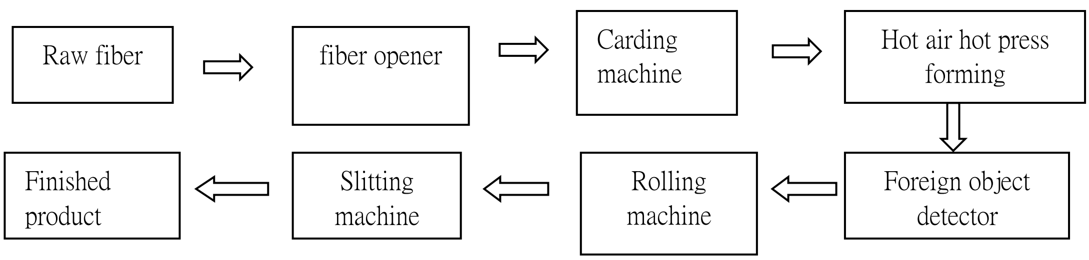
ii. Major uses and production process of the primary products

(1) Major uses of the primary products

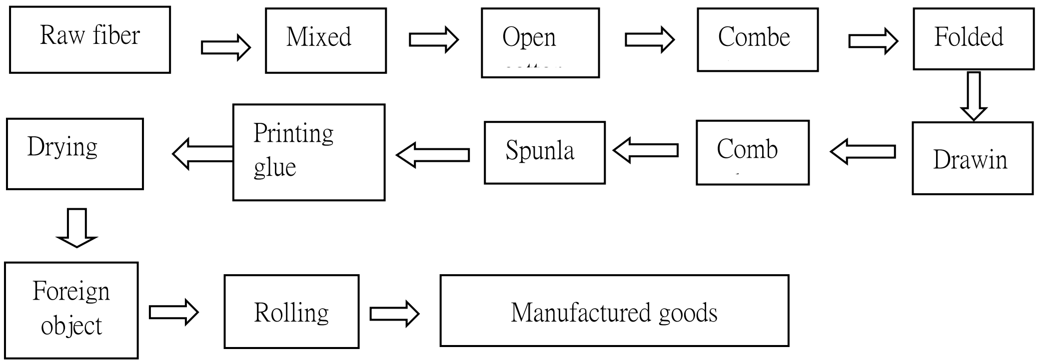
Main products	Important use
Air through & thermal bond nonwoven fabrics	Baby diaper and sanitary napkin surface material
Spunlace nonwoven fabric	Medical and sanitary materials, cleaning supplies, shoes
Biotech products	Wipes (infant, adult skin), masks, cleansing cotton, emulsion liquid cosmetics

(2) Production process

① Air through & thermal bond nonwoven fabric



②Spunlace nonwoven fabric



iii. Main raw material supply status

The main raw materials	Major suppliers (domestic and foreign)	Supply status
Polypropylene (PP), composite fiber Rayon fiber, PET fiber	SPV and Sinopec Yizheng	Good

iv. List of vendors that account for more than 10% of total purchases within either of the last two years, their purchase amount and ratio, and reasons for changes in this amount and ratio.

Units: Thousand NT$; %

Items	2017				2017				As of March 31, 2019			
	Name	Amount	% of net purchase	Relationship	Name	Amount	% of net purchase	Relationship	Name	Amount	% of net purchase	Relationship
1	SPV	706, 366	17. 03	None	SPV	563, 216	12. 75	None	SPV	105, 275	10. 29	None
2	Others	3, 440, 904	82. 97	None	Others	3, 855, 727	87. 25	None	Others	917, 825	89. 71	None
Net Purchase		4,147,270	100.00		Net Purchase	4, 418, 943	100. 00		Net Purchase	1, 023, 100	100. 00	

<u>Explanation for changes:</u>

The main raw materials used by The Company within the last two years are PET fiber, rayon fiber, and nonwoven fabric. SPV is The Company's rayon fiber provider. There are no major changes to raw material suppliers within the last two years.

v. List of customers that account for more than 10% of total sales within either of the last two years, their purchase amount and ratio, and reasons for changes in this amount and ratio.

Units: Thousand NT$; %

Items	2017				2018				As of March 31, 2019			
	Name	Amount	% of net sales	Relationship	Name	Amount	% of net sales	Relationship	Name	Amount	% of net sales	Relationship
1	A Company	634, 642	9. 86	None	A Company	720, 573	10. 62	None	B Company	173, 462	10. 79	None

2	B Company	285, 800	4. 44	None	B Company	713, 507	10. 51	None	A Company	159, 323	9. 91	None
3	Others	5, 513, 378	85. 70		Others	5, 352, 258	78. 87		Others	1, 274, 905	79. 30	
Net Sales		6, 433, 820	100. 00		Net Sales	6, 786, 338	100. 00		Net Sales	1, 607, 690	100. 00	

Explanation for changes:

The Company focuses on the nonwoven fabric industry and management of its related derivative products. Our main products include air through & thermal bond nonwoven fabric, spunlace nonwoven fabric, hygiene products, and biotech/beauty care products. Our customers include vendors in Taiwan, Japan, and Korea. Our product quality has passed professional certification, and The Company has a stable and long-term supply and sales relationship with our customers. There were no significant changes in sales customers within the last two years.

vi. Production quantity and value in the last two years

Unit: thousand packs/ton/ NT$1000

Year / Production quantity and amount / Primary products	2017			2018		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Spunlace nonwoven fabric	35,000	30,663	2,531,400	35, 000	27, 328	2, 141, 247
Air through & thermal bond nonwoven fabric	16,650	15,119	1,268,480	16, 650	17, 647	1, 463, 205
Biotechnology products (note)	—	278,985	3,463,787	—	224, 858	3, 172, 498
Disposable surgical gowns fabrics	7,300	6,873	693,202	7, 300	6, 102	648, 004
Others	—	15	4,066	—	15	4, 065
Total	—	—	7,960,935	—	275, 950	7, 429, 019

Note: includes wipes, facial masks, skincare products and other biotech products. The units are not always the same, and the number was converted and expressed in the smallest unit (for example, thousand bags, thousand bottles, thousand pieces).

vii. Sales quantity and value in the last two years

Unit: thousand packs/ton/and NT$1000

Year / Sales value / Primary products	2017				2018			
	Domestic sales		Export		Domestic sales		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Spunlace nonwoven fabric	5,449	505,581	11,347	988,146	5, 972	550, 618	10, 333	1, 015, 028
Air through & thermal bond nonwoven fabric	11,769	1,130,409	2,842	369,874	12, 452	1, 284, 407	3, 809	483, 282
Biotechnology products (note)	123,578	2,322,601	11,190	126,373	108, 994	2, 415, 544	14, 817	157, 639
Disposable surgical gowns fabrics	408	57,692	6,579	930,307	857	68, 830	5, 477	808, 360
Others	12	2,837	—	—	11	2, 630	—	—
Total		4,019,120		2,414,700	128, 286	4, 322, 029	34, 436	2, 464, 309

Note: includes wet wipes, facial masks, skincare products and other biotech products. The units are not always the same, and the number was converted and expressed in the smallest unit (for example, thousand bags, thousand bottles, thousand pieces).

3. Number of employees in the last two years

Year		2017/12/31	2018/12/31	2019/03/31
The number of employees	Direct	680	683	686
	Indirect	198	225	231
	Total	878	908	917
Average age		33.57	33.3	33.43
Average years of service (years)		4.13	3.95	4.0
Education distribution ratio (%)	Ph.D.	0.11	0.11	0.21
	Master	2.17	1.99	2.29
	College	26.65	27.09	27.70
	High school	34.97	35.68	36.43
	Below high school	36.1	35.13	33.37

4. Environmental protection expenditures

(1) The Company has applied for and received pollution emission permits, paid pollution prevention fees, or established designated environmental personnel according to regulations. The following is The Company's permit and establishment status:

Items	Name of allowed fixed pollutant source	Code	Effective period	Permit document number	Remarks
1	Cosmetic manufacturing procedures	(M02) 190059	08/29/2015 - 08/28/2020	Kaohsiung City Government Environmental Protection Bureau air pollution permit number E1779-00	First factory
2	Heat medium heating process	(M02) 000002	06/13/2013 - 06/12/2018	Kaohsiung City Government Environmental Protection Bureau air pollution permit number E1172-00	Second plant
3	Heat medium heating process	(M04) 000002	09/19/2014 - 09/18/2019	Kaohsiung City Government Environmental Protection Bureau air pollution permit number E1555-00	Second plant
4	Heat medium heating process	(M05) 000002	04/07/2015 - 04/06/2020	Kaohsiung City Government Environmental Protection Bureau air pollution permit number E0362-00	Second plant
5	Water pollution prevention and control permit		09/22/2015 - 09/21/2020	Kaohsiung City Government Environmental Protection Bureau water storage permit number 00950-00	First factory
6	Water pollution prevention and control permit		11/17/2016- 03/29/2021	Kaohsiung City Government Environmental Protection Bureau water storage permit number 00987-01	Second plant

(2) The Company's investment in environmental pollution prevention equipment, their uses, and their expected benefits:

March 31, 2019

Equipment name	Quantity	Obtainment date	Investment cost (NT$1000)	Residual value	Remarks
Dust collection equipment	4	09/25/2000	1,083	0	Fiber opening machine is fitted with dust collection equipment to meet air pollution testing standards.
Dust collection	1	07/31/2005	750	0	For use in opening fiber and collecting

equipment					dust, reducing production costs, meeting environmental requirements.
Recycled water treatment equipment	1	04/01/2004	4,653	0	Recycled water, reduce production costs, meet environmental requirements
Recycled water improvement project	1	12/31/2000	220	0	Recycled water, reduce production costs, meet environmental requirements
Recycled water improvement project	1	11/25/2010	660	0	Recycled water, reduce production costs, meet environmental requirements
Recycled water improvement project	1	03/28/2011	3,630	0	Recycled water, reduce production costs, meet environmental requirements
Dust collection equipment	1	01/25/2011	95	0	Purification of waste gas, reduce production costs, and meet environmental requirements.
New construction of biotech wastewater retention equipment	1	09/25/2015	240	96	Process wastewater with regulated procedures until it reaches environmental protection requirements.
Continuous and automatic monitoring of waste water (video) transmission	1	10/25/2015	500	208	Process wastewater with regulated procedures until it reaches environmental protection requirements.
Flotation equipment	1	12/25/2015	8,677	4,613	Recycled water, reduce production costs, meet environmental requirements
Storage equipment (spunlace)—20T flat bottom tanks	1	02/25/2016	250	118	Process wastewater with regulated procedures until it reaches environmental protection requirements.
Pressure filter equipment	1	05/25/2016	860	441	Recycled water, reduce production costs, meet environmental requirements

Note: from 2018 through the date of annual report printed, The Company has expended NT$6,315 thousand on environmental cleaning and maintenance-related items.

(3) In the last two years through the printing of this annual report, the Company's improvement of environmental pollution: none.

(4) The Company's losses and total fines as a result of pollution to the environment (including reparation) within the last two years through the printing of this annual report. Disclose future response measures, including improvement measures and possible expenditures (including estimated losses, fines, and compensation if response measures are not taken). If the amount cannot be reasonably estimated, please state the reason for being unable to make a reasonable estimate: none.

(5) Current pollution and improvement status, and its effects on the Company's competitive position and capital spending, as well as estimated major environmental protection capital expenditures in the next two years: none.

5. Employer/employee relationship

1. Company's employee benefits and retirement system and their implementation, as well as the employer/employee agreement status:

(1) Benefits:

The Company's employee-benefit-related measures are as follows:

①Issue performance bonuses according to operating conditions.

②Funeral/wedding, work injury, hospitalization subsidies and Labor Day bonuses.

③Handle labor insurance, health insurance and relevant insurance for dependents.

④Hold employee travel and issue employee birthday bonus.

⑤Year-end banquet and lottery.

⑥Engage in industry–academia cooperation and encourage employees to learn while on the job.

(2) Education and training measures: fixed schedule training courses that provide professional personnel with career training and continual education.

(3) Retirement system:

The Company has established an Employee Retirement Monetary Fund Oversight Committee according to the Labor Standard Act and has regularly set aside regular monthly pensions that are saved in a Central Trust of China retirement account. To respond to the new retirement system, the Company will appropriate 6% to employee personal accounts.

(4) Employer/employee agreements:

The Company is subject to the Labor Standards Act, and all operations conform thereto. As of the printing of this annual report, there have been no employer/employee disputes.

2. The Company's losses and total fines as a result of employer/employee disputes within the last two years through the printing of this annual report. Disclose current and future estimated monetary amount and response measures. If the amount cannot be reasonably estimated, please state the reason for being unable to make a reasonable estimate: none.

6. Important contracts

Nature of contract	Party	Contract start elected	Main content	Restrictive terms
Land lease	Li Wu-Yi and five others	2010/02/01~ 2040/02/01	Real estate leasing (Yanchao plant land)	None
Taiwan Sugar Corporation land setting aboveground rights agreement	Taiwan Sugar Corporation	Jan.2014~ Jan.2024	Real estate above ground property right	When the aboveground lease is up, renewal shall be through mutual agreement and after royalty payments, and cannot exceed 50 years (accumulated).

VI. Financial summary

1. Concise financial data from the last five years

(1) Concise asset balance sheet and Comprehensive Income

i. **Concise asset balance sheet—consolidated**

Unit: Thousand NT$

Iterm \ Year		Financial data in the last five years (note 3)					2018/3/31 Financial data (note 4)
		2014/12/31	2015/12/31	2016/12/31	2016/12/31	2018/12/31	
Current assets		2,668,796	3,099,675	3,218,259	3,795,683	4,029,732	3,877,874
Property, plant and equipment		1,864,367	2,054,428	1,809,808	2,160,933	2,392,496	2,461,415
Intangible assets		171	24	1,783	1,819	1,201	1,028
Other assets		370,349	230,700	355,506	795,403	1,696,061	2,280,358
Total assets		4,903,683	5,384,827	5,385,356	6,753,838	8,119,490	8,620,675
Current liabilities	before distribution	1,805,950	1,898,557	1,903,894	2,529,425	2,752,292	2,626,489
	after distribution	2,009,230	2,181,697	2,252,374	2,856,125	Note1	Note2
Noncurrent liabilities		752,475	822,811	759,851	1,351,065	2,301,195	2,732,592
Total liabilities	before distribution	2,558,425	2,721,368	2,663,745	3,880,490	5,053,487	5,359,081
	after distribution	2,761,705	3,004,508	3,012,225	4,207,190	Note1	Note2
Owners equity		2,345,258	2,663,459	2,721,611	2,873,348	3,066,003	3,261,594
Capital		726,000	726,000	726,000	726,000	726,000	726,000
Capital surplus		453,467	453,467	453,467	453,467	453,467	453,467
Retained earnings	before distribution	1,027,393	1,399,382	1,697,811	1,887,082	2,151,473	2,266,181
	after distribution	824,113	1,116,242	1,349,331	1,560,382	Note1	Note2
Other equity		138,398	84,610	(155,667)	(193,201)	(264,937)	(184,054)
Treasury stock		-	-	-	-	-	-
Non-control equity		-	-	-	-	-	-
Total equity	before distribution	2,345,258	2,663,459	2,721,611	2,873,348	3,066,003	3,261,594
	after distribution	2,141,978	2,380,319	2,373,131	2,546,648	Note1	Note2

(Note 1) The 2018 profit distribution is waiting for approval at the shareholders' meeting.

(Note 2) As of May 13, 2019, the 2018 profit distribution proposal has not been proposed by the shareholders' meeting. Therefore, the amount after distribution is not listed.

(Note 3) The aforementioned financial data figures were audited by certified public accountants.

(Note 4) CPAs reviewed the financial statements as of March 31, 2019.

2. Concise consolidated income statement—consolidated

Unit: except for earnings per share, which is indicated in 1 NT$, the remainder is in NT$1000.

Year / Iterm	Financial data in the last five years (note 1)					2019/3/31 Financial data (note 2)
	2014/12/31	2015/12/31	2016/12/31	2016/12/31	2018/12/31	
Net sales	5,343,991	5,922,201	6,090,390	6,433,820	6,786,338	1,607,690
Gross profit	1,039,437	1,196,643	1,174,296	1,230,651	1,275,748	269,756
Operating profit	598,788	750,644	693,898	732,508	797,169	122,420
Other non-operating income and expenses	(2,831)	26,995	83,947	(12,251)	77,094	26,615
Income before income tax	595,957	777,639	777,845	720,257	874,263	149,035
Income from continuing operations	420,152	777,639	582,367	541,377	592,766	114,708
Net income	420,152	581,431	582,367	541,377	592,766	114,708
Other comprehensive income(loss)	88,275	(59,950)	(241,075)	(41,160)	(73,411)	80,883
Total comprehensive income(loss)	508,427	521,481	341,292	500,217	519,355	195,591
Net income attributable to owner of parent	420,152	581,431	582,367	541,377	592,766	114,708
Net income attributable to non-controlling interests	-	-	-	-	-	-
Comprehensive income attributable to owner of parent	508,427	521,481	341,292	500,217	519,355	195,591
Comprehensive income attributable to non-controlling interests	-	-	-	-	-	-
Earnings per share (After retroactive adjustment)	5.79	8.01	8.02	7.46	8.16	1.58

(Note 1) The aforementioned financial data have been audited by CPAs.

(Note 2) CPAs reviewed the financial statements as of March 31, 2019.

3. Concise balance sheet—the parent company only

Unit: NT$1000

Year / Iterm		Financial data in the last five years (note 2)				
		2014/12/31	2015/12/31	2016/12/31	2017/12/31	2018/12/31
Current assets		1,045,160	1,231,510	1,176,861	1,145,757	1,299,896
Property, plant and equipment		274,002	286,263	296,772	757,474	1,060,735
Intangible assets		-	-	789	-	-
Other assets		2,208,397	2,549,130	2,985,364	3,754,369	5,092,361
Total assets		3,527,559	4,066,903	4,459,786	5,657,600	7,452,992
Current liabilities	before distribution	786,083	895,428	1,160,151	1,689,809	1,819,558
	after distribution	989,363	1,178,568	1,508,631	2,016,509	Note1
Noncurrent liabilities		396,218	508,016	578,024	1,094,443	2,567,431
Total liabilities	before distribution	1,182,301	1,403,444	1,738,175	2,784,252	4,386,989
	after distribution	1,385,581	1,686,584	2,086,655	3,110,952	Note1
Owners equity		2,345,258	2,663,459	2,721,611	2,873,348	3,066,003
Capital		726,000	726,000	726,000	726,000	726,000
Capital surplus		453,467	453,467	453,467	453,467	453,467
Retained earnings	before distribution	1,027,393	1,399,382	1,697,811	1,887,082	2,151,473
	after distribution	824,113	1,116,242	1,662,971	1,560,382	Note1
Other equity		138,398	84,610	(155,667)	(193,201)	(264,937)
Treasury stock		-	-	-	-	-
Non-control equity		-	-	-	-	-
Total equity	before distribution	2,345,258	2,663,459	2,721,611	2,873,348	3,066,003
	after distribution	2,141,978	2,380,319	2,373,131	2,546,648	Note1

(Note 1) The 2018 profit distribution is waiting for approval at the shareholders' meeting.

(Note 2) The aforementioned financial data have been audited by CPAs.

4. Concise consolidated income statement - the parent company only

Unit: except for earnings per share, which is indicated in 1 NT$, the remainder is in NT$1000.

Year / Iterm	Financial data in the last five years (note 1)				
	2014/12/31	2015/12/31	2016/12/31	2016/12/31	2018/12/31
Net sales	2,746,554	3,154,206	3,233,424	3,001,485	3,150,067
Gross profit	442,507	508,718	371,968	378,895	428,638
Operating profit	247,866	308,677	175,510	197,094	223,382
Other non-operating income and expenses	241,013	353,211	462,492	380,262	428,340
Income before income tax	488,879	661,888	638,002	577,356	651,722
Income from continuing operations	420,152	581,431	582,367	541,377	592,766
Net income	420,152	581,431	582,367	541,377	592,766
Other comprehensive income(loss)	88,275	(59,950)	(241,075)	(41,160)	(73,411)
Total comprehensive income(loss)	508,427	521,481	341,292	500,217	519,355
Net income attributable to owner of parent	420,152	581,431	582,367	541,377	592,766
Net income attributable to non-controlling interests	-	-	-	-	-
Comprehensive income attributable to owner of parent	508,427	521,481	341,292	500,217	519,355
Comprehensive income attributable to non-controlling interests	-	-	-	-	-
Earnings per share (After retroactive adjustment)	5.79	8.01	8.02	7.46	8.16

(Note 1) The aforementioned financial data have been audited by CPAs.

2. Financial analysis

(1) Financial analysis— IFRSs (consolidated)

Iterm analyzed \ Year		Financial analysis in the last five years					As of
		2014	2015	2016	2017	2018	2019/3/31
Financial structure (%)	Liability to asset ratio	52.17	50.54	49.46	57.46	62.24	62.17
	Long-term capital as a proportion of fixed assets	166.15	169.70	192.37	195.49	224.33	243.53
Debt repayment Capacity %	Current ratio	147.78	163.26	169.04	150.06	146.41	147.64
	Quick ratio	85.28	92.36	105.03	97.89	95.82	97.38
	Interest coverage (times)	26.06	32.80	59.10	49.49	57.06	21.17
Operation Capacity	Receivables turnover (times)	5.38	5.17	4.87	4.74	4.80	4.67 (Note1)
	Average collection days	68.00	71.00	75.00	77.00	76.00	78.00 (Note1)
	Inventory turnover (times)	6.06	5.36	5.12	5.50	5.50	5.33 (Note1)
	Payables turnover (times)	4.38	4.42	4.62	4.83	4.90	5.20 (Note1)
	Average inventory turnover days	60.00	68.00	71.00	66.00	66.00	68.00 (Note1)
	Fixed asset turnover (times)	2.89	3.02	3.15	3.24	2.98	2.85 (Note1)
	Total asset turnover (times)	1.14	1.15	1.13	1.06	0.91	0.92 (Note1)
Operation Capacity	Asset rate of return (%)	9.36	11.66	11.00	9.10	8.11	5.75 (Note1)
	Return on equity (%)	19.35	23.22	21.63	19.35	19.96	14.50 (Note1)
	Percentage of income before income tax to paid-up capital (%)(note7)	82.09	107.11	107.14	99.21	120.42	20.53
	Net profit ratio (%)	7.86	9.82	9.56	8.41	8.73	7.13
	Earnings per share (NT$)	5.79	8.01	8.02	7.46	8.16	1.58
Cash Flow	Cash flow ratio (%)	29.00	33.09	42.42	30.32	33.81	5.46
	Cash flow adequacy ratio (%)	81.90	83.65	94.30	82.10	69.57	89.13
	Cash reinvestment ratio (%)	7.68	7.92	9.46	6.39	7.62	1.66
Degree of leverages	Degree of operating leverage	1.65	1.54	1.63	1.62	1.54	1.83
	Degree of financial leverage	1.04	1.03	1.02	1.02	1.02	1.06

The changes of financial ratio of the last two years:

1. The company faced some challenges in 2018. First, the international trend of USD was strong in 2018. Second, CNY depreciated over 5%, compared to USD. The consolidated sales revenue and profit did not as originally expected. Under above challenges, all employees pledged more efforts and consistently develop new products. The capacity utilization was full in 2018. The sales is growing up. In general, the sales grew slightly. The China plant contributed positive effects in operation, profit. Percentage of income before income tax to paid-up capital is up trend.
2. The remaining financial ratios had no important changes.

(Note 1) This financial analysis has been converted for the entire year.

(Note 2) All financial ratios have been calculated according to the financial statement audited by CPAs.

(2) **Financial analysis— IFRSs (parent company only)**

Iterm analyzed / Year		Financial analysis in the last five years				
		2014	2015	2016	2017	2018
Financial structure (%)	Liability to asset ratio	33.52	34.51	38.97	49.21	58.86
	Long-term capital as a proportion of fixed assets	1,000.53	1,107.89	1,111.84	523.82	531.09
Debt repayment Capacity %	Current ratio	132.96	137.53	101.44	67.80	71.44
	Quick ratio	91.08	90.28	64.34	42.42	42.03
	Interest coverage (times)	53.67	64.16	84.52	53.02	42.81
Operation Capacity	Receivables turnover (times)	5.55	5.62	6.01	6.43	6.49
	Average collection days	66.00	65.00	61.00	57.00	56.00
	Inventory turnover (times)	8.61	8.24	8.10	8.20	8.18
	Payables turnover (times)	8.47	6.81	6.00	6.43	5.61
	Average inventory turnover days	42.00	44.00	45.00	45.00	45.00
	Fixed asset turnover (times)	10.56	11.26	11.09	5.75	4.64
	Total asset turnover (times)	0.85	0.83	0.76	0.62	0.53
Operation Capacity	Asset rate of return (%)	13.25	15.55	13.82	10.91	9.26
	Return on equity (%)	19.35	23.22	21.63	19.35	19.96
	Percentage of income before income tax to paid-up capital (%)(note7)	67.34	91.17	87.88	79.53	89.77
	Net profit ratio (%)	15.30	18.43	18.01	18.04	18.82
	Earnings per share (NT$)	5.79	8.01	8.02	7.46	8.16
Cash Flow	Cash flow ratio (%)	23.26	35.89	24.18	12.65	4.16
	Cash flow adequacy ratio (%)	66.39	64.71	58.55	39.97	24.61
	Cash reinvestment ratio (%)	0.64	2.87	(0.06)	(2.69)	(3.74)
Degree of leverages	Degree of operating leverage	1.57	1.51	1.85	1.70	1.69
	Degree of financial leverage	1.04	1.04	1.05	1.06	1.08

The changes of financial ratio of the last two years:

1. The Yanchao new plant is during instruction in 2018. For increasing capacity and product quality purpose, the Company purchased new machines and related equipment, eliminated old machines and related equipment. The Company used profit and long-term loan to pay the cash out of machines and increased a few working capitals. Then the liabilities and interest in 2017 were more than 2016. Property, plant, equipment and noncurrent liabilities in 2017 were more than 2016. The ratio of debt repayment capacity and cash flow in 2017 were less than 2016.
2. The remaining financial ratios had no important changes.

Note: All financial ratios have been calculated according to the financial statement audited by CPAs.

The financial analysis calculation formula is as follows:

1. Financial structure
   (1) Liability to asset ratio = Total liabilities / Total assets.
   (2) Proportion of long-term capital in property, plant, and equipment = (Total equities + non-current liabilities) / (Total net value of property, plant, and equipment).
2. Debt-paying ability
   (1) Current ratio = Current assets / Current liabilities.
   (2) Quick ratio = (Current asset – inventories) / Current liabilities.
   (3) Interest coverage ratio = Earnings before interests and taxes (EBIT) / Interest expenses over this period.
3. Operating ability
   (1) Receivables turnover rate (including bills receivable resulting from accounts receivable and business operations) = Net sales / Average accounts receivable in various periods (including bills receivable resulting from accounts receivable and business operations).
   (2) Average collection days = 365 / Receivables turnover ratio.
   (3) Inventory turnover ratio = Cost of sales / Average inventory value.
   (4) Payables turnover rate (including bills payable resulting from accounts payable and business operations) = Cost of sales / Average accounts payable in various periods (including bills payable resulting from accounts payable and business operations).
   (5) Average inventory turnover days = 365 / Inventory turnover ratio.
   (6) Property, plant, and equipment (PP&E) turnover ratio = Net sales/Average value of PP&E
   (7) Total inventory turnover rate = Net sales / Average total asset value.
4. Return on investments
   (1) Return on assets (ROA) = [Gain (loss) after tax + Interest expenses × (1 – interest rates)] / Average total asset value.
   (2) Return on Equity (ROE) = Gain (loss) after tax / Average total equity value.
   (3) Net profit rate = Gain (loss) after tax / Net sales.
   (4) Earnings per share (EPS) = (Gain (loss) attributable to the owner of the parent company – dividends of preferred shares) / Weighted average of outstanding shares. (Note 4)
5. Cash flow
   (1) Cash flow ratio = Net cash flow of business activities / Current liabilities.
   (2) Net cash flow adequacy ratio = Net cash flow for business activities in the 5 most recent years / (Capital expenditure + inventory increase + cash dividends) for the 5 most recent years.
   (3) Cash reinvestment ratio = (Net cash flow for business activities – cash dividends) / (Gross value of PP&E + Long-term investments + Other non-current assets + business capital). (Note 5)
6. Degrees of leverage
   (1) Degree of operating leverage (DOL) = (Net operating revenue – operating change costs and expenses) / Operating profit (Note 6).
   (2) Degree of financial leverage (DFL) = Operating profit / (Operating profit – interest expenses).

(3) Name of the CPA in the last 5 years and audit opinions

Year	Accounting firms	Name of the CPA	Audit opinions
2014	Yangtze CPAs & Co.	Wang Jin-Xiang, Lin Szu-Ning	No reservations
2015	Yangtze CPAs & Co.	Wang Jin-Xiang, Lin Szu-Ning	No reservations
2016	Yangtze CPAs & Co.	Wang Jin-Xiang, Wang Shu-Tung	No reservations
2017	Yangtze CPAs & Co.	Wang Shu-Tung, Hu, Hsiang-Ning	No reservations
2018	Yangtze CPAs & Co.	Wang Shu-Tung, Hu, Hsiang-Ning	No reservations

3. Supervisor's Review Report of the 2018 (Please refer to page 103~108)

4. 2018 Independent Auditors' Report, consolidated financial statements, and notes:
   Please refer to page 106~174of the Chinese annual report.

5. 2018 Independent Auditors' Report, Parent Company Only financial statements, and notes:
   Please refer to page 175~259 of the Chinese annual report.

6. Any financial difficulties experienced by the Company and its affiliated businesses during the most recent year up to the publication date of this report as well as the impact of said difficulties on the financial condition of The Company: None.

VII. Discussion and analysis of financial data and management results, as well as risk management.

1. Financial condition

Review and analysis of financial data

(1) Financial data analysis —consolidated

Unit: Thousand NT$

Iterm \ Year	2018/12/31	2017/12/31	Difference	
			amount	%
Current assets	4,029,732	3,795,683	234,049	6.17
Property, plant and equipment	2,392,496	2,160,933	231,563	10.72
Intangible assets	1,201	1,819	(618)	(33.97)
Other assets	1,696,061	795,403	900,658	113.23
Total assets	8,119,490	6,753,838	1,365,652	20.22
Current liabilities	2,752,292	2,529,425	222,867	8.81
Noncurrent liabilities	2,301,195	1,351,065	950,130	70.32
Total liabilities	5,053,487	3,880,490	1,172,997	30.23
Capital	726,000	726,000	0	0.00
Capital surplus	453,467	453,467	0	0.00
Retained earnings	2,151,473	1,887,082	264,391	14.01
Other equity	(264,937)	(193,201)	(71,736)	37.13
Total equity	3,066,003	2,873,348	192,655	6.70

The changes of Assets, liabilities and equity of the last two years (the change ratio is over 20% and change amount is more than NTD 10,000 thousand):

1. Property, plant and equipment: The parent Company was during construction, construction in progress increase much more.
2. Other assets: Except to upgrade product capacity and manufacture process, the new machines arrived the plant, the machines payment by contract on schedules, increase prepayment equipment.
3. Noncurrent liabilities: The Yanchao new plant is during instruction and increase prepayment equipment in 2018. The Company increase long-term loan to pay the cash out of capital.
4. Retained earnings: It comes from consolidated profit.
5. Other equity: Because of changes in CNY exchange rate, financial statements translation differences for foreign operations in 2017 was less than 2016.
6. The above changes were normal operation. There is no important effect to the Company finance.

(2) Financial data analysis —Parent Company Only

Unit: Thousand NT$

Year / Iterm	2018	2017	Difference	
			amount	%
Current assets	1,299,896	1,145,757	154,139	13.45
Investment at equity	3,610,994	3,120,375	490,619	15.72
Property, plant and equipment	1,060,735	757,474	303,261	40.04
Other assets	1,481,367	633,994	847,373	133.66
Total assets	7,452,992	5,657,600	1,795,392	31.73
Current liabilities	1,819,558	1,689,809	129,749	7.68
Noncurrent liabilities	2,567,431	1,094,443	1,472,988	134.59
Total liabilities	4,386,989	2,784,252	1,602,737	57.56
Capital	726,000	726,000	0	0.00
Capital surplus	453,467	453,467	0	0.00
Retained earnings	2,151,473	1,887,082	264,391	14.01
Other equity	(264,937)	(193,201)	(71,736)	37.13
Total equity	3,066,003	2,873,348	192,655	6.70

The changes of Assets, liabilities and equity of the last two years (the change ratio is over 20% and change amount is more than NTD 10,000 thousand):

1. Current assets: The net sales of the Company for the fourth quarter in 2018, accounts receivable increase amounts.
2. Investment at equity: The increasing profit of investment comes from Nanliu Samoa.
3. Property, plant, equipment and other assets: The Yanchao new plant was during construction, construction in progress increase much more.
4. Other assets: Except to upgrade product capacity and manufacture process, the new machines arrived the plant, the machines payment by contract on schedules, increase prepayment equipment.
5. Current liabilities: The Company operation grows up, the short term loan in 2018 was more than 2017.
6. Noncurrent liabilities: For increasing capital of the Yanchao new plant, increase long term loan.
7. Retained earnings: The increasing retained earnings comes from net profits and investment at equity.
8. Other equity: Because of changes in CNY exchange rate, financial statements translation differences for foreign operations in 2018 was less than 2017.
9. The above changes were normal operation. There is no important effect to the Company finance.

2. Operating results

(1) Comparative analysis of operating results—consolidated

Unit: Thousand NT$

Iterm \ Year	2018	2017	Change amount	Changes(%)
Net sales	6,786,338	6,433,820	352,518	5.48
Cost of goods sold	5,510,590	5,203,169	307,421	5.91
Gross profit	1,275,748	1,230,651	45,097	3.66
Total operating expenses	478,579	498,143	(19,564)	(3.93)
Operating profit	797,169	732,508	64,661	8.83
Other non-operating income and expenses	77,094	(12,251)	89,345	(729.29)
Income before income tax	874,263	720,257	154,006	21.38
Income tax expense	281,497	178,880	102,617	57.37
Net income	592,766	541,377	51,389	9.49
Other comprehensive income(loss)	(73,411)	(41,160)	(32,251)	78.36
Total comprehensive income(loss)	519,355	500,217	19,138	3.83

Description of the change ratio is over 20% and change amount is more than NTD 10,000 thousand:

1. Other non-operating income and expenses: Because of changes in USD exchange rate, increase foreign exchange gain.
2. Income tax expense: The China plant pay the tax of distributed earnings 10%, income tax expense increase.
3. Other comprehensive income (loss): Because of changes in CNY exchange rate, financial statements translation differences for foreign operations in 2018 was less than 2017.

The above changes were normal operation. There is no important effect to the Company finance.

(2) Comparative analysis of operating results—Parent Company Only

Unit: Thousand NT$

Year / Iterm	2018	2017	Changae amount	Changes(%)
Net sales	3,150,067	3,001,485	148,582	4.95
Cost of goods sold(note)	2,728,658	2,602,435	126,223	4.85
Gross profit(note)	421,409	399,050	22,359	5.60
Total operating expenses	198,027	201,956	(3,929)	(1.95)
Operating profit	223,382	197,094	26,288	13.34
Other non-operating income and expenses	428,340	380,262	48,078	12.64
Income before income tax	651,722	577,356	74,366	12.88
Income tax expense	58,956	35,979	22,977	63.86
Net income	592,766	541,377	51,389	9.49
Other comprehensive income(loss)	(73,411)	(41,160)	(32,251)	78.36
Total comprehensive income(loss)	519,355	500,217	19,138	3.83

(Note): Unrealised revenue (profit) on transactions with associates

Description of the change ratio is over 20% and change amount is more than NTD 10,000 thousand:

1. Operating profit: The operating profit in 2018 was more than 2017 because of increasing net sales, increasing gross profit, operating expenses controlled.
2. Other non-operating income and expenses: Because of changes in USD exchange rate, increase foreign exchange gain.
3. Income tax expense: Except increasing income tax expense of additional 10% surtax on undistributed retained Earnings in 2018 was more than 2017, the income tax rate increase from 17% to 20% in 2018, and then income tax expense increase.
4. Other comprehensive income (loss): Because of changes in CNY exchange rate, financial statements translation differences for foreign operations in 2018 was less than 2017.

The above changes were normal operation. There is no important effect to the Company finance.

(3) Expected sales volume and its basis, its possible effects on the Company's future finances, and response plan: not applicable.

3. Cash flow

1. Analysis of change in cash flow for the recent year—consolidated

Unit: Thousand NT$

Items	2018	2017	Changes
Net cash flow from operating activities	930, 429	766, 949	17. 57%
Net cash flow from investing activities	(1, 519, 419)	(1, 060, 440)	30. 21%
Net cash flow from financing activities	707, 607	745, 502	-5. 36%
Data source: financial statements audited by CPAs Analysis of the changes in cash flow : (1) Net cash flow from operating activities increased 163,480 thousand because of increasing net income and collection of accounts receivable positively. (2) Net cash outflow from investing activities increased 458,979 thousand because of the Yanchao new plant is during construction, capital payment in 2018 increase more than 2017. (3) Net cash outflow from financing activities decreased 37,895 thousand because of the need of loan of the Group in 2018 less than 2017.			

2. Analysis of changes in cash flow for the most recent year—Parent Company Only

Unit: Thousand NT$

Items	2018	2017	Changes
Net cash flow from operating activities	75, 708	213, 782	-182. 38%
Net cash flow from investing activities	(1, 411, 196)	(868, 287)	38. 47%
Net cash flow from financing activities	1, 219, 263	766, 893	37. 10%
Data source: financial statements audited by CPAs. Analysis of the changes in cash flow: (1) Net cash flow from operating activities decreased 138,074 thousand because of increasing net income of the fourth quarter, collection of accounts receivable positively, increasing inventories for test run of new machines. (2) Net cash outflow from investing activities increased 542,909 thousand because of the Yanchao new plant is during construction, capital payment in 2018 increase more than 2017. (3) Net cash outflow from financing activities increased 452,370 thousand because of the need of capital of the Yanchao new plant, loan in 2018 was more than 2017.			

3. Liquidity improvement program: not applicable.

4. Analysis of cash flow for the next year—consolidated

Unit: Thousand NT$

Cash at the beginning of the period A	Expected net cash flow from operating activities for the next year	Expected cash flows for the year C	Projected cash surplus (deficiency) A+B-C	Remedial measures for expected cash inadequacy	
				Investment plan	Capital increase planned
1, 089, 253	833, 613	(998, 301)	924, 565	—	—

Analysis description: (1) Operating activities: expect company profit to continue to grow, resulting in net cash inflow generated by operating activities. (2) Investment activities: build new factory and buy equipment, which results in a net cash outflow from investing activities. To repay loan, distribution of cash dividend, investment activities is cash out. (3) Financing activities: repay long- and short-term loans according to the loan contract. Issuing of cash dividend results in financing activity net cash outflow. (4) Remedial measures for projected cash shortfall: as analyzed above, annual cash surplus is expected.

4. Material expenditures of the most recent year and impact on the Company's finances and operations

The Company's recent major capital expenditure for the investment of new factory in Yanchao, has been approved by the Board of directors on March 14, 2017. The chairman of the board of directors has been authorized to handle the related matters. The Company plans to set up new Production lines, Warehouse units, Biotech building and Office building with a total investment of NT$ 3 billion (including working capital), along with capital expenditure of NT$ 2.5 billion. The funding comes primarily from the Company's operating profit and Bank loans. There is no significant impact on the company’s finances.

5. Reinvestment policy for the most recent year, main reasons for profit/losses resulting therefrom, improvement plan, and investment plans for the upcoming fiscal year

(1) Reinvestment policy for the most recent year:

The Company's current reinvestment is through a Samoa holding company, and the investment is in the Pinghu City subsidiary company (of a subsidiary company). Because investment in Pinghu, China, was implemented early, the China reinvestment company showed a continuing profit growth in 2017 after many years of hard work and development. Strong future domestic Chinese demand is expected, and The Company is maintaining its high manufacturing quality and is appropriately expanding its business scale.

In response to the requests from the major customers, the company has evaluated the market demand and planned to set up a factory in India to supply its products and satisfy the demands of the local customers. The case has been approved by the board of directors on March 14, 2017 and the chairman of the board of directors has been authorized to handle the related matters. The total investment is US $20 million (including working capital) and the fill soil procedure finished.

(2) Main reason for profit or loss, improvement plan, and the Company's reinvestment policy:

31 December 2017 Unit: Thousand NT$

Reinvestment undertakings	Accumulated remittance Investment amount	Main reason for profits or losses	
		2017 investment profit	Description
NANLIU ENTERPRISE CO., LTD. (SAMOA)	1,643,224	417,935	Operation normal, profit in good condition
Nanliu Enterprise (Pinghu) Ltd.	1,846,701	499,535	Operation normal, profit in good condition

NANLIU MANUFACTURING(INDIA) PRIVATE LIMITED	153,774	(10,163)	Preparing construction.

(3) Improvement plans and investment plans for the year ahead:

A. Taiwan: according to the market situation, The Company estimates that there is potential for demand growth in personal hygiene material such as EDI pure water wet wipes, diapers, and sanitary napkins. Thus, The Company will continue to invest in this equipment to develop opportunities for cooperation with customers and increase The Company's operating income. To integrate the resources of The Company's various plants, The Company has leased land in the Yanchao District. In the future, the old factory will be moved to the new location. This will concentrate manpower and equipment resources to improve the Company's management efficiency.

B. China: The Company has established a subsidiary company Nanliu (Pinghu) Ltd. in China to handle relevant business. The Company purchase nonwoven machines and related equipment to meet China customers' demand.

C. India: In response to the requests from the major customers and the future of local market, the case has been approved by the board of directors. The Company will setup nonwoven plant in India to provide local customer material demand. The India plant is preparing construction.

(6) Other important matters: none.

6. Risk management assessment and analysis:

(1) Changes to interest rates, currency exchange fluctuations, and inflation within the last year and how these may impact The Company's gain or loss, as well as future response measures.

1. Changes in interest rates and resulting impact to The Company's gain or loss as well as future response measures:

The Company's long-term and short-term bank loan rate in 2017 was around 0.77% to 1.10%. In recent years, market interest rates have been low, which is beneficial to the Company when negotiating financing interest rates. The company's investment in new Yanchao plant required currency is NT$. And it is estimated that Taiwan's Central Bank will maintain the current standard for future long-term interest rates. The Company's Finance Department specialists will periodically or regularly assess bank lending rates and pay attention to changes in the international and domestic financial markets. Finance personnel will also maintain close contact with banks to obtain more favorable lending rates and ample credit.

2. Currency exchange fluctuations and resulting impact on The Company's gain or loss as well as future response measures

The Company's major markets cover the United States and Japan, and the export ratio is more than 50%. Thus, changes in exchange rates have a significant impact on the Company's profit and loss. The Company's main production raw materials, such as rayon, polyester fiber and polypropylene, are mostly procured from foreign suppliers. The intake and expenditure of the same currency produces an offset and has a natural hedging effect on exchange rate changes. To avoid the potential impact of exchange rate fluctuations on profit, the Company has taken the following response measures:

①Foreign currency assets and liabilities offset

Foreign currencies accepted as payment for export are used to directly pay for imports to reduce exchange differences produced by foreign exchange transactions.

②Collect exchange rate change information at all times to fully grasp exchange rate trends. This is used to determine the time for converting foreign currency to NT$ or retained foreign currency in a foreign exchange account.

③Improve the quality and added value of products to adequately reflect exchange rate fluctuation in the cost and adjusted prices.

3. Effects of inflation on the Company's profit and loss.

In recent years, the global economic system has raised up from the bottom. International oil prices have remained high. Domestic electricity price hikes have gradually resulted in price increases of basic everyday supplies and result in inflation concerns. The Company's procurement unit has rapidly responded to market fluctuations. Sales units have consulted with customers in a timely manner regarding costs. Thus, The Company's operations and losses (gains) in the last two years have not been seriously affected by inflation. In addition to boosting added value, The Company will continue efforts to reduce production costs to reduce negative effects of inflation on market demand.

(2) Policies on high risk, highly leveraged investments, loans to other parties, endorsements, guarantees, derivatives trading policies, main reasons for profits or losses in the last year, and future response measures.

The Company has not engaged in high-risk, highly leveraged investments and has not carried out derivative transactions. Lending to others, endorsements, and guarantees are handled according to policy and response measures set up in the “Operational Procedure of Governing Loaning of Funds and Making of Endorsements/Guarantees” and the “Operational Procedures for Endorsements and Guarantees”.

(3) Future research plan and expected research and development fee:

The Company is a professional nonwoven fabric producer and uses this as a core technology. We are gradually crossing over to downstream product applications such as sanitary material, medical supplies and beauty care items to diversify our products. To provide customers with the highest-quality grade of nonwoven products and follow the latest market trends, The Company's research and development team has spared no effort in improving production technology and research. The team has continually developed sanitary materials and beauty care products according to popular trends to lead the market and obtain opportunities. The Company expects to invest NT$30,486 thousand in research and development in 2019. Development plans are as follows:

(1)Nonwoven fabric: medical, surgical protective clothing, elastic composite nonwoven fabric, elastic spunlace nonwoven fabric, biodegradable environmentally friendly nonwoven material, 3D surface nonwoven fabric, and industrial wipes.

(2)Biotechnology products: high-quality facial mask, high-quality skincare products, food grade collagen, plant placenta extract, emulsions, liquid cosmetics, and flushable wet towels.

(4) Changes to local and overseas policies and laws that impact the Company’s financial operations, and response measures:

The Company's daily operations conform to relevant domestic and foreign laws. We always pay attention to foreign and domestic policy trends and changes in law to propose response measures in a timely manner. In the last year and as of the printing of this prospectus, there are no important domestic or international policy or law changes that affected the Company's financial operations.

(5) Changes to technology and industry that impact the Company’s financial operations, and response measures:

The products produced by The Company are nonwoven fabric and its application-related products. These are general consumer goods that have a wide range of use, including medical, cleaning, cosmetic, agricultural, and industrial use. These products have become indispensable base materials and have a certain annual market demand. Nonwoven fabric is an improvement of textiles. Different materials are blended or innovative processes are used to transform and produce products with different uses and functions. As technology and production technology evolve, application of nonwoven fabric becomes broader and is gradually replacing conventional textile. The Company has spared no effort in grasping product trends. The objective is to meet customer's design or pioneer new product markets. Thus, technology and industrial change are the power and opportunity that drive The Company's business development.

(6) Changes to corporate image that impact the Company’s risk management, and response measures:

The Company always adheres to professional and honest business principles and value the importance of risk management and corporate image. We work hard to achieve worker solidarity and gain recognition from our customers. In the last year and as of the printing of this prospectus, The Company has not encountered any corporate image changes that have caused a corporate crisis.

(7) Anticipated benefits of mergers and possible risks:

The Company currently has no plans to acquire another company.

(8) Anticipated benefits and possible risks of plant expansion:

The Company has considered that there is still considerable growth space in the hygiene and beauty care market, that the demand in the Chinese market is large, and that demand for hygiene products is increasing because people's standard of living has improved. Thus, The Company expects to continue procuring related equipment. The objective is not only to develop local customers and increase overall operating scale but also to increase production capacity and establish classification planning. The most appropriate operating cost can be arranged according to product demand, which can increase product production benefits.

(9) Purchase or sale concentration risks:

A. Purchase concentration risk:

The primary material sources for The Company's product are stable and sufficient. These materials are large quantity materials with adequate capacity. There is a variety of supplier choices, and The Company has a stable annual procurement volume. The Company maintains a good relationship with suppliers, so there is no purchase concentration risk.

B. Sales concentration risk

The Company's main products include hot-air/hot-pressed nonwoven fabric, spunlace nonwoven fabric, and hygiene and beauty care products. Main applications include baby diaper and sanitary napkin surface material, medical sanitary materials, and personal hygiene sanitary materials. Our product lines are diversified, and our customer base covers Europe, America, Japan and China. The Company maintains a good and cooperative relationships with our major customers. The main target group includes well-known sanitation materials manufacturers and domestic and foreign agents. Our customer base is distributed, and our largest customer does not account for more than 20% of sales. Thus, there is no sales concentration risk.

(10) Impact and risks resulting from major equity transfer or change by Directors, supervisors, or shareholders holding more than 10% of the Company's shares.

In the last year through the printing of this annual report, there has been no major equity transfer or change by Directors, supervisor, or major shareholders who hold more than 10% of the Company's shares.

(11) Impact of change of operating rights on the Company and risks:

Last year through the printing of this annual report, the Company has had no operating rights changes.

(12) Litigation or non-lawsuit events: confirmed judgment, ongoing litigation, and non-litigation or administrative contention items that involve the Company, company Director, supervisor, General Manager, responsible person, or stockholder who holds more than 10% of The Company's stock shall be clearly listed. If the results could have a major effect on the Company's shareholders' equity or securities price, the relevant data should be disclosed:

A. Confirmed judgment, ongoing litigation, and non-litigation or administrative contention items in the last two years through the printing of this annual report that could have a significant impact on shareholders' equity or securities prices shall be disclosed. Disclosure includes disputed facts, amount, proceeding starting date, the main parties involved, and present status: none.

B. Confirmed judgment, ongoing litigation, and non-litigation or administrative contention items involving company Director, supervisor, General Manager, responsible person, or stockholder who holds more than 10% of The Company's stock in the last two years through the printing of this annual report that could have a significant impact on shareholders' equity or securities prices: none.

C. Company Director, supervisor, General Manager, responsible person, or stockholder who holds more than 10% of The Company's stock that was involved with Securities Exchange Act Article 157 items, and the Company's current handling status, within the last two years through the printing of this annual report: none.

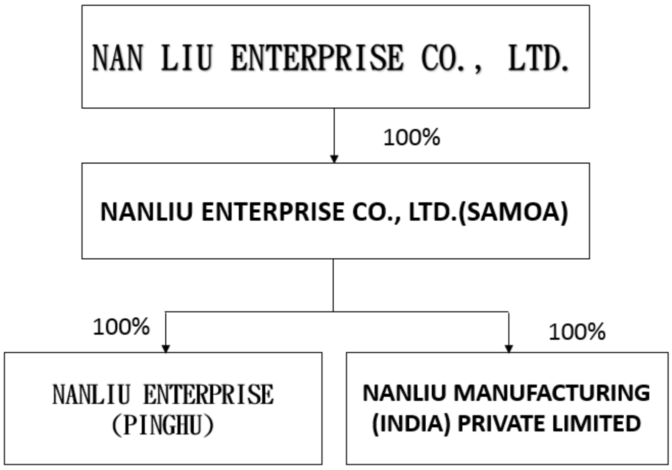
(13) Other important risks and response measures: None.

7. Other important issues: None

VIII. Special items to be included:

1. Relevant data on affiliated businesses:

A. Organization structure of affiliated businesses



B. Relationship with affiliated companies and mutual holding of shares

December 31, 2017 Units: 1000 NT$; 1000 shares

Name of affiliated company	Relationship with The Company	The Company's holding of affiliated company shares			Affiliated company's holding of The Company's shares		
		Percentage of shares	Number of shares	Actual investment amount	Percentage of shares	Number of shares	Actual investment amount
NANLIU ENTERPRISE CO., LTD (SAMOA)	The Company's subsidiary company	100%	52, 948	1, 643, 224	0	0	0
Nanliu Enterprises (Pinghu) Ltd.	Subsidiary company of the Company's subsidiary company	100%	0	1, 846, 701	0	0	0
NANLIU MANUFACTURING(INDIA) PRIVATE LIMITED	Subsidiary company of the Company's subsidiary company	100%	34, 570	153, 774	0	0	0

C. Affiliated company consolidated financial statements:

For 2018 (January 1 to December 31, 2018), affiliated businesses of The Company that shall be included according to the rules prescribed by the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises were the same as those companies that shall be included into the parent and subsidiary consolidated financial statement as prescribed by International Financial Reporting Standards No. 7. All information to be disclosed in the consolidated financial statements of affiliated enterprises has already been disclosed in the consolidated financial statement of the parent company and subsidiaries. Hence, consolidated financial statements of affiliated businesses were not generated separately.

2. Privately placed securities handling status in the past year through the printing of this annual report shall disclose the date and amount passed by the shareholders' meeting or the Board of Directors, price setting basis and rationale, selection method for specific people, necessary reason for organizing private placement, and the completion of the fund application plan after monies and proceeds are fully collected. Fund application status in privately placed securities and plan

implementation progress: no such situation.

3. Holding or disposal of subsidiary company shares in the last year through the publication date of this report. None
4. Legal penalization of The Company, penalization of internal personnel by The Company, major deficiencies, and improved situation within the last year through the printing of this annual report: none
5. Other supplemental items that must clarified: None.

IX. Any event that resulted in substantial impact upon the shareholders' equity or prices of the Company's securities as prescribed by Article 36, Paragraph 2, Subparagraph 2 of the Securities and Exchange Act that have occurred in the most recent year through the printing date of this report: None.

Nan Liu Enterprise Co., Ltd.

Supervisor's Review Report

(Translation)

The Board of Directors has prepared the Company’s 2018 Business Report, parent company only Financial Statements. Nan Liu Enterprise Co., Ltd.’s Financial Statements have been audited and certified by YANGTZE CPAS & CO. and an audit report relating to the Financial Statements has been issued an unmodified opinion.

Supervisor is responsible for overseeing the financial reporting process.

When auditing the 2018 parent company only financial Statements, the auditing CPA communicated with Supervisors about following:

1. Under planned scope and timing of audit, no significant audit findings are discovered.
2. The auditing CPA also provided statements that the auditing team has complied with relevant ethical requirements regarding independence. So far, there’s no findings about matters/relationships that might influence the independence of auditing CPA.
3. From the matters communicated with auditing CPA, we determined that significant audit matters are to be communicated in the audit report.

The Business Report, parent company only Financial Statements and Earnings Distribution Proposal have been reviewed and considered to be complied with relevant rules by the undersigned, the supervisor of Nan Liu Enterprise Co., Ltd. According to Article 219 of the Company Law, I hereby submit this report.

Submitted to：
The Company’s 2019 Annual Shareholders’ Meeting

Nan Liu Enterprise Co., Ltd.
Supervisor：Su, Chao-Shan
On the Date of March 31, 2019

Nan Liu Enterprise Co., Ltd.

Supervisor's Review Report

(Translation)

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On the Date of March 31, 2019

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Submitted to：
The Company's 2019 Annual Shareholders' Meeting

Nan Liu Enterprise Co., Ltd.
Supervisor：Hsieh,Chiu-Lan
On the Date of March 6, 2018

Nan Liu Enterprise Co., Ltd.

Supervisor's Review Report

(Translation)

The Board of Directors has prepared the Company's 2018 Business Report, consolidated Financial Statements. Nan Liu Enterprise Co., Ltd.'s Financial Statements have been audited and certified by YANGTZE CPAS & CO. and an audit report relating to the Financial Statements has been issued an unmodified opinion.

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The Company's 2019 Annual Shareholders' Meeting

Nan Liu Enterprise Co., Ltd.
Supervisor：Hsieh,Chiu-Lan
On the Date of March 6, 2019

Nan Liu Enterprise Co., Ltd.

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Submitted to：
The Company's 2019 Annual Shareholders' Meeting

Nan Liu Enterprise Co., Ltd.
Supervisor：Chung, Mao-Chih
On the Date of March 11, 2019

Nan Liu Enterprise Co., Ltd.

Supervisor's Review Report

(Translation)

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Submitted to：
The Company's 2019 Annual Shareholders' Meeting

Nan Liu Enterprise Co., Ltd.
Supervisor：Chung, Mao-Chih
On the Date of March 11, 2019

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:

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Tel：02-2393-0065
Fax：02-2393-0057
E-mail:p1001@yzcpa.com.tw

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Tel：03-357-8808
Fax：03-357-8806
E-mail:y0001@yzcpa.com.tw

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Fax：06-236-3838
E-mail:n0083@yzcpa.com.tw

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高雄市813左營區自由四路338號3樓
Tel：07-348-0086
Fax：07-348-0357
E-mail:k0017@yzcpa.com.tw

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)

	ASSETS		December 31,2018 Amount	%	December 31,2017 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

	LIABILITIES AND EQUITY		December 31,2018 Amount	%	December 31,2017 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			Retained Earnings			Other equity items		
	Ordinary shares	Amounts	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Financial statements translation differences for foreign operations	Non-controlling interests	Total Equity
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

2018

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.

<u>2017</u>

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

<u>For the year ending on December 31, 2018</u>

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

	2018	2017
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.	NAN LIU ENTERPRISE (SAMOA) CO., LTD.	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%

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Nanliu Enterprise Company Limited

Opinion

We have audited the accompanying parent company only financial statements of Nanliu Enterprise Company Limited (the "Company"), which comprise the parent company only balance sheets as of December 31, 2018 and 2017, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

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

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 Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled 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 parent company only financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent company only 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 Company's parent company only financial statements for the year ended December 31, 2018 are stated as follows:

<u>Valuation of accounts receivable</u>

Please refer to Notes 4(6) and 6(3) to the parent company only 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 Company amounted to NT$ 560,405 thousand dollars, accounted for 7.52% of total assets, has significant impact to financial statements of the Company, 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 Company's credit policy. We inspected how the Company 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 company, evaluate whether the expected loss rate is reasonable.
6. According to 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(7) , 5 and 6(4) to the parent company only financial statements for the detail information and accounting policy , uncertainty of valuation of inventories; As of December 31, 2018, inventories of the Company amounted to NT$359,166 thousand dollars, accounted for 4.82% of total assets, has significant impact to financial statements of the Company, in addition, the principal operating activities of the Company 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 Company's warehousing management process, reviewed the Company'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.

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

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 parent company only 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 parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company 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 Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only 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 financial statements are intended only to present the 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 jurisdiction. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.

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NANLIU ENTERPRISE CO., LTD

Parent Company Only Balance Sheets

December 31,2018 and December 31,2017

(All amounts expressed In Thousands of New Taiwan Dollars)

	ASSETS		December 31,2018 Amount	%	December 31,2017 Amount	%
	CURRENT ASSETS					
1100	Cash and cash equivalents	4、6(1)	$ 164,717	2.21	$ 277,548	4.91
1150	Notes receivable, net	4、6(2)	46,650	0.63	54,446	0.96
1170	Accounts receivable, net	4、6(3)、7	513,755	6.89	355,353	6.28
1200	Other receivables		16,001	0.21	29,375	0.52
1310	Inventories	4、6(4)	359,166	4.82	306,013	5.41
1410	Prepayments		175,898	2.36	122,908	2.17
1470	Other current assets		23,709	0.32	114	0.00
	Total current assets		1,299,896	17.44	1,145,757	20.25
	NONCURRENT ASSETS					
1550	Investments accounted for using equity method	4、6(5)	3,610,994	48.45	3,120,375	55.15
1600	Property , plant and equipment	4、6(6)	1,060,735	14.23	757,474	13.40
1780	Intangible assets	4	-	-	-	-
1840	Deferred income tax assets	4、6(14)	24,319	0.33	19,376	0.34
1915	Prepayments for equipment		1,419,604	19.05	574,475	10.15
1920	Refundable deposit		11,740	0.16	9,771	0.17
1985	Long-term prepaid rents	4	23,340	0.31	28,008	0.50
1990	Other assets		2,364	0.03	2,364	0.04
	Total noncurrent assets		6,153,096	82.56	4,511,843	79.75
1xxx	Total assets		$ 7,452,992	100.00	$ 5,657,600	100.00

	LIABILITIES AND EQUITY		December 31,2018 Amount	%	December 31,2017 Amount	%
	CURRENT LIABILTIES					
2100	Short-term loans	4、6(7)	$ 1,070,000	14.36	$ 706,435	12.49
2110	Short-term bills payable , net	6(8)	-	-	399,858	7.07
2130	Contract liabilities-current	4、6(12)	978	0.01	-	-
2150	Notes payable	4	104,717	1.41	105,919	1.87
2170	Accounts payable	4、7	369,713	4.96	311,256	5.50
2200	Other payable		82,956	1.11	66,861	1.18
2213	Payables on equipment		18,253	0.24	74,821	1.32
2230	Current tax liabilities	4	43,996	0.59	20,632	0.36
2311	Unearned receipts		-	-	1,724	0.03
2322	Current portion of long-term bank borrowing	4、6(9)	126,000	1.69	-	-
2399	Other current liabilities		2,945	0.04	2,303	0.04
	Total current liabilities		1,819,558	24.41	1,689,809	29.86
	NONCURRENT LIABILTIES					
2540	Long-term bank borrowing	4、6(9)	2,210,825	29.66	1,010,000	17.85
2571	Deferred income tax liabilities-Land value increment tax		7,386	0.10	7,386	0.13
2572	Deferred income tax liabilities-income tax	4、6(14)	5,433	0.07	1,735	0.03
2620	Long-term accounts note and payable to related parties	7	267,220	3.59	-	-
2640	Accrued pension liabilities	4、6(10)	76,567	1.03	75,322	1.33
	Total noncurrent liabilities		2,567,431	34.45	1,094,443	19.34
	Total liabilities		4,386,989	58.86	2,784,252	49.20
	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT					
	Owners equity					
3100	Capital stock	6(11)	726,000	9.74	726,000	12.83
3200	Capital surplus	6(11)	453,467	6.08	453,467	8.02
3300	Retained earnings	6(11)				
3310	Legal reserve		371,872	4.99	317,735	5.62
3320	Special reserve		193,201	2.59	155,667	2.75
3350	Unappropriated earnings		1,586,400	21.29	1,413,680	24.99
3400	Other	6(11)				
3410	Financial statements translatior differences for foreign operations		(264,937)	(3.55)	(193,201)	(3.41)
	Equity attributable to shareholders of the parent		3,066,003	41.14	2,873,348	50.80
	Total liabilities and equity		$ 7,452,992	100.00	$ 5,657,600	100.00

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

NANLIU ENTERPRISE CO., LTD

Parent Company Only 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(12)、7	$	3,150,067	100.00	$	3,001,485	100.00
5000	Cost of goods sold	6(4)		(2,721,429)	(86.39)		(2,622,590)	(87.38)
5900	Gross profit			428,638	13.61		378,895	12.62
5910	Unrealized gain on sales			(7,229)	(0.23)		(1,273)	(0.04)
5920	Realized gain on sales			-	-		21,428	0.71
5950	Net Gross Profit From Operations			421,409	13.38		399,050	13.29
6000	Operating expenses							
6100	Promotion expenses			(67,488)	(2.14)		(72,698)	(2.42)
6200	Management expenses			(109,719)	(3.48)		(108,822)	(3.63)
6300	Research expenses			(20,820)	(0.66)		(20,436)	(0.68)
6000	Total Operating expenses			(198,027)	(6.28)		(201,956)	(6.73)
6900	Operating profit			223,382	7.10		197,094	6.56
	Other non-operating income and expenses							
7020	Other income	6(13)		443,926	14.09		391,360	13.04
7510	Finance costs	6(13)		(15,586)	(0.49)		(11,098)	(0.37)
7000	Other non-operating income and expenses			428,340	13.60		380,262	12.67
7900	Income before income tax			651,722	20.70		577,356	19.23
7950	Income tax expense	4、6(14)		(58,956)	(1.87)		(35,979)	(1.20)
8200	Net Income			592,766	18.83		541,377	18.03
8300	Other comprehensive income (loss)							
8310	Items that will not be reclassified subsequently to profit or loss:							
8311	Remeasurement of defined benefit obligation	6(10)		(2,580)	(0.08)		(4,369)	(0.15)
8349	Income tax (expense) related to components of the comprehensive income	6(14)		905	0.03		743	0.02
8360	Items that may be reclassified subsequently to profit or loss:							
8361	Exchange differences arising on translation of foreign operations	6(11)		(71,736)	(2.28)		(37,534)	(1.25)
8300	Other comprehensive income (loss) for the period ,net of income tax			(73,411)	(2.33)		(41,160)	(1.38)
8500	Total comprehensive income for the period		$	519,355	16.50	$	500,217	16.65
9750	Basic earnings per share(NT dollars)	4、6(16)	$	8.16		$	7.46	
9850	Diluted earnings per share(NT dollars)	4、6(16)	$	8.16		$	7.45	

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

NANLIU ENTERPRISE CO., LTD

Parent Company Only 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			Retained Earnings			Other equity items		
	Ordinary shares	Amounts	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Financial statements translation differences for foreign operations	Non-controlling interests	Total Equity
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 the standalone financial statements.

NANLIU ENTERPRISE CO., LTD

Parent Company Only 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		
Profit before income tax	$ 651,722	$ 577,356
Adjustments for：		
Depreciation expense	55,724	58,612
Amortization expense	4,668	5,460
Other expense	-	9
Interest expense	15,586	11,098
Interest income	(1,369)	(1,307)
Provision (Income) for doubtful accounts	(135)	1,562
Share of profit of subsidiaries and associates accounted for using equity method	(414,408)	(379,305)
(Profit) on disposal of assets	(707)	(1,091)
Unrealized gain on sales	7,229	1,273
Realized gain on sales	-	(21,428)
Provision for inventory market price decline	8,750	1,227
Loss on physical inventory	601	2,005
Loss on disposal of inventory	6,280	44
(Reversal) Impairment of Assets	(1,224)	(1,295)
Foreign exchange (gain) loss	(6,016)	300
Total adjustments to reconcile profit or loss	(325,021)	(322,836)
Changes in operating assets and liabilities		
Decrease in notes receivable	7,796	15,954
(Increase) Decrease in accounts receivable	(159,148)	94,815
Decrease in other receivable	13,381	1,726
(Increase) Decrease in inventories	(68,784)	24,006
(Increase) in prepayments	(52,732)	(19,822)
(Increase) Decrease in other current assets	(23,254)	24,782
(Increase) in contract liabilities-current	(746)	-
(Decrease) in notes payable	(6,501)	(55,780)
Increase (Decrease) in accounts payable	59,915	(79,442)
Increase in other payable	14,463	407
(Decrease) in unearned receipts	-	(3,828)
Increase in other current liabilities	522	543
(Decrease) in accrued pension liabilities	(1,335)	(7,138)
Total Changes in Operating Assets and Liabilities	(216,423)	(3,777)
Cash generated from operating	110,278	250,743

（Continued）

	For the year ended December 31	
	2018	2017
Interest received	1,362	1,245
Income taxes paid	(35,932)	(38,206)
Net cash generated by operating activities	75,708	213,782
Cash flows from investing activities		
Acquisition of investments accounted for using equity method	(155,016)	(601)
Acquisition of property , plant and equipment	(388,351)	(434,123)
Disposal of property , plant and equipment	4,619	1,010
Acquisition of intangible assets	-	(3)
(Increase) in prepayments for equipment	(870,138)	(434,661)
(Increase) Decrease in Instead of payment	(341)	91
(Increase) in refundable deposits	(1,969)	-
Net cash used in investing activities	(1,411,196)	(868,287)
Cash Flows From Financing Activities：		
Interest paid	(13,812)	(10,914)
Increase in short-term loans	363,565	386,435
(Decrease) Increase in short-term bills payable	(400,000)	220,000
Increase in long-term bank borrowing	1,326,825	519,760
Increase Long-term accounts note and payable to related parties	269,265	-
Cash dividends	(326,700)	(348,480)
Increase in other current liabilities	120	92
Net cash used in financing activities	1,219,263	766,893
Effect of exchange rate changes on cash and cash equivalents	3,394	(1,829)
Net (Decrease) Increase in cash and cash equivalents	(112,831)	110,559
Cash and cash equivalents, beginning of year	277,548	166,989
Cash and cash equivalents, end of year	$ 164,717	$ 277,548

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

NAN LIU Enterprise Co., Ltd. and Subsidiaries
Notes to Parent Company Only 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 Company is engaged in selling air-through nonwovens, spunlace nonwovens, wet napkins, facial masks and skin care products.

2. The date of authorization for issuance of the parent company only financial statements and procedures for authorization.

The parent company only financial statements were approved and authorized for issue by the board of directors on March 6, 2018.

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.

Classification, measurement and impairment of financial assets

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	$ 277,548	$ 277,548	(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	439,174	439,174	(1)
Refundable deposits and Pledged Financial Assets	Loans and receivables	Amortized cost	9,771	9,771	(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	2,675,150	2,675,150	

(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 1,724 thousand on January 1, 2018. For application of IAS18, decrease revenue received in advance amount 978 thousand and increase contract liability amount 978 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, 296
Less: Recognition exemption for short-term leases		(1, 224)
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	23,340	(23, 340)	—
Right-of-use assets	—	542, 211	542,211
Total effect on assets	$ 31,813	$510, 404	$ 542,217
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
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 parent company only 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 parent company only 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. Except for the following items, the parent company only financial statements have been prepared under the historical cost conventions:

   Defined benefit liabilities are recognized based on the net amount of pension fund assets less the present value of the defined benefit obligation.

2. The significant accounting policies apply to all periods covered by the parent company only financial report.

3. 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 parent company

only financial statements are disclosed in Note 5.

(3) Foreign currency exchange

Items included in the financial statements of each entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The parent company only 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's 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

Company 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 Company 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.

(4) 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:

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

(b) Assets held mainly for trading purposes;

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

(d) 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:

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

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

(5) Cash equivalents

a. In the parent company only 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.

(6) 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.

<u>2017</u>

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

<u>2018</u>

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.

(7) 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.

(8) Investments Accounted for Using Equity Method

Investments accounted for using the equity method include investments in subsidiaries. A subsidiary is an entity that is controlled by the Company. (Including special purpose entities) Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income of the subsidiary as well as the distribution received. The Company also recognized its share in the changes in the equity of subsidiaries.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amount of the subsidiary and the fair value of the consideration paid or received is recognized directly in equity.

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

When the Company loses control of a subsidiary, any retained investment of the former subsidiary is measured at the fair value at that date. A gain or loss is recognized in profit or loss and calculated as the difference between (a) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and (b) the previous carrying amount of the investments in such subsidiary. In addition, the Company shall account for all amounts previously recognized in other comprehensive income in relation to the subsidiary on the same basis as would be required if the subsidiary had directly disposed of the related assets and liabilities.

When the Company transacts with its subsidiaries, profits and losses resulting from the transactions with the subsidiaries are recognized in the Company's parent company only financial statements only to the extent of interests in the subsidiaries that are not owned by the Company.

The Company prepared parent company only financial statements which provided that the profit or loss and other comprehensive income for the period presented in the parent company only financial statements shall be the same as the profit or loss and other comprehensive income attributable to stockholders of the parent presented in the consolidated financial statements for the period, and the total equity presented in the parent company only financial statements shall be the same as the equity attributable to the parent company presented in the consolidated financial statements. Therefore, the Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary adjustments.

(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) Long-term prepaid rent

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.

(11) Impairment of non-financial assets

At each balance sheet date, the Company 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.

(12) Leases (lessor/lessee)

Based on the terms of a lease contract, a lease is classified as a finance lease if the lessee (with the Company as the lessor) or the Company (with the Company 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.

(13) 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.

(14) 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.

(15) 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.

(16) Provisions

Provisions (including decommissioning) are recognized when the Company 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.

(17) Revenue recognition

2018

The Company 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.

2017

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

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.

(18) 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 Company pays fixed contributions to an independent, publicly or privately administered pension fund. The Company 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 Company 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 Company recognizes expenses when the Company 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.

(19) 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 Company 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.

(20) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Company 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.

(21) 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.

(22) 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 Company common shares includes convertible bonds, warrants, and employee bonuses that are not resolved by the shareholders' meeting and can be taken by stock issuance.

(23) Operating segments

Operating segments of the Company are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Company’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$359,166 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 $24,319 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, 2017	December 31, 2016
Cash	$ 1, 436	$ 962
Demand deposits	57, 694	62, 253
Checking account	269	97
Foreign currency deposits	97, 716	182, 555
Time deposits	7, 602	31, 681
Total	$ 164, 717	$ 277, 548

1. The Company 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. The Company'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	$ 46, 650	$ 54, 446
Related parties	—	—
Less: Allowance for doubtful receivables	—	—
Net	$ 46, 650	$ 54, 446

a. The Company does not have collateral as security for receivable notes.

b. The Company 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	$ 519,979	$ 361,884
Related parties	307	—
Less: Allowance for doubtful accounts	(6,531)	(6,531)
Net	$ 513,755	$ 355,353

<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	$ 486,037
Past due	
Within 60 days	69,483
From 61 to 90 days	4,787
From 91 to 180 days	98
Over 180 days	—
Total	$ 560,405

The above aging analysis is based on past due days.

Changes of loss allowance	December 31, 2018
January 1,2018(IAS39)	$ 7,175

Effect of Retrospective application for IFRS9	—
January 1,2018 (IFRS9)	7,175
Current Recognition	—
Current recovery	(135)
The Effects of Changes in Foreign Exchange Rates	—
December 31, 2018	$ 7,040

A. The amount of loss allowance 7,040 thousand on December 31, 2018 is the sum of allowance for uncollectible account receivable 6,531 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	$ 386,689
Past due but not in impairment	
Within 60 days	7,446
From 61 to 90 days	13,261
From 91 to 180 days	2,403
Over 180 days	—
Total	$ 409,799

<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	$ 755	$ 4,858	$ 5,613
Provision (reversal) for impairment	(111)	1,673	1,562

December 31, 2017	$ 644	$ 6, 531	$ 7, 175

<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	$ 205, 951	$ 13, 507	$ 192, 444
Supplies	27, 043	1, 928	25, 115
Work in process	2, 526	584	1, 942
Finished goods	113, 922	3, 666	110, 256
Merchandise inventory	2, 546	533	2, 013
Inventory in transit	27, 396	—	27, 396
Total	$ 379, 384	$ 20, 218	$ 359, 166

	December 31, 2017		
	Cost	Allowance for price decline of inventories	Carrying amount
Raw material	$ 139, 561	$ 4, 884	$ 134, 677
Supplies	44, 497	2, 575	41, 922
Work in process	9, 562	1, 585	7, 977
Finished goods	117, 392	2, 385	115, 007
Merchandise inventory	1, 951	39	1, 912
Inventory in transit	4, 518	—	4, 518
Total	$ 317, 481	$ 11, 468	$ 306, 013

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	$ 2, 703, 877	$ 2, 619, 471
Idle capacity cost	8, 171	6, 359
Revenue from sale of scraps	(6, 250)	(6, 516)
Provision for inventory market price decline	8, 750	1, 227
Loss on disposal of inventory	6, 280	44
Loss (profit) on physical inventory	601	2, 005
Total	$ 2, 721, 429	$ 2, 622, 590

(5) Investments accounted for using equity method

a. Investments accounted for using the equity method consisted of the following:

Subsidiaries	December 31, 2018 Original investment amount	Amount	Difference between investment cost and net equity	Percentage of ownership
NANLIU ENTERPRISE(SAMOA) CO.,LTD.	$1,643,224	$3,610,994	$ —	100%

Subsidiaries	December 31, 2017 Original investment amount	Amount	Difference between investment cost and net equity	Percentage of ownership
NANLIU ENTERPRISE(SAMOA) CO.,LTD.	$ 1,488,208	$ 3,120,375	$ —	100%

b. Share of profits/losses of Investee for using equity method:

	2018	2017	Foundation
NANLIU ENTERPRISE(SAMOA) CO.,LTD.	417,935	383,298	Audit report of the same period by CPA
Nanliu Enterprises (Pinghu) Ltd.	(7,005)	(373)	Elimination of unrealized profits on upstream transactions
Nanliu Enterprises (Pinghu) Ltd.	373	1,826	Elimination of realized profits on upstream transactions
Nanliu Enterprises (Pinghu) Ltd.	3,145	(5,286)	Tax effects of downstream and upstream transactions
Nanliu Enterprises (Pinghu) Ltd.	(40)	(160)	Tax effects of realized fixed asset profits on downstream transactions
Total	414,408	379,305	

c. NANLIU ENTERPRISE(SAMOA) CO.,LTD. was established in 2004. The Company took 100% ownership and control of NANLIU ENTERPRISE (SAMOA) CO., LTD. The Parent Company Only financial statements include financial statements of NANLIU ENTERPRISE (SAMOA) CO., LTD.

d. The Company was approved investment by INVESTMENT COMMISSION, MOEA (No. 093001616) on January 20, 2004. The investment of Nanliu Enterprises (Pinghu) Ltd. past through the third country (NANLIU ENTERPRISE (SAMOA) CO., LTD.).

e. NANLIU MANUFACTURING(INDIA) PRIVATE LIMITED was established in 2017. The company hold 100.00% ownership and control. The Parent Company Only financial statements include financial statements of NANLIU ENTERPRISE (SAMOA) CO., LTD.

e. Currency translation of foreign investments in Subsidiaries exchange to NT dollars by spot rate on the year-end, then valuate it for using equity method. Financial statements translation differences for foreign operations were recorded in shareholders' equity.

f.About accounting for investments accounted for using equity method, please refer to ‘4. Summary of significant accounting policies’.

(6) 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	$ 55,951	$ 109,643	$ 7,482	$ 6,017	$ 881	$ 9,707	$ 510,483	$ 757,474
Added	—	—	2,345	14,327	796	—	200	4,293	315,121	337,082
Disposals or retirements	—	—	—	(701)	—	(3,370)	(1)	—	—	(4,072)
Deconsolidation	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	450	6,357	—	7,921	—	10,731	(708)	24,751
Annual depreciation	—	—	(10,538)	(35,121)	(2,476)	(2,700)	(430)	(4,459)	—	(55,724)
Reversal of impairment	—	—	1,224	—	—	—	—	—	—	1,224
Effect of exchange rate changes	46,046	$ 11,264	$ 49,432	$ 94,505	$ 5,802	$ 7,868	$ 650	$ 20,272	$ 824,896	$ 1,060,735
Balance on December 31, 2018	$									

Book value：

On December 31, 2018

	Land	Land revaluation	Building/ Structure	Machinery and equipment	Hydropower equipment	Transport equipment	Office equipment	Other equipment	Construction in progress	Total
Cost	$ 46,046	$ 11,264	$ 208,349	$ 897,773	$ 54,767	$ 26,804	$ 13,393	$ 58,290	$ 824,896	$ 2,141,582
Less: Accumulated depreciation and impairment	—	—	(158,917)	(803,268)	(48,965)	(18,936)	(12,743)	(38,018)	—	(1,080,847)
Balance on December 31, 2018	$ 46,046	$ 11,264	$ 49,432	$ 94,505	$ 5,802	$ 7,868	$ 650	$ 20,272	$ 824,896	$ 1,060,735

	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	$ 43,315	$ 123,408	$ 8,711	$ 9,448	$ 1,365	$ 9,854	$ 43,361	$ 296,772
Added	—	—	10,264	9,327	1,286	—	—	3,108	476,631	500,616
Disposals or retirements	—	—	—	(47)	(1)	(512)	—	—	—	(560)
Deconsolidation	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	10,561	16,397	514	—	—	—	(9,509)	17,963
Annual depreciation	—	—	(9,484)	(39,442)	(3,028)	(2,919)	(484)	(3,255)	—	(58,612)
Reversal of impairment	—	—	1,295	—	—	—	—	—	—	1,295
Effect of exchange rate changes	46,046	$ 11,264	$ 55,951	$ 109,643	$ 7,482	$ 6,017	$ 881	$ 9,707	$ 510,483	$ 757,474
Balance on December 31, 2017	$									
Book value：										
On December 31, 2017										
Cost	$ 46,046	$ 11,264	$ 205,553	$ 878,039	$ 53,971	$ 32,252	$ 13,278	$ 43,425	$ 510,483	$ 1,794,311
Less: Accumulated depreciation and impairment	—	—	(149,602)	(768,396)	(46,489)	(26,235)	(12,397)	(33,718)	—	(1,036,837)
Balance on December 31, 2017	$ 46,046	$ 11,264	$ 55,951	$ 109,643	$ 7,482	$ 6,017	$ 881	$ 9,707	$ 510,483	$ 757,474

1. Capitalized interest for the years 2018 and 2017 were 6,902 and 2,361 thousand, respectively.
2. The Company’s property, plant and equipment weren’t pledged.

(7) Short-term borrowings

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

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

For short-term loans, the Company assign Huang Chin-San and Huang Ho-Chun as guarantors.

(8) 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

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

	December 31, 2018	December 31, 2017
Credit loans	$ 1,961,886	$ 1,010,000
Secured bank borrowings	374,939	—
Subtotal	2,336,825	1,010,000
Less: current portion of long-term bank borrowings	(126,000)	—
Total	$ 2,210,825	$ 1,010,000

Range of maturity dates	106/04~114/09	105/08~109/10
Range of interest rates	1.05%~1.15%	1.10%~1.33%

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

2. The installing machines was pledged to bank. These machines will be pledged by the first priority to bank for borrowing.

(10) 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) The pension costs (including pension insurance) under the Company's defined contribution pension plans for the years ending on December 31, 2018 and 2017 were $7,454 thousand and $6,108 thousand, respectively.

(11) 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.

(12) Net Sales

Items	2018	2017
Sale of goods	$ 3,150,067	$ 3,001,485

a. The detail item of customers' contracts.

Item	2018
Biotechnology	$ 886, 480
Spunlace Nonwoven	1, 175, 547
Air Through & Thermal Bond Nonwoven	651, 144
Disposable Surgical gowns Fabrics	436,896
Total	$ 3, 150, 067

Area	2018
Taiwan	1, 268, 577
China	62, 748
Japan	817, 592
Asia	929, 942
Others	71,208
Total	3, 150, 067

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

b. The outstanding of contracts

	December 30, 2018	January 1, 2018
Contract liability	$ 978	$ 1, 724

i. The changes of contract liability majorly satisfy performance obligation and payment difference of customers.

ii. For the year ending on December 31, 2018, initial contract liability recognize 1,374 thousand under revenue.

(13) Non-operating income and expenses

1. Others

Items	2018	2017
Share of comprehensive income (loss) of associates and joint ventures	$ 414,408	$ 379,305
Interest income	1,369	1,307

Impairment or reversal of property, plant and equipment	1,224	1,295
gain on disposal of assets	707	1,091
Foreign exchange gain, net	22,342	1,143
Other income	3, 876	7, 219
Total	$ 443,926	$ 391,360

2. Finance costs

Items	2017	2016
Interest expense (Bank loans)	$ 22, 488	$ 13, 459
The amount of capitalization of assets that eligible for condition	(6, 902)	(2, 361)
Total	$ 15, 586	$ 11, 098

(14) Income taxes

1. Income tax expense

(1) Components of income tax expense:

Item	2018	2017
Current income tax		
income tax incurred in current period	46, 995	29, 272
10% tax on unappropriated earnings	11, 938	6, 353
Income tax adjustments on prior years	363	—
Deferred income tax expense		
Recognition and reversal of temporary differences	2, 385	354
Effects of changes in tax rate	(2, 725)	—
Income tax expense	58, 956	$ 35, 979

(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	651, 722	577, 356
Income tax expense at the statutory 17% tax rate	130, 344	98, 150
Nondeductible (deductible) items in determining taxable income	(83, 349)	(68, 878)
10% tax on unappropriated earnings	11, 938	6, 353
Prior year income tax underestimation	363	—
Changes of deferred tax		
Temporary differences	2, 385	354
Effects of changes in tax rate	(2, 725)	—
Income tax expense	58, 956	35, 979

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	Recognition of income	Recognition of Other Comprehensive income	Ending balance

Temporary differences				
Impairment of assets	$ 2,063	$ 119	$ —	$ 2,182
Loss on inventory market value decline	1,950	2,094	—	4,044
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	212	—	1,406
Deferred tax income(expenses)		$ 340	$ 905	
Net deferred tax assets(liabilities)	$ 17,641			$ 18,886
The balance sheet information is as follows				
Deferred tax assets	$ 19,376			$ 24,319
Deferred tax liabilities	$ 1,735			$ 5,433

	2017			
Items	Beginning balance	Recognition of income	Recognition of Other Comprehensive income	Ending balance
Temporary differences				
Impairment of assets	$ 2,283	$ (220)	$ —	$ 2,063
Loss on inventory market value decline	1,741	209	—	1,950
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	730	464	—	1,194
Deferred tax income(expenses)		$ (354)	$ 743	

	2018			2017
Net deferred tax assets(liabilities)	$ 17,252			$ 17,641
The balance sheet information is as follows				
Deferred tax assets	$ 19,559			$ 19,376
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. The company annual profit-seeking enterprise income tax for last year had been approved by Tax Collection agency in 2016.

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

	2018		
	Operating cost	Operating expenses	Total
Employee benefit expense	$ 150,209	$ 73,749	$ 223,958
Wages and salaries	120,553	59,242	179,795
Labor and health insurance costs	12,821	4,632	17,453
Pension and severance expenses	6,398	2,807	9,205
Compensation of directors	-	4,708	4,708
Other personnel expenses- food expenses	10,437	2,360	12,797
Depreciation	52,284	3,440	55,724
Amortization	-	4,668	4,668

	2017		
	Operating cost	Operating expenses	Total
Employee benefit expense	$ 131,580	71,018	202,598

Wages and salaries	106, 325	57, 946	164, 271
Labor and health insurance costs	10, 666	4, 249	14, 915
Pension and severance expenses	5, 169	2, 622	7, 791
Compensation of directors	–	3, 811	3, 811
Other personnel expenses- food expenses	9, 420	2, 390	11, 810
Depreciation	54, 571	4, 041	58, 612
Amortization	—	5, 460	5, 460

There were 317 and 275 workers in NAN LIU Company on December 31, 2018 and 2017, respectively. It's include Non employees Directors 4 persons.

(16) Earnings per share

1. Basic earnings per share

Earnings per share were attributed to the common equity holders of the 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			

	After-tax amount	Weighted average number of outstanding shares (thousand shares)	Earnings per share (NT$)
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	$ 7.45

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.

(17) Cash flow supplement information

1. Investing activities of part of cash payment.

	2018	2017

Acquisition of property, plant and equipment	$ 337,082	$ 500,616
Add：Initial Payables on equipment	74,821	6,722
Add：Initial Notes payable	602	2,208
Less：Ending Payables on equipment	(18,253)	(74,821)
less：Ending Notes payable	(5,901)	(602)
Total	$ 388,351	$ 434,123

2. The changes of liabilities from Financing Activities:

	Short term loan	Short-term bills payable , net	Long term loan (include Current portion)	The total of liabilities from Financing Activities
January 1, 2018	$ 706,435	$ 399,858	$ 1,010,000	$ 2,116,293
Cash folw	363,565	(400,000)	1,326,825	1,290,390
Changes of Exchange rate	—	—	—	—
Others(Note)	—	142	—	142
December 30, 2018	$ 1,070,000	$ —	$ 2,336,825	$ 3,406,825

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 the company
Huang Hsieh Meu Yun	Spouse of the chairman of the company
Huang Ho-Chun	Director of the company

NANLIU ENTERPRISE(SAMOA) CO.,LTD.	Investee company of the Company accounted for using equity method
Nanliu Enterprises (Pinghu) Ltd.	Investee company of ENTERPRISE(SAMOA) CO.,LTD. accounted for using equity method

(2) Significant transactions and balances with related parties:

1. Purchasing:

Name of related party	2017	2016
Nanliu Enterprises (Pinghu) Ltd.	$ 1,222,167	$ 1,097,318

i. The purchasing prices and payment terms for related parties are the same as those of ordinary deals.
ii. As of December 31, 2018 and December 31, 2017, unrealized gross profit that the Company purchased from related party (Nanliu Enterprises (Pinghu) Ltd. was 7,005 thousand and 373 thousand ,respectively.

2. Sales:

Related party	2018	2017
Nanliu Enterprises (Pinghu) Ltd.	$ 328	$ 10,561

i. The selling prices and collection terms for related parties are the same as those of ordinary sales.
ii. As of December 31, 2018 and December 31, 2017, unrealized gross profit that the Company sold to related party (Nanliu Enterprises (Pinghu) Ltd.) was 0 thousand, respectively.

3. Notes and accounts payable:

Related party	Account name	December 31, 2018	December 31, 2017
Nanliu Enterprises (Pinghu) Ltd.	Accounts payable	$ 248,670	$ 177,109

4. Notes and accounts receivable:

Related party	Account name	December 31, 2018	December 31, 2017
Nanliu Enterprises (Pinghu) Ltd.	Accounts receivable	$ 307	$ –

5. Accommodation of funds

2018

Account	Related parties	Highest balance	Ending balance	Interest rate period	Interest of one year
Long term Notes payable-related parties	NANLIU ENTERPRISE(SAMOA) CO.,LTD.	$ 267,220	$ 267,220	3.5%	$ 1,092

The financing didn't provide any pledge by the Company. The loan period is from November 20, 2018 to November 20, 2021. Repayment is by once time when loan end. Interest payment is by quarter. As of December 31, 2018, there is unpaid interest NTD 1,092 booking under other payables. 2017：None。

6. Property transactions: none.

7. Guarantees:

As of December 31, 2018 and December 31, 2017, the Company provided financial guarantees as following:

	December 31, 2018
	NANLIU MANUFACTURING(INDIA) PRIVATE LIMITED
Citi Bank	$ 152,625
Total	$ 152,625

December 31, 2017: None.

8. Rent expenses:

(1) The 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 rent expenses was NT 8 thousand per month. Annual rental expenses were NT $200 thousand for 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 2018 and 2017. As of December 31, 2018 and 2017, the above amounts were settled.

9. Others:
(1) All the Company's bank loans indicate Huang Chin-San and Huang Ho-Chun as guarantors.
(2) 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: None.

9. Major commitments and unrecognized commitments.

In addition to those disclosed in Note, significant commitments and contingencies of the Company 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	guarantee deposit	Letter of credit	guarantee deposit
USD 635	$ –	USD 523	$ –
EUR 689	$ –	EUR 14,369	$ –

2. The Company unrecognized commitments are as follows.

	2018	2017
Payment of Property , plant and equipment	$ 144, 281	$ 516, 890

1. 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	$ 10,663	$ 14,174

More than one year and less than five years	25,905	7,855
More than five years	139, 728	—
Total	$ 176,296	$ 22,029

10. Major damage losses: none.

11. Major subsequent events: none.

12, Others:

(1) Capital risk management

The main goal of the Company's capital management is to maintain integrated and positive capital ratios in order to support business operations and maximize shareholders' equity. The Company 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 Company 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	$ 4, 386, 989	$ 2, 784, 252
Total equity	3, 066, 003	2, 873, 348
Debt to equity ratio	143.08%	96.90%

(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	$ 164,717	
Notes receivable	46,650	
Accounts receivable	513,755	

Other receivables	16,001	
Deposit of due date over three months	23,254	
Refundable deposit and pledged financial assets	11,740	
	$ 776,117	
Loan and accounts receivable:		
Cash and cash equivalents		$ 277,548
Notes receivable		54,446
Accounts receivable		355,353
Other receivables		29,375
Refundable deposit and pledged financial assets		9,771
		$ 726,493
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	575,639	558,857
Long term accounts/notes payable	267,220	—
Long term loan(include Current portion)	2,336,825	1,010,000
	$ 4,249,684	2,675,150

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	13,017	30.714	399,804	11,553	29.760	343,830
RMB	7,129	4.472	31,881	8,049	4.565	36,744
EUR	33	35.152	1,160	8	35.570	279
JPY	394	0.2792	110	300	0.2462	79
Investments accounted for using equity method						
RMB	714,665	4.472	3,195,981	737,250	4.565	3,365,548
INR	322,588	0.4398	141,874	—	—	—
Financial liabilities						
Monetary items						

USD	9,420	30.714	289,322	8,373	29.760	249,192
EUR	14,589	35.201	513,542	8,628	35.570	306,899
JPY	690	0.2783	192	210	0.2642	55
Non-Monetary items						
USD	—	—	—	56	29.760	1,679

B. Sensitivity analysis

The Company'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 $3,703 thousand and $1,754 thousand respectively. The analysis uses the same basis as the one used in the prior period.

(2) Interest rate risk:

The Company'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 Company 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 Company’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 Company, 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 $34,068 thousand and $21,163 thousand for the year ended December 31, 2018 and 2017, mainly due to floating rate loans.

(3) Credit risk:

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

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

B. The Company 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 Company 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 Company'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 Company 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 Company use simple method and use preparing matrix for base to evaluate expected credit losses from grouping of account receivable by customers' type.

F. The Company 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	$ 486,037	$ 73,140	$ 6,648	$ 979	$ 641	$ 567,445
Loss allowance	—	(3,657)	(1,861)	(881)	(641)	(7,040)
Book value	$ 486,037	$ 69,483	$ 4,787	$ 98	$ —	$ 560,405

Note: the Note receivables all are not overdue day.

(4) Liquidity risk:

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

Bank loans are an important source of liquidity for the Company. 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	104,717	—	—	—	104,717
Accounts payable	369,713	—	—	—	369,713
Other accounts payable	82,956	—	—	—	82,956
Payables on equipment	18,253	—	—	—	18,253
Long-term loans (including due within one year or one operating cycle)	126,000	1,105,000	512,825	593,000	2,336,825
Long term accounts/notes payable	—	267,220	—	—	267,220

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, 858	—	—	—	399, 858
Notes payable	105, 919	—	—	—	105, 919
Accounts payable	311, 256	—	—	—	311, 256

Other accounts payable	66, 861	—	—	—	66, 861
Payables on equipment	74, 821	—	—	—	74, 821
Long-term loans (including due within one year or one operating cycle)	—	1, 010, 000	—	—	1, 010, 000

(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:

<1> The Company provide guarantee to subsidiaries and follow "Procedures for Making of Endorsements/Guarantees". There is no pledge from subsidiaries because of credit situation is under controlled by the Company. The lose amount is same as guarantee amount if the subsidiaries can't follow the contract.

<2> Financial instruments with off-balance sheet credit risk

Item	December 31, 2018	December 31, 2017
Guarantee to subsidiaries	$ 152, 625	—

(4) Fair value estimation

<1> 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

Items	Book value	The fair value			
		The first level	The second level	The third level	Total
Financial assets:					
Amortised cost of a financial asset					
Cash and cash equivalents	164, 717	$ —	$ —	$ —	$ —

Notes and accounts receivable	576,406	—	—	—	—
Restricted assets	—	—	—	—	—
Other current assets	23,254	—	—	—	—
Refundable deposit	11,740	—	—	—	—
Financial liabilities:					
Financial liabilities measured at amortized costs					
Short-term loans	1,070,000	—	—	—	—
Short-term bills payable	—	—	—	—	—
Notes payable and payment	557,386	—	—	—	—
Equipment payment	18,253	—	—	—	—
Long-term liabilities due within a year	126,000	—	—	—	—
Long-term liabilities	2,210,825	—	—	—	—
Long term accounts payable	267,220	—	—	—	—
Guarantee deposit received	—	—	—	—	—

December 31, 2017

Items	Book value	The fair value			
		The first level	The second level	The third level	Total
Financial assets:					
Loans and account receivables					
Cash and cash equivalents	277,548	$ —	$ —	$ —	$ —

Notes and accounts receivable	439,174	—	—	—	—
Restricted assets	—	—	—	—	—
Other current assets	9,771	—	—	—	—
Refundable deposit	277, 548	—	—	—	—
Financial liabilities:					
Financial liabilities measured at amortized costs					
Short-term loans	706,435	—	—	—	—
Short-term bills payable	399,858	—	—	—	—
Notes payable and payment	484,036	—	—	—	—
Equipment payment	74,821	—	—	—	—
Long-term liabilities due within a year	—	—	—	—	—
Long-term liabilities	1,010,000	—	—	—	—
Guarantee deposit received	—	—	—	—	—

<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 Π.

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 note Ⅲ.

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.

(3) 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.	NAN LIU ENTERPRISE (SAMOA) CO., LTD.	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:
(1) Enter ‘0’ for the Issuer.
(2) 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 by subsidiary.
(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	52.17%	With the same general terms and conditions	–	–	$ (248,670)	52.41%	–

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	38.80%
0	Nan Liu Enterprise Co., Ltd.	Nanliu Enterprise (Pinghu) Ltd.	1	Accounts payable	$ 248,670	The same as other companies	3.34%

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.

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

Note Ⅵ　　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: Outflow	Investment Flows: Inflow	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
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.

Nan Liu Enterprise Co., Ltd.
THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

Nan Liu Enterprise Co., Ltd.
Statement of cash and cash equivalents
December 31, 2018
(All Amounts Expressed in Thousands of New Taiwan Dollars , Unless Specified Otherwise)

STATEMENT 1

Item	Description	Amount
Cash	Cash on hand	$ 962
Cash in banks		
Demand deposits		57,694
Checking accounts		269
Foreign currency deposits	(USD 3,162 thousand,@30.717)	97,126
	(RMB 22 thousand,@4.591)	101
	(EUR 13 thousand,@35.077)	456
	(JPY 119 thousand,@0.2773)	33
Time deposits		7,602
Subtotal		163,281
Total		$ 164,717

Nan Liu Enterprise Co., Ltd.
Statement of accounts receivable
December 31, 2018

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

STATEMENT 2

Item	Description	Amount
Non related parties：		
Company A	Receivables from transactions	$ 29,691
Company B	Receivables from transactions	24,032
Company C	Receivables from transactions	64,001
Company D	Receivables from transactions	29,013
Company E	Receivables from transactions	35,272
Company F	Receivables from transactions	62,255
Others(Note)	Receivables from transactions	275,715
Subtotal：		519,979
Related parties：		
Nanliu Enterprise (Pinghu) Ltd	Receivables from transactions	307
Subtotal：		307
Total		520,286
Less: Allowance for doubtful accounts		(6,531)
Accounts receivable, net		$ 513,755

Note: The balance amount of each customers all are less than 5% of the account amount.

Nan Liu Enterprise Co., Ltd.
Statement of inventories
December 31, 2018
(All Amounts Expressed in Thousands of New Taiwan Dollars , Unless Specified Otherwise)

STATEMENT 3

Item	Description	Amount	
		Cost	Net Realizable Value
Raw materials	Viscose fiber and so on	$ $ 205,951	$ $ 197,286
Supplies	shrink film and so on	27,043	25,099
Work in process	facial mask bag and so on	2,526	4,612
Finished goods	Spunlance fabrics and so on	113,922	167,406
Merchandise	Nonwovens	2,546	2,022
Raw materials and supplies in transit		27,396	27,396
Total		379,384	423,821
Less: allowance for price decline of inventories		(20,218)	—
Net inventories		$ (11,468)	$ 423,821

Note：

1. Inventories shall be measured at the lower of cost and net realizable value item by item.

2. The amount of after write-down of raw materials and supplies used for manufacturing shall not be less than cost when net realizable value of finished goods is more than cost.

3. The net realizable value of raw materials and supplies in transit is replacement cost.

Nan Liu Enterprise Co., Ltd.

Statement of changes in investments accounted for using equity method

December 31, 2018

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

STATEMENT 4

Name	Balance, January 1, 2018		Additions		Decrease		Balance, December 31, 2018			Market Value or Net Assets Value			Collateral
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	%	Amount	Unit Price	Total Amount	Valuation	
NANLIU ENTERPRISE(SAMOA)CO.,LTD.	47,748	$3,120,375	5,200	$ 576,629	-	$ (86,010)	52,948	100%	$ 3,610,994	68.41	$ 3,622,391	Equity method	None
Total		$3,120,375		$ 576,629		$(86,010)			$ 3,610,994		$ 3,622,391		

Note1：Additions in the period included investments 155,016thousand, recognition of invested profit 417,935 thousand, realized gross profit of downstream transactions 373 thousand, realized gross profit of upstream transactions 160 thousand, realized assets profit of downstream transactions 3,145 thousand. Decreases in the period included of unrealized gross profit of downstream transactions 7,229 thousand, unrealized gross profit of upstream transactions 7,005 thousand, tax effects of realized assets profit of downstream transactions 40 thousand, foreign exchange differences 71,736 thousand.

Note2：As of December 31, 2017, cost of investments accounted for using equity method and valuation for using equity method is as following:

Investees	Cost	Valuation for using equity method	Adjustments from unrealized Profits (losses) of Upstream(downstream) transactions	Others	Total
NANLIU ENTERPRISE(SAMOA)CO.,LTD.	$ 1,643,224	$2,244,104	$ (11,397)	$ (264,937)	$ 3,610,994
Total	$ 1,643,224	$2,244,104	$ (11,397)	$ (264,937)	$ 3,610,994

Nan Liu Enterprise Co., Ltd.
Statement of changes in property, plant and equipment
December 31, 2018
(All Amounts Expressed in Thousands of New Taiwan Dollars , Unless Specified Otherwise)

STATEMENT 5

Please refer to note 6(6).

Statement of short-term loans
December 31, 2018
(All Amounts Expressed in Thousands of New Taiwan Dollars , Unless Specified Otherwise)

STATEMENT 6

Type	Balance, End of Year	Contract Period	Range of Interest Rates (%)	Loan Commitments	Collateral
Clear loans					
Citi bank	$ 200,000	2018/12/26~2019/01/11	0.770%	USD7,000	—
Bank SinoPac	410,000	2018/10/26-2019/03/22	0.900%	NTD 600,000	—
HSBC Bank	460,000	2018/08/13-2019/06/25	0.850%	USD 15,000	—
Total	$ 1,070,000				

Statement of short-term bills payable , net

December 31, 2017

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

STATEMENT 7

Item	Description	Amount
Non related parties：		
Company A	Receivables from transactions	$ 14,085
Company B	Receivables from transactions	16,308
Company E	Receivables from transactions	23,386
Others(Note)	Receivables from transactions	67,264
Subtotal：		121,043
Related parties：		
Nanliu Enterprise (Pinghu) Ltd	Receivables from transactions	248,670
Subtotal：		248,670
Total		369,713

Note: The balance amount of each customers all are less than 5% of the account amount.

Nan Liu Enterprise Co., Ltd.
Statement of long-term loans
December 31, 2018
(All Amounts Expressed in Thousands of New Taiwan Dollars , Unless Specified Otherwise)

STATEMENT 8

Bank	Description	Balance, End of Year	Contract Period	Interest Rates (%)	Collateral	Note
First Bank	Unsecured loans	$150,000	2017/04/05-2020/04/11	1.150%	—	—
The Export-Import Bank of the Republic of China	Unsecured loans	62,000	2018/09/26-2025/09/26	1.050%	—	—
CTBC Bank	Unsecured loans	657,000	2018/01/25-2025/01/24	1.120%	—	—
Bank SinoPac	Unsecured loans	180,000	2018/09/26-2020/11/07	1.100%	—	—
E.SUN Bank	Unsecured loans	275,000	2017/02/13-2021/09/18	1.120%	—	—
KGI Bank	Unsecured loans	390,000	2018/01/03-2020/09/18	1.130%	—	—
Mega Bank	Unsecured loans	137,886	2018/09/26-2022/09/26	1.120%	—	—
Mega Bank	secured loans	374,939	2018/09/26-2022/09/26	1.120%	—	Note
HSBC Bank	Unsecured loans	10,000	2018/12/25-2020/02/21	1.100%	—	—
Hua Nan Bank	Unsecured loans	100,000	2018/11/07-2020/10/17	1.100%	—	—
Total		$2,336,825				

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

Nan Liu Enterprise Co., Ltd.

Statement of net revenue

FOR THE YEAR ENDED DECEMBER 31, 2018

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

STATEMENT 9

Item	Quantities	Amount	Total
Sales revenue			
Air Through & Thermal Bond Nonwoven Fabrics	5,381,952.42 KG	$ 651,144	
Spunlance Nonwoven fabrics	12,178,399.93 KG	1,175,547	
Disposable Surgical gowns Fabrics	3,024,485.60 KG	436,896	
Wet wipes & Cosmetics	28,955,779.00 BAG	886,480	
	130,741.00 CAN		
	418.04 ROL		
	22,177,728.00 CS		
	4,368,364.00 PCS		
	4,296.00 SE02		
	21,653.19 KG		
Subtotal		$ 3,150,067	
Sales revenue, net			$ 3,150,067

Nan Liu Enterprise Co., Ltd.
Statement of operating expenses
FOR THE YEAR ENDED DECEMBER 31, 2018
(All Amounts Expressed in Thousands of New Taiwan Dollars , Unless Specified Otherwise)

STATEMENT 10

Items	Amount
Merchandise, beginning of year	$ 1,951
Merchandise purchased	1,111,096
Less: Merchandise, end of year	(2,546)
Less: charges on purchased Merchandise	(710)
Less: scrapped Merchandise	(279)
Cost of Merchandise sold	1,109,512
Raw materials, beginning of year	139,561
Add: raw materials purchased	971,898
Add: profit on raw materials	109
Add: others of raw materials	2,388
Less: raw materials, end of year	(205,951)
Less: others of raw materials	(3,661)
Less: loss on raw materials	(17)
Less: scrapped Merchandise	(1,041)
Less: raw materials sold	(186)
Raw materials consumed	903,100
Supplies, beginning of year	44,497
Add: supplies purchased	151,498
Add: profit on supplies	43
Less: supplies, end of year	(27,043)
Less: loss on supplies	(110)
Less: scrapped supplies	(6,987)
Less: supplies sold	(4,055)
Less: others of supplies	(9,471)
Supplies consumed	148,372
Direct labor	101,813
Manufacturing overheads(STATEMENT 13)	333,089
Manufacturing costs	1,486,374

(Continued)

Nan Liu Enterprise Co., Ltd.

Statement of operating expenses

FOR THE YEAR ENDED DECEMBER 31, 2017

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

STATEMENT 12

(Previous)

Add : Work in process, beginning of year(including semi-finished goods)	9,562
Add: work in process received	2,348
Add: profit on work in process	15
Add: others of work in process	1,647
Less: Work in process, end of year (including semi-finished goods)	(2,526)
Less: charges on work in process	(40)
Less: scrapped on work in process	(1,827)
Less: Loss on disposal of work in process	(2)
Less: work in process sold	(1,329)
Cost of finished goods	1,494,222
Add: finished goods, beginning of year	117,392
Add: finished goods received	106,044
Add: profit on finished goods	48
Add: others of finished goods	626,261
Less: finished goods, end of year	(113,922)
Less: charges on finished goods	(7,300)
Less: scrapped finished goods	(5,553)
Less: loss on finished goods	(687)
Less: goods sold	(870)
Less: others of finished goods	(627,710)
Cost of production and marketing	1,587,925
Cost of raw materials and semi-finished goods Sold	6,440
(Profit)loss on inventories	601
scrapped inventories	15,687
scrapped lost subsidy or sold	(9,407)
Idle cost	8,171
Reduce inventory to market	8,750
Revenue from sale of scrap and wastes	(6,250)
Cost of goods sold	$ 2,721,429

Nan Liu Enterprise Co., Ltd.
Statement of production overheads
FOR THE YEAR ENDED DECEMBER 31, 2018
(All Amounts Expressed in Thousands of New Taiwan Dollars , Unless Specified Otherwise)

STATEMENT 11

Item	Description	Amount	
Indirect labor	manufacturing overheads	$	18,740
Rent expenses	manufacturing overheads		10,978
Repairs and maintenance expenses	manufacturing overheads		33,514
Utility expenses	manufacturing overheads		60,206
Depreciation expenses	manufacturing overheads		52,284
Fuel expenses	manufacturing overheads		37,206
Others(note)	manufacturing overheads		128,332
Idle cost	manufacturing overheads		(8,171)
Total		$	333,089

Note：Amount of each item is less than 5% of the account amount.

Nan Liu Enterprise Co., Ltd.

Statement of Operating expenses

FOR THE YEAR ENDED DECEMBER 31, 2018

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

STATEMENT 12

Item	Promotion expenses	Management expenses	Research expenses	Amount
Payroll expenses	$ 8,976	$ 46,097	$ 8,877	$ 63,950
Rent expenses	-	9,752	-	9,752
Shipping expenses	14,324	6	21	14,351
Advertisement expenses	8,562	55	-	8,617
Entertainment expenses	1,177	10,664	46	11,887
Donation expenses	-	9,418	-	9,418
Depreciation expenses	190	3,220	30	3,440
Commission expenses	7,291	-	-	7,291
Export expenses	20,977	-	-	20,977
Professional service fee	575	4,586	1,419	6,580
Others(note)	5,416	25,921	10,427	41,764
Total	$ 67,488	$ 109,719	$ 20,820	$ 198,027

Note: Amount of each item is less than 5% of the account amount.

Statement of labor, depreciation and amortization by function

FOR THE YEAR ENDED DECEMBER 31, 2018

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

STATEMENT 13

Please refer to Note 6(15).