

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

ECLAT TEXTILE CO., LTD.

FINANCIAL STATEMENTS

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

To the Board of Directors of ECLAT TEXTILE CO., LTD.:

Opinion

We have audited the accompanying financial statements of ECLAT TEXTILE CO., LTD. (“the Company”), which comprise the balance sheets as of December 31, 2017 and 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the year ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the “Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the 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 are stated as follows:

1. Revenue recognition

Please refer to Note 4(m) for details of the accounting policies of the recognition of revenue and Note 6(k) revenues.

How the matter was addressed in our audit

The shareholders and investors of the Company are the main concern in furnishing this financial report. Therefore, the assessment of revenue recognition is one of the key matters in our audit.

Our principal audit procedures included:

Understanding and testing the design and implementation of internal control over revenue recognition, inspecting the accuracy of revenue recognition, and reconciling between sales systems and general ledger to evaluate the rationality of the accounting policies implied; analyzing the Company's main sources of revenues to evaluate the adequacy of revenue recognition; analyzing the trend of revenue from different products to compare the variations between actual and budget figures; analyzing the agreements of selected customers to understand the sales terms and conditions for revenue recognition and to further inspect related transaction documents to ensure that the revenue is recorded in the appropriate period.

2. Assessment of Receivables

Please refer to Note 4(f) for details of the accounting policies of accounts receivable and Note 6(b) for relevant disclosures of accounts receivable of the independent auditors' report.

How the matter was addressed in our audit

The economy boom of the Company is subject to seasonal effects. The average period of collection of accounts receivable is 30~60 days. The impairment loss of accounts receivable is estimated based on the historical trends of sales return and discounts, wherein the management subjectively modifies the estimated amount by considering the collection records of each customer. Therefore, the accounts receivable are the key matters in our audit.

Our principal audit procedures included:

Analyzing the aging schedule of accounts receivable, past collection records, industry boom and concentration of customers' credit risk to evaluate the rationality of the impairment loss estimated.

3. Assessment of inventories

Please refer to Note 4(g) for details of the accounting policies of inventories and Note 6(c) for relevant disclosures of inventories of the independent auditors' report.

How the matter was addressed in our audit

The inventories of the Group are measured at the lower of cost and net realizable value. The industry is subject to seasonal effects resulting in a risk wherein the carrying value of inventories may exceed its net realizable value. Therefore we determined the valuation of inventories was a key audit matter.

Our principal audit procedures included:

Evaluating the rationality of the inventory policies such as the policy of provision for inventory valuation and obsolescence and understanding whether the valuation of inventory was performed in accordance with the Company's policy; inspecting the inventory aging report and analyzing the trends of inventory aging; assessing the provision for inventory valuation and obsolescence including sampling and inspecting the accuracy of the inventory aging report and net realizable value of inventories; inspecting the post period sales situation and evaluating the net realizable value of measurement applied on aging inventory in order to verify the evaluation accuracy of the estimated inventory allowance by the Group; and assessing whether the disclosures of provision for inventory valuation and obsolescence were appropriate.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

As part of an audit in accordance with 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 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 auditor's report to the related disclosures in the 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 financial statements, including the disclosures, and whether the 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 financial statements. We are responsible for the direction, supervision and performance of the group audit.

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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 Kuo Hsin Yi and Chen Hsiu Lan.

KPMG

Taipei, Taiwan (Republic of China)
March 15, 2018

Notes to Readers

The accompanying financial statements are intended only to present the statement of financial position, financial performance and its cash flows in accordance with the 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 financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
ECLAT TEXTILE CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

| | | <u>2017</u> | | <u>2016</u> | |
|------|--|---------------------|------------|-------------------|-----------|
| | | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| 4000 | Operating revenue(notes 6(k) and 7) | \$ 24,196,831 | 100 | 24,506,137 | 100 |
| 5000 | Operating costs(notes 6(e)(g)(l) and 7): | <u>18,033,554</u> | <u>75</u> | <u>17,957,325</u> | <u>73</u> |
| | Gross profit from operations | <u>6,163,277</u> | <u>25</u> | <u>6,548,812</u> | <u>27</u> |
| | Operating expenses(notes 6(b)(e)(g)(l) and 7): | | | | |
| 6100 | Selling expenses | 1,251,036 | 5 | 1,198,681 | 5 |
| 6200 | Administrative expenses | 614,193 | 2 | 568,203 | 2 |
| 6300 | Research and development expenses | <u>163,463</u> | <u>1</u> | <u>151,902</u> | <u>1</u> |
| | Total operating expenses | <u>2,028,692</u> | <u>8</u> | <u>1,918,786</u> | <u>8</u> |
| | Net operating income | <u>4,134,585</u> | <u>17</u> | <u>4,630,026</u> | <u>19</u> |
| | Non-operating income and expenses(note 6(m)): | | | | |
| 7010 | Other income | 62,892 | - | 29,489 | - |
| 7020 | Other gains and losses, net | (475,960) | (2) | (43,006) | - |
| 7050 | Finance costs | (471) | - | (421) | - |
| 7070 | Share of (loss) profit of associates accounted for using equity method, net | <u>5,797</u> | <u>-</u> | <u>(80,865)</u> | <u>-</u> |
| | Total non-operating income and expenses | <u>(407,742)</u> | <u>(2)</u> | <u>(94,803)</u> | <u>-</u> |
| 7900 | Profit from continuing operations before tax | 3,726,843 | 15 | 4,535,223 | 19 |
| 7950 | Less: Income tax(note 6(h)) | <u>674,788</u> | <u>2</u> | <u>875,706</u> | <u>4</u> |
| | Profit | <u>3,052,055</u> | <u>13</u> | <u>3,659,517</u> | <u>15</u> |
| | Other comprehensive income: | | | | |
| 8310 | Items that will not be reclassified subsequently to profit or loss | | | | |
| 8311 | Gains (losses) on remeasurements of defined benefit plans(note 6(g)) | <u>6,850</u> | <u>-</u> | <u>(15,221)</u> | <u>-</u> |
| 8349 | Income tax expense related to items that will not be reclassified subsequently to profit or loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | Total of items that will not be reclassified subsequently to profit or loss | <u>6,850</u> | <u>-</u> | <u>(15,221)</u> | <u>-</u> |
| 8360 | Items that may be reclassified subsequently to profit or loss | | | | |
| 8361 | Exchange differences on translation of foreign financial statements | (311,436) | (1) | (69,949) | - |
| 8399 | Income tax expense related to items that may be reclassified subsequently(note 6(h)) to profit or loss | <u>52,944</u> | <u>-</u> | <u>11,891</u> | <u>-</u> |
| | Total of items that may be reclassified subsequently | <u>(258,492)</u> | <u>(1)</u> | <u>(58,058)</u> | <u>-</u> |
| | Other comprehensive income, net of income tax | <u>(251,642)</u> | <u>(1)</u> | <u>(73,279)</u> | <u>-</u> |
| 8500 | Total comprehensive income | <u>\$ 2,800,413</u> | <u>12</u> | <u>3,586,238</u> | <u>15</u> |
| 9750 | Basic earnings per share(in dollars)(note 6(j)) | <u>\$ 11.12</u> | | <u>13.40</u> | |
| 9850 | Diluted earnings per share(in dollars)(note 6(j)) | <u>\$ 11.12</u> | | <u>13.40</u> | |

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
ECLAT TEXTILE CO., LTD.

Statements of Changes in Equity

For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

| | Retained earnings | | | | Other equity | | Total equity |
|--|-------------------|-----------------|---------------|----------------------------------|-------------------------|---|--------------|
| | Common stocks | Capital surplus | Legal reserve | Unappropriated retained earnings | Total retained earnings | Exchange differences on translation of foreign financial statements | |
| Balance at January 1, 2016 | | | | | | | |
| \$ | 2,609,874 | 1,289,437 | 1,230,078 | 6,432,490 | 7,662,568 | 212,450 | 11,774,329 |
| Profit | - | - | - | 3,659,517 | 3,659,517 | - | 3,659,517 |
| Other comprehensive income | - | - | - | (15,221) | (15,221) | (58,058) | (73,279) |
| Total comprehensive income | - | - | - | 3,644,296 | 3,644,296 | (58,058) | 3,586,238 |
| Appropriation and distribution of retained earnings: | | | | | | | |
| Legal reserve appropriated | - | - | 417,378 | (417,378) | - | - | - |
| Cash dividends to shareholders | - | - | - | (2,824,367) | (2,824,367) | - | (2,824,367) |
| Other changes in capital surplus: | | | | | | | |
| Issue of shares | 80,000 | 2,480,000 | - | - | - | - | 2,560,000 |
| Balance at December 31, 2016 | | | | | | | |
| \$ | 2,689,874 | 3,769,437 | 1,647,456 | 6,835,041 | 8,482,497 | 154,392 | 15,096,200 |
| Profit | - | - | - | 3,052,055 | 3,052,055 | - | 3,052,055 |
| Other comprehensive income | - | - | - | 6,850 | 6,850 | (258,492) | (251,642) |
| Total comprehensive income | - | - | - | 3,058,905 | 3,058,905 | (258,492) | 2,800,413 |
| Appropriation and distribution of retained earnings: | | | | | | | |
| Legal reserve appropriated | - | - | 365,952 | (365,952) | - | - | - |
| Cash dividends to shareholders | - | - | - | (2,824,367) | (2,824,367) | - | (2,824,367) |
| Stock dividends to shareholders | 53,797 | - | - | (53,797) | (53,797) | - | - |
| Balance at December 31, 2017 | | | | | | | |
| \$ | 2,743,671 | 3,769,437 | 2,013,408 | 6,649,830 | 8,663,238 | (104,100) | 15,072,246 |

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
ECLAT TEXTILE CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|--|---------------------|--------------------|
| Cash flows from (used in) operating activities: | | |
| Income before income tax | \$ 3,726,843 | 4,535,223 |
| Adjustments: | | |
| Adjustments to reconcile profit: | | |
| Depreciation expense | 267,672 | 235,637 |
| Amortization expense | 12,078 | 9,181 |
| Provision for bad debt expense | - | 32,331 |
| Interest expense | 471 | 421 |
| Interest income | (58,288) | (26,815) |
| Share of loss (profit) of associates accounted for using equity method | (5,797) | 80,865 |
| Gain on disposal of property, plant and equipment | (816) | (1,077) |
| Total adjustments to reconcile profit | <u>215,320</u> | <u>330,543</u> |
| Net changes in operating assets: | | |
| Increase in notes and accounts receivable | (316,031) | (36,756) |
| (Increase) decrease in inventories | (871,676) | 196,900 |
| Decrease (increase) in other current assets | <u>35,762</u> | <u>(35,832)</u> |
| Total changes in operating assets | <u>(1,151,945)</u> | <u>124,312</u> |
| Net changes in operating liabilities: | | |
| Increase (decrease) in notes and accounts payable | 264,075 | (23,550) |
| Increase (decrease) in other payable | 89,890 | (56,213) |
| Increase in other current liabilities | 13,667 | 4,464 |
| Increase (decrease) in net defined benefit liability | <u>2,458</u> | <u>(72,548)</u> |
| Total changes in operating liabilities | <u>370,090</u> | <u>(147,847)</u> |
| Total changes in operating assets and liabilities | <u>(781,855)</u> | <u>(23,535)</u> |
| Total adjustments | <u>(566,535)</u> | <u>307,008</u> |
| Cash inflow generated from operations | 3,160,308 | 4,842,231 |
| Interest received | 56,140 | 26,815 |
| Interest paid | (471) | (421) |
| Income tax paid | <u>(760,412)</u> | <u>(1,053,753)</u> |
| Net cash flows from operating activities | <u>2,455,565</u> | <u>3,814,872</u> |
| Cash flows from (used in) investing activities: | | |
| Acquisition of investments accounted for using equity method | (31,491) | (1,329,742) |
| Acquisition of property, plant and equipment | (3,674,702) | (48,883) |
| Proceeds from disposal of property, plant and equipment | 1,962 | 7,385 |
| Decrease (increase) in refundable deposits | 623 | (643) |
| Acquisition of intangible assets | (452) | (27,439) |
| Increase in prepayments for equipment | (108,883) | (196,916) |
| Dividends received | <u>2,324</u> | <u>2,179</u> |
| Net cash flows used in investing activities | <u>(3,810,619)</u> | <u>(1,594,059)</u> |
| Cash flows from (used in) financing activities: | | |
| Decrease in guarantee deposits received | (1,214) | (81,399) |
| Cash dividends paid | (2,824,367) | (2,824,367) |
| Proceeds from issuing shares | <u>-</u> | <u>2,560,000</u> |
| Net cash flows used in financing activities | <u>(2,825,581)</u> | <u>(345,766)</u> |
| Net increase in cash and cash equivalents | (4,180,635) | 1,875,047 |
| Cash and cash equivalents at beginning of period | <u>5,199,693</u> | <u>3,324,646</u> |
| Cash and cash equivalents at end of period | <u>\$ 1,019,058</u> | <u>5,199,693</u> |

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
ECLAT TEXTILE CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2017 and 2016

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

(1) Company history

ECLAT TEXTILE CO., LTD. (the “Company”) was incorporated in November 1977. The Company has established the Tashan Plant, Miao-li Plant and Hsichou Plant in Miao-li, and Dayuan Plant in Taoyuan. It has mainly been involved in the manufacturing and marketing of knitwear.

(2) Approval date and procedures of the financial statements

On March 15, 2018, the board of directors approved and noted the financial statements as of and for the year ended December 31, 2017.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

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

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|--------------------------------|
| Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 |
| IFRIC 21 "Levies" | January 1, 2014 |

The Company assessed that the initial application of the above IFRSs would not have any material impact on the financial statements.

- (b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|--------------------------------|
| Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative" | January 1, 2017 |
| Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |
| Annual Improvements to IFRS Standards 2014–2016 Cycle: | |
| Amendments to IFRS 12 | January 1, 2017 |
| Amendments to IFRS 1 and Amendments to IAS 28 | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of significant changes are as follows:

- (i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

1) Classification and evaluation - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Company does not believe that the new classification requirements, if applied at December 31, 2017 would have a material impact on its accounting for trade receivables, loans.

2) Impairment financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost.

Under IFRS 9, loss allowances will be measured on either of the following basis:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables without a significant financing component; an entity may choose to apply this policy also for trade receivables with a significant financing component.

(Continued)

ECLAT TEXTILE CO., LTD.
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The Company does not believe that the application of IFRS 9' s impairment requirements at December 31, 2017 would have had a material impact on the financial statements.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The Company has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements.

Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

The Company believes that the point in time at which the related risks and rewards of ownership transfer is familiar with the point in time at which the control of goods transfers, and hence the adoption of IFRS 15 would not have a material impact on the consolidated financial statements.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The following is a table summarizing the IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

| New, Revised or Amended Standards and Interpretations | Effective date per IASB |
|--|---|
| Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 16 "Leases" | January 1, 2019 |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

Those which may be relevant to The Company are set out below:

| Issuance / Release Dates | Standards or Interpretations | Content of amendment |
|-------------------------------------|---|--|
| January 13, 2016 | IFRS 16 "Leases" | <p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> · For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. · A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17. |
| June 7, 2017 | IFRIC 23 "Uncertainty over Income Tax Treatments" | <ul style="list-style-type: none"> · In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. · If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. |

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

| Issuance / Release Dates | Standards or Interpretations | Content of amendment |
|-------------------------------------|---|--|
| October 12, 2017 | Amendments to IAS 28 "Long-term interests in associates and joint ventures" | The amendment to IAS 28, which addresses equity-accounted loss absorption by long-term interests, will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). It also involves the dual application of IAS 28 and IFRS 9 Financial Instruments. |
| December 12, 2017 | Annual Improvements to IFRS Standards 2015–2017 Cycle: <ul style="list-style-type: none"> ·IFRS 3 Business Combinations and IFRS 11 Joint Arrangements ·IAS 12 Income Taxes ·IAS 23 Borrowing Costs | <ul style="list-style-type: none"> · Clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. <ul style="list-style-type: none"> – If a party maintain joint control, then the previously held interest is not remeasured. – If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. · Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits-i.e. in profit or loss, OCI or equity. · Clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments. |

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

The Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized as follows. Except for note 3, the following accounting policies were applied consistently through all reporting periods presented in the financial statements.

(a) Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(b) Basis of preparation

(i) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the net defined benefit liabilities are measured at the fair value of the plan assets, less the present value of the defined benefit obligation and upper limit.

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entities operate. The financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transaction.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

(d) Classification of current and non-current assets and liabilities

An entity shall classify an asset with one of the following rules as current; an entity shall classify all other assets as non-current:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting date; or
- (iv) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify a liability with one of the following rules as current; an entity shall classify all other liabilities as non-current:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability 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.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(e) Cash and cash equivalents

Cash comprise cash on hand and cash in bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Term deposits that meet the above requirements and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified under cash equivalents.

(f) Financial instruments

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

(i) Financial assets

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables.

1) Financial assets at fair value through profit or loss

Financial assets classified under this category are mainly the financial assets held-for-trading or financial assets reported at fair value through profit or loss.

The purposes of financial assets held-for-trading are for repurchasing or selling in short-term.

Under the following conditions, financial assets will be recognized as financial assets reported at fair value through profit or loss

- a) Measurement and recognition varies because of the elimination or material reduction of gain or loss with different measurement basis for assets and liabilities.
- b) Financial assets measured at fair value.
- c) Mixed instruments with embedded derivatives.

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent valuation is measured at fair value and changes therein (including dividend and interest income) are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

If this type of financial assets is classified as "equity investment that does not have any quoted market price in an active market and the fair value cannot be measured reliably", this type of financial assets is measured at cost after deducting impairment loss and is reported under "financial assets measured at cost".

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprised trade receivables and other receivables. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

3) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

The carrying amount of a financial asset is reduced for an impairment loss, except for trade receivables, in which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off against the allowance account. Any subsequent recovery from written off receivable is charged to the allowance account. Changes in the allowance accounts are recognized in profit or loss.

Recovery and loss on doubtful debts of account receivables are included in the operating expense; recovery and loss on doubtful debts of other financial assets are included in non-operating income and expense.

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ECLAT TEXTILE CO., LTD.
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4) Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available for sale financial assets is recognized as profit or loss under non-operating income and expenses.

On partial derecognition of a financial assets, the relative fair value of the partial derecognized financial assets at the transfer date is used to apportion the original book value of the financial assets on a pro-rata basis, to the portion of continual recognition resulted from continual participation and of derecognition. The difference between the carrying amount apportioned to the portion of the derecognized and the sum of the consideration received or receivable from the derecognized and any cumulative gain or loss that had been recognized in other comprehensive income apportioned to the derecognized is recognized as profit or loss under non-operating income and expenses. Any cumulative gain or loss that had been recognized in other comprehensive income is apportioned to the portion of continual recognition and derecognition on a pro-rata basis of their fair value.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Company are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

Equity instruments are any contractual agreement that can manifest the Group's residual interest after assets, less, liabilities. Equity instruments issued are recognized based on amount of consideration received, less, the direct cost of issuing.

Interest related to the financial liability is recognized in profit or loss under non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Financial liabilities reported at fair value through profit or loss

Financial liabilities classified under this category are mainly the financial liabilities held-for-trading or financial liabilities reported at fair value through profit or loss.

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ECLAT TEXTILE CO., LTD.
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The purposes of financial liabilities held-for-trading are for repurchasing or selling in short-term. Under the following conditions, financial liabilities will be recognized as financial liabilities reported at fair value through profit or loss.

- a) Measurement and recognition varies because of the elimination or material reduction of gain or loss with different measurement basis for assets and liabilities.
- b) Financial liabilities measured at fair value.
- c) Mixed instruments with embedded derivatives.

At initial recognition, this type of financial liabilities is measured at fair value; transaction costs are recognized as income or loss if occurred, and subsequent measurement is measured at fair value. Remeasurements of gains or losses, including relevant interest expense, are recognized as income or loss, and are reported under non-operating revenue and expenditure.

3) Other financial liabilities

At initial recognition, financial liabilities not classified as held-for-trading, or designated as fair value through profit or loss, which consist of loans and borrowings, and trade and other payables are measured at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss under non-operating income and expenses.

4) Derecognition of financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or expired.

The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income and expenses.

5) Offsetting of financial liabilities and assets

The Company presents financial assets and liabilities on net basis when the Company has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(g) Inventories

Inventories are necessary expenditures and charges for bringing the inventory to a salable and useable condition and location. In the case of manufactured overhead, cost includes an appropriate share of production overheads based on normal operating capacity of labor hours or machine hours and is allocated to finish goods and work-in-progress. Inventories are measured at the lower of cost and net realizable value subsequently and the cost of inventories is calculated using the monthly weighted-average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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(h) Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill that arose from the acquisition less any accumulated impairment losses.

The Company's separate financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. Unrealized profits resulting from the transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate.

Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Company's share of losses exceeds its interest in associates, or the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses should be discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

(i) Investment in subsidiaries

In preparing the financial statements, the Company appraises its investees by using equity method. Under equity method, current income and other comprehensive income from financial statement is the same as the consolidated income and other comprehensive income attributable to parent. Shareholders' equity is the same as the consolidated shareholders' equity.

The Company treated the changes of subsidiaries' equity as transactions among owners.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprised the material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost eligible for capitalization. In addition, the cost also include the amount of the effective cash flow hedge resulted from the foreign currency purchase of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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When property, plant and equipment include different components, which are relatively material to the total cost of the item, different depreciation rate or methods may be applied. These components should be viewed as individual items (main parts) in the property, plant or equipment.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expense.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure can be assessed reasonably, and will flow to the Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated based on the depreciable amount of an asset using the straight-line basis over its useful life. The depreciation amount of an asset is determined based on the cost, less, its residual value. The depreciation is assessed according to the material components of each item. If the useful life of one component is different from the others, this component should be depreciated individually. The depreciation charge for each period is recognized in profit or loss.

Land has an unlimited useful life, and therefore, is not depreciated. The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Buildings: 5 to 60 years.
- 2) Machinery and equipment: 2 to 25 years.
- 3) Transportation equipment: 3 to 8 years.
- 4) Office equipment: 5 to 9 years.
- 5) Miscellaneous equipment: 3 to 15 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If the expectation of useful lives differs from the previous estimate, the change is accounted for as a change in an accounting estimate.

(k) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Company are measured at cost, less, accumulated amortization and any accumulated impairment losses.

(Continued)

ECLAT TEXTILE CO., LTD.
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(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

The amortizable amount is the cost of an asset or other amount substituted for cost, less, its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software: 2 to 3 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(l) Impairment of non-financial assets

Non-financial assets except for inventories, deferred tax assets are assessed at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company shall estimate the recoverable amount of the asset. If it is not possible to determine the recoverable amount (fair value, less, cost to sell and value in use) for the individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value, less costs to sell and its value in use.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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(m) Revenue recognition

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement that the significant risks and rewards of ownership have been transferred to the customer. Recovery of the consideration is probable. The associated costs and possible return of goods can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. International shipments transfer usually occurs upon loading the goods onto the relevant carrier at the port. For domestic sales, transfers occur upon issuing of receipt by the customer.

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any fair value of any plan assets are deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on bonds (market yields of government bonds) that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by the employees, the expense is recognized immediately in profit or loss.

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Remeasurement of the net defined benefit liabilities includes: (a) actuarial gains and losses; (b) return on plan assets, not including the amounts of net interest included in net defined benefit liabilities; and (c) any changes of the amounts of affecting of upper limits of assets, not including the amounts of net interests included in net defined benefit liabilities. Remeasurement, comprising actuarial gains and losses, is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings.

The Company recognized gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed when related service are provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(o) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combination, or those recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to tax payable in prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the below exceptions:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments on subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

(Continued)

ECLAT TEXTILE CO., LTD.
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Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) Levied by the same taxing authority; or
 - 2) Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which they can be utilized. Such deferred tax assets shall also be reviewed at each reporting date, and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Earnings per share

The Company reports the basic earnings per share and the diluted earnings per share. The basic earnings per share are calculated based on the profit attributable to the ordinary shareholder of the Company divided by weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as employee stock options.

(q) Operating segments

The Company has already disclosed the segment information in the consolidated financial statement; therefore, the Company need not disclose the segment information again in the financial statement.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

Refer to note 6(b) notes receivable, accounts receivable and other receivables and note 6(c) inventories for information of accounting policies regarding assumptions and significant judgements which has material impact on the consodilated financial statements.

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(6) Explanation of significant accounts:

(a) Cash and cash equivalents

| | December 31, 2017 | December 31, 2016 |
|---------------------------|------------------------------|------------------------------|
| Cash | \$ 4,316 | 4,174 |
| Bank deposits | 568,342 | 1,422,269 |
| Term deposits | 446,400 | 3,773,250 |
| Cash and cash equivalents | <u>\$ 1,019,058</u> | <u>5,199,693</u> |

Please refer to note 6(n) for the sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(b) Notes receivable, accounts receivable and other receivables

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Notes receivable - operating activities | \$ 9,994 | 4,077 |
| Accounts receivable | 3,424,986 | 3,114,872 |
| Other receivables | 97,125 | 117,115 |
| Less: allowance for doubtful accounts | (56,947) | (56,947) |
| Total | <u>\$ 3,475,158</u> | <u>3,179,117</u> |

Overdue but unimpaired aging of notes receivable, accounts receivable and other receivables of the Company are as follows:

| | December 31, 2017 | December 31, 2016 |
|----------------------------------|------------------------------|------------------------------|
| Overdue less than 30 days | \$ 301,418 | 87,817 |
| Overdue from 31days to 120 days | 20,246 | 28,864 |
| Overdue from 121days to 300 days | - | 5,556 |
| Total | <u>\$ 321,664</u> | <u>122,237</u> |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

Changes in allowance for doubtful accounts of notes receivable, accounts receivable and other receivables of the Company for 2017 and 2016 are as follows:

| | Impairment loss of separate assessment | Impairment loss of combined assessment | Total |
|---|---|---|---------------|
| Beginning balance as of January 1, 2017 | \$ 50,246 | 6,701 | 56,947 |
| Impairment loss recognized | 454 | - | 454 |
| Impairment loss reversed | - | (454) | (454) |
| Ending balance as of December 31, 2017 | <u>\$ 50,700</u> | <u>6,247</u> | <u>56,947</u> |
| Beginning balance as of January 1, 2016 | \$ 13,332 | 11,284 | 24,616 |
| Impairment loss recognized | 36,914 | - | 36,914 |
| Impairment loss reversed | - | (4,583) | (4,583) |
| Ending balance as of December 31, 2016 | <u>\$ 50,246</u> | <u>6,701</u> | <u>56,947</u> |

The average credit term of sales of goods for the Company is from 30 to 60 days. On deciding the recoverability of accounts receivable and notes receivable, the Company will consider any change in quality of credit of accounts receivable and notes receivable from the original credit date to the reporting date. According to the historical experience, the recoverability of accounts receivable and notes receivable, which overdue more than 180 days, is probably unrecoverable, the Company has recognized accounts receivable and notes receivable, which overdue more than 180 days, as 100% bad debts. The Company estimated the amount of uncollectible accounts receivable and notes receivable, which from one to 180 days, by referring to the counterparty's historical default records in payments and the analysis of current financial condition.

Impairment loss of separate assessment of bad debts is the difference between carrying amount of accounts receivable and expected recoverable amount. The Company held no collateral for the above amount.

The Company thinks that the accounts receivable and notes receivable those not overdue or overdue less than the average credit terms should not be appropriated according to historical experience.

Accounts receivable of the Company have been insured accounts receivable credit risk. The insured amounts are \$141,244 thousand and \$508,182 thousand as of December 31, 2017 and 2016. Guaranteed fraction is 90% of reviewed credit of policyholder; the recoverable amount of the insurance is considered when deciding impairment amount of accounts receivable.

None of accounts receivable and notes receivable held by the Company were pledged, collateralized or discounted as of December 31, 2017 and 2016.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

The Company has signed accounts receivable factoring contracts without recourse with financial institutions. As stated in the contract, the Group doesn't have to bear the risks of uncollectable accounts receivables but the loss incurred due to commercial arguments, and hence meets the criteria of derecognition of financial assets. Factored accounts receivables which are not due as of the report date are as follows:

| December 31, 2017 | | | | | |
|-------------------|-------------------|----------------|-----------------------------|---------------|---------------|
| Counterparty | Factored amount | Line | Amount collected in advance | Interest rate | Pledged items |
| E.sun Bank | \$ <u>189,625</u> | <u>749,952</u> | <u>189,625</u> | 2.12% | None |

(c) Inventories

| | December 31, 2017 | December 31, 2016 |
|------------------|---------------------|-------------------|
| Raw materials | \$ 2,335,846 | 1,627,953 |
| Supplies | 594,952 | 471,650 |
| Work in progress | 662,551 | 579,313 |
| Finished goods | <u>125,402</u> | <u>168,159</u> |
| | <u>\$ 3,718,751</u> | <u>2,847,075</u> |

There was no recognized loss of inventory price due to write-downs from inventories to net realizable value for 2017 and 2016.

None of inventories held by the Company were pledged as of December 31, 2017 and 2016.

(d) Investment under equity method

A summary of the Company's financial information for equity-accounted investees at the reporting date is as follows:

| | December 31, 2017 | December 31, 2016 |
|--------------|---------------------|-------------------|
| Subsidiaries | \$ 3,657,941 | 3,952,630 |
| Associates | <u>32,638</u> | <u>14,421</u> |
| | <u>\$ 3,690,579</u> | <u>3,967,051</u> |

(i) Subsidiaries: Please refer to consolidated financial statements.

(ii) None of investment under equity method held by the Company was pledged as of December 31, 2017 and 2016.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(e) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Company are as follows:

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Transportation equipment</u> | <u>Office equipment</u> | <u>Miscellaneous equipment</u> | <u>Total</u> |
|---------------------------------|---------------------|------------------|--|-------------------------------------|-----------------------------|------------------------------------|------------------|
| Cost: | | | | | | | |
| Balance at January 1, 2017 | \$ 1,158,806 | 1,189,688 | 1,712,766 | 34,354 | 108,747 | 240,502 | 4,444,863 |
| Additions | 3,631,285 | 2,010 | 28,559 | 1,165 | 2,989 | 8,694 | 3,674,702 |
| Reclassification | - | - | 107,751 | 9,375 | - | 7,768 | 124,894 |
| Disposals | - | (1,430) | (11,493) | (2,340) | (517) | (52,820) | (68,600) |
| Balance as of December 31, 2017 | <u>\$ 4,790,091</u> | <u>1,190,268</u> | <u>1,837,583</u> | <u>42,554</u> | <u>111,219</u> | <u>204,144</u> | <u>8,175,859</u> |
| Balance at January 1, 2016 | \$ 1,158,806 | 1,182,625 | 1,530,140 | 31,268 | 103,030 | 219,849 | 4,225,718 |
| Additions | - | 4,713 | 24,931 | 6 | 10,996 | 8,237 | 48,883 |
| Reclassification | - | 3,000 | 246,017 | 3,080 | - | 22,293 | 274,390 |
| Disposals | - | (650) | (88,322) | - | (5,279) | (9,877) | (104,128) |
| Balance as of December 31, 2016 | <u>\$ 1,158,806</u> | <u>1,189,688</u> | <u>1,712,766</u> | <u>34,354</u> | <u>108,747</u> | <u>240,502</u> | <u>4,444,863</u> |
| Depreciation : | | | | | | | |
| Balance at January 1, 2017 | \$ - | 449,492 | 1,113,339 | 24,429 | 83,020 | 146,749 | 1,817,029 |
| Depreciation | - | 46,136 | 176,690 | 5,464 | 8,609 | 30,773 | 267,672 |
| Disposals | - | (858) | (11,460) | (2,340) | (352) | (52,444) | (67,454) |
| Balance as of December 31, 2017 | <u>\$ -</u> | <u>494,770</u> | <u>1,278,569</u> | <u>27,553</u> | <u>91,277</u> | <u>125,078</u> | <u>2,017,247</u> |
| Balance at January 1, 2016 | \$ - | 404,975 | 1,053,442 | 19,791 | 80,527 | 120,477 | 1,679,212 |
| Depreciation | - | 45,167 | 146,791 | 4,638 | 7,744 | 31,297 | 235,637 |
| Reclassification | - | (650) | (86,894) | - | (5,251) | (5,025) | (97,820) |
| Balance as of December 31, 2016 | <u>\$ -</u> | <u>449,492</u> | <u>1,113,339</u> | <u>24,429</u> | <u>83,020</u> | <u>146,749</u> | <u>1,817,029</u> |
| Carrying amounts: | | | | | | | |
| Balance as of December 31, 2017 | <u>\$ 4,790,091</u> | <u>695,498</u> | <u>559,014</u> | <u>15,001</u> | <u>19,942</u> | <u>79,066</u> | <u>6,158,612</u> |
| Balance as of December 31, 2016 | <u>\$ 1,158,806</u> | <u>740,196</u> | <u>599,427</u> | <u>9,925</u> | <u>25,727</u> | <u>93,753</u> | <u>2,627,834</u> |
| Balance at January 1, 2016 | <u>\$ 1,158,806</u> | <u>777,650</u> | <u>476,698</u> | <u>11,477</u> | <u>22,503</u> | <u>99,372</u> | <u>2,546,506</u> |

The property, plant and equipment are not mortgaged as collateral for loans as of December 31, 2017, and 2016.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(f) Other current or non-current assets

Current:

| | December 31, 2017 | December 31, 2016 |
|------------------------|------------------------------|------------------------------|
| Tax refund receivables | \$ 84,273 | 73,077 |
| Payment in advance | 21,820 | 37,754 |
| Prepaid expense | 23,774 | 28,675 |
| Other prepaid | 7,324 | 9,665 |
| Temporary payments | 2,471 | 4,423 |
| Office supplies | 1,414 | 1,672 |
| Other financial assets | 2,000 | 2,000 |
| Prepaid sales tax | 566 | - |
| | <u>\$ 143,642</u> | <u>157,266</u> |

Non-current:

| | December 31, 2017 | December 31, 2016 |
|---------------------------|------------------------------|------------------------------|
| Prepayments for equipment | \$ 21,630 | 37,641 |
| Refundable deposits | 4,582 | 5,205 |
| | <u>\$ 26,212</u> | <u>42,846</u> |

(g) Employee benefits

(i) Defined benefit plan

Adjustments for present value of defined benefit obligation and fair value of plan assets are as follows:

| | December 31, 2017 | December 31, 2016 |
|---|------------------------------|------------------------------|
| Present value of defined benefit obligation | \$ 226,084 | 242,462 |
| Fair value of plan assets | (98,777) | (110,763) |
| Net defined benefit liabilities | <u>\$ 127,307</u> | <u>131,699</u> |

Employee's benefits liabilities of the Company are as follows:

| | December 31, 2017 | December 31, 2016 |
|--|------------------------------|------------------------------|
| Long-term compensated absences liability | <u>\$ 34,399</u> | <u>29,713</u> |

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

Under the Company's employee benefit retirement plan, contributions are made to an independent fund that is deposited with Bank of Taiwan. Employees are eligible for retirement and payments of retirement benefits are based on years of service and the average salary for the last six months before the employee's retirement according to the Labor Standards Law.

1) Composition of the plan asset

The retirement funds deposited by the Company according to the Labor Standards Law are managed by the Bureau of Labor Funds, Ministry of Labor (the "BLF"). According to Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, the usage of funds and their minimum amount of return distributed by the final accounts shall not be less than the income calculated by the two-year deposit interest rate of local bank.

As of December 31, 2017, the Company's pension fund with Bank of Taiwan amounted to \$98,777 thousand. Please refer to the related information published on the website of the Labor Pension Supervisory Committee concerning the utilization of the labor pension fund, related yield rate and its allocation.

2) Changes in present value of the defined benefit obligations were as follows:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|----------------|
| Defined benefit obligations at January 1 | \$ 242,462 | 253,844 |
| Current service cost and interest | 4,833 | 6,458 |
| Remeasurement of defined benefit liability | | |
| - Actuarial gains and losses of experience adjustments | 151 | (876) |
| - Actuarial losses of financial assumptions change | (7,349) | 15,481 |
| Effect of curtailment of plan | - | (23,054) |
| Benefits paid | <u>(14,013)</u> | <u>(9,391)</u> |
| Defined benefit obligations at December 31 | <u>\$ 226,084</u> | <u>242,462</u> |

3) Changes in the fair value of the plan asset were as follows:

| | <u>2017</u> | <u>2016</u> |
|--|------------------|----------------|
| Fair value of plan assets at January 1 | \$ 110,763 | 64,818 |
| Remeasurement of net defined benefit liability | | |
| - Return on plan assets (excluding current interest) | 889 | 436 |
| Appropriated amount to the plan | 1,138 | 56,842 |
| Benefits paid due to curtailment | - | (8,314) |
| Benefits paid | <u>(14,013)</u> | <u>(3,019)</u> |
| Fair value of plan assets at December 31 | <u>\$ 98,777</u> | <u>110,763</u> |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

4) Expense recognized as profit or loss

Expense recognized as profit or loss for 2017 and 2016 were as follows:

| | <u>2017</u> | <u>2016</u> |
|--|-----------------|----------------|
| Current service cost | \$ 2,130 | 2,360 |
| Net interest income of net defined benefit liability | 1,466 | 3,046 |
| Gain on curtailment | - | (14,740) |
| | <u>\$ 3,596</u> | <u>(9,334)</u> |
| | <u>2017</u> | <u>2016</u> |
| Operating cost | \$ 2,277 | (13,244) |
| Selling expense | 326 | 1,884 |
| Administrative expense | 992 | 1,823 |
| R&D expense | 1 | 203 |
| | <u>\$ 3,596</u> | <u>(9,334)</u> |

Retirement negotiation were made due to the liquidation of Central plant, causing a decrease in the defined benefit obligations amounting to \$14,740 thousand, which was recognized as gain on curtailment on the Statement of comprehensive income for 2016.

5) Remeasurement of net defined benefit liabilities recognized in other comprehensive income

The Company's remeasurment of net defined benefit liabilities recognized in other comprehensive income for 2017 and 2016, were as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|------------------|---------------|
| Accumulated amount at January 1 | \$ 29,830 | 14,609 |
| Recognized in current period | (6,850) | 15,221 |
| Accumulated amount at December 31 | <u>\$ 22,980</u> | <u>29,830</u> |

6) Actuarial assumptions

Major assumptions used to determine the present value of the defined benefit obligations were as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------------|------------------------------|------------------------------|
| Discount rate | 1.375 % | 1.125 % |
| Future salary increases | 3.000 % | 3.000 % |

Expected appropriated amount paid to defined benefit plan by the Company during 1 year after the reporting date of 2017 is \$3,449 thousand.

The weighted average duration of the defined benefit plan is 14.1 years.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

7) Sensitivity analysis:

As of December 31, 2017 and 2016, the effects of the present value of the defined benefit obligation arising from changes in principal actuarial assumptions were as follows:

| | Effect of defined benefit obligations | |
|--|--|---------------------------|
| | Increase 0.25% | Decrease 0.25% |
| December 31, 2017 | | |
| Discount rate (change 0.25%) | \$ (7,047) | 7,349 |
| Future salary increases (change 0.25%) | 7,093 | (6,846) |
| December 31, 2016 | | |
| Discount rate (change 0.25%) | \$ (7,899) | 8,237 |
| Future salary increases (change 0.25%) | 7,939 | (7,670) |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. The sensitivity analysis adopts the same methods for determining the defined benefit assets at balance sheet date.

(ii) Defined contribution plan

The Company contributes an amount equal to 6% of the employee's monthly wages to the Labor Pension personal account of the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act, under which, the Company is not required to bear the regulated or putative obligation subsequent to the payment of fixed-rate contribution.

The Company's pension costs under the defined contribution pension plan amounted to \$42,927 thousand and \$40,444 thousand for 2017 and 2016 respectively. Those pension costs have been contributed to Bureau of the Labor Insurance.

(h) Income tax

(i) Income tax expense

The details of income tax expense were as follows:

| | 2017 | 2016 |
|--------------------------|-------------------|----------------|
| Current tax expense | | |
| Current period | \$ 690,972 | 869,703 |
| Deferred tax expense | | |
| Temporary differences | (16,184) | 6,003 |
| Total income tax expense | \$ 674,788 | 875,706 |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

The details of income tax expense under other comprehensive income were as follows:

| | <u>2017</u> | <u>2016</u> |
|--|--------------------|-----------------|
| Items that may be reclassified subsequently to profit or loss: | | |
| Translation difference of financial statements-for foreign operation | \$ <u>(52,944)</u> | <u>(11,891)</u> |

The reconciliation between income tax expense and income before income tax are as follow:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|------------------|
| Income before tax | \$ <u>3,726,843</u> | <u>4,535,223</u> |
| Income tax using the Company's domestic tax rate | \$ 633,563 | 770,988 |
| Under (Over) provision in prior periods | 3,851 | (1,851) |
| The 10% surtax on undistributed earnings | 40,018 | 92,530 |
| Others | <u>(2,644)</u> | <u>14,039</u> |
| | <u>\$ 674,788</u> | <u>875,706</u> |

(ii) Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for 2017 and 2016 were as follows:

Deferred tax assets:

| | |
|--|------------------|
| January 1, 2017 | \$ 31,537 |
| Credit income statement | 7,876 |
| Exchange difference on translation of foreign financial statements | <u>21,322</u> |
| December 31, 2017 | <u>\$ 60,735</u> |
| January 1, 2016 | \$ 35,851 |
| Debit income statement | (16,205) |
| Exchange difference on translation of foreign financial statements | <u>11,891</u> |
| December 31, 2016 | <u>\$ 31,537</u> |

Deferred tax liability:

| | |
|-------------------------|------------------|
| January 1, 2017 | \$ 40,297 |
| Credit income statement | (8,308) |
| Exchange | <u>(31,622)</u> |
| December 31, 2017 | <u>\$ 367</u> |
| January 1, 2016 | \$ 50,499 |
| Credit income statement | <u>(10,202)</u> |
| December 31, 2016 | <u>\$ 40,297</u> |

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(iii) Income tax approved

The Company's income tax returns through 2015 have been examined by the R.O.C. tax authority.

(iv) Information related to the unappropriated earnings and creditable ratio is summarized below:

| | December 31, 2017 (note) | December 31, 2016 |
|---|-------------------------------------|------------------------------|
| Unappropriated earnings of 1997 and before | \$ 430 | 430 |
| Unappropriated earnings of 1998 and after | 6,649,400 | 6,834,611 |
| | \$ 6,649,830 | 6,835,041 |
| Balance of imputation credit account | \$ 1,123,265 | 1,157,935 |
| | 2017 | 2016 |
| | (Estimated) | (Actual) |
| | (note) | (Actual) |
| The creditable ratio for earnings distribution to ROC residents | 22.96 % | 23.39 % |

The aforementioned information of credit tax imputations was prepared in accordance with Ruling No.10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

Commencing from January 1, 2015, the creditable ratio for individual shareholders residing in the Republic of China (Taiwan) will be reduced into half of the original creditable ratio. The Company's creditable ratios for earnings distribution to R.O.C residents in 2016 was adjusted to 11.70%.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(i) Stockholders' equity

(i) Common stock

On June 16, 2017, the shareholders' meeting approved the capital increase of 5,380 thousand shares out of earnings amounting to \$53,797 thousand dollars with the par value of \$10 per share. The date of capital increase was July 31, 2017. All issued shares were paid up upon issuance and reported under equity.

On November 5, 2015, the board of directors of the Company approved a resolution to issue 8,000 thousand shares' common stocks by cash, with the par value \$10 per share, and on December 29, 2015, the board of directors of the Company approved the issuance price of 320 per share. The date of the capital increase was February 25, 2016. The issuance was according to Article 1040046754 approved by FSC respectively on November 27, 2015. All issued shares were paid up upon issuance and reported under equity.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

Authorized capital stock, authorized shares of capital stock and issued capital stock as of December 31, 2017 and 2016 are as follows:

| | December 31, 2017 | December 31, 2016 |
|------------------------------|------------------------------|------------------------------|
| Authorized capital stock | <u>\$ 3,000,000</u> | <u>3,000,000</u> |
| Authorized shares (thousand) | <u>300,000</u> | <u>300,000</u> |
| Issued shares (thousand) | <u>274,367</u> | <u>268,987</u> |

Reconciliation of the Company's outstanding shares for 2017 and 2016 are as follows:

(In thousand)

| | Common stock | |
|--------------------------|------------------------------|------------------------------|
| | December 31, 2017 | December 31, 2016 |
| January 1, 2017 | 268,987 | 260,987 |
| Issuance of Common Stock | - | 8,000 |
| Stock Dividend | 5,380 | - |
| December 31, 2017 | <u>274,367</u> | <u>268,987</u> |

(ii) Capital surplus

The balances of additional paid-in capital were as follows:

| | December 31, 2017 | December 31, 2016 |
|--|------------------------------|------------------------------|
| Paid-in capital in excess of par value | \$ 3,550,000 | 3,550,000 |
| Treasury stock transactions | 396 | 396 |
| Unpaid compensation to directors and supervisors | 1,377 | 1,377 |
| Net assets from merger with Everbright Garment | 15,866 | 15,866 |
| Unpaid dividend payables | 3 | 3 |
| Employee stock options | 201,795 | 201,795 |
| | <u>\$ 3,769,437</u> | <u>3,769,437</u> |

According to the amended ROC Company Law, realized capital surplus can be transferred to common stock or distributed as cash dividends after deducting the accumulated deficit, if any. Realized capital surplus includes the additional paid-in capital from issuance of common stock in excess of the common stock's par value and donation from others. Paid-in capital in excess of par value is transferrable to common stock annually but shall not exceed 10% of total issued and outstanding common stock according to Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(iii) Retained earnings

According to the Company's articles of incorporation, 10% of annual net earnings (net of income taxes), after deducting accumulated deficits, must be set aside as legal reserve. The remaining portion is to be distributed upon a proposal by the board of directors and approval in an annual shareholders' meeting.

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The Company is now in the growth stage and has a plan to expand the product line. Due to the need for capital to fulfill the plan, the policy for dividend distribution should reflect factors such as investment planning, financial structure, future fund requirements, and status of earnings. In a normal consideration, the percentage of earnings distribution shall not be less than fifty percent of the net earnings of the current year after compensating for accumulated deficits. The board of directors shall make the distribution proposal, and it is then approved at the shareholders' meeting. The ratio for distributing cash dividends shall not be lower than 20% of the total distribution.

1) Legal reserve

In accordance with the Company Act amended, 10% of net income after tax should be set aside as legal reserve, until the legal reserve is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

2) Special reserve

A regulation issued by the Securities and Futures Bureau requires a special reserve be made from the unappropriated earnings, equivalent to current income or loss and prior period-undistributed earnings from the reduction of other equity; the special reserve appropriated from prior period-undistributed earnings cannot be distributed. If the reductions of other equity reverse, the reverse parts can be distributed. The Group is applicable to the regulations in Interpretation No.1010012865 by FSC for recognizing special reserve.

3) Earnings appropriation and distribution

Earnings distributions for 2016 and 2015 were decided via the annual general meeting of the shareholders held on June 16, 2017 and June 21, 2016, respectively. The relevant dividend distributions to shareholders were as follows:

| | <u>2016</u> | | <u>2015</u> | |
|--|-----------------------|---------------------|-----------------------|------------------|
| | <u>rates(dollars)</u> | <u>amount</u> | <u>rates(dollars)</u> | <u>amount</u> |
| Dividends distributed to common stock shareholders : | | | | |
| Cash | \$ 10.50 | 2,824,367 | 10.50 | 2,824,367 |
| Stock | 0.20 | <u>53,797</u> | - | <u>-</u> |
| Total | | <u>\$ 2,878,164</u> | | <u>2,824,367</u> |

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

As mentioned above, please browse through the relative information approved during the board of directors' and shareholder's meeting on Market Observation Post System website of the Taiwan Stock Exchange.

The appropriation of the Company's 2017 earnings was subject to a resolution approved by the board of directors and the annual shareholders' meetings. Following the approval of those resolutions, related information can be obtained from the Market Observation Post System website of the Taiwan Stock Exchange.

(iv) Other equity (net of tax)

| | Financial statements translation differences from foreign operations |
|--|---|
| Balance, January 1, 2017 | \$ 154,392 |
| Financial statements translation differences from foreign operations | (258,492) |
| Balance, December 31, 2017 | \$ (104,100) |
| Balance, January 1, 2016 | \$ 212,450 |
| Financial statements translation differences from foreign operations | (58,058) |
| Balance, December 31, 2016 | \$ 154,392 |

(j) Earnings per share

The basic earnings per share were calculated as follows:

| | 2017 | 2016 |
|--|---------------------|------------------|
| Basic earnings per share | | |
| Net income | \$ 3,052,055 | 3,659,517 |
| Weighted average number of ordinary shares outstanding (in thousands) | 274,367 | 273,141 |
| Basic earnings per share (in dollars) | \$ 11.12 | 13.40 |
| | | |
| Diluted earnings per share | | |
| Net income | \$ 3,052,055 | 3,659,517 |
| Weighted average number of ordinary shares outstanding (in thousands)(basic) | 274,367 | 273,141 |
| Effect on employee's profit sharing bonus | 24 | 21 |
| Weighted average number of ordinary shares outstanding (in thousands)(diluted) | 274,391 | 273,162 |
| Diluted earnings per share (in dollars) | \$ 11.12 | 13.40 |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(k) Operating revenues

The details of the Company's revenue were as follows:

| | <u>2017</u> | <u>2016</u> |
|----------------------|----------------------|-------------------|
| Sales of merchandise | <u>\$ 24,196,831</u> | <u>24,506,137</u> |

(l) Employees' profit sharing bonus

The Company's articles of incorporation require that earnings shall first be offset against any deficit, then, a minimum of 0.1% will be distributed as employee profit sharing bonus which is to be decided upon a proposal by the board of directors, and then approved at the shareholders' meeting. Qualified employees are entitled to stock and cash distribution of the Company.

For the year ended December 31, 2017 and 2016, the estimated amounts of employees' profit sharing bonus amounted to \$6,000 thousand, which were calculated based on the Company's income excluding tax, as well as employee profit sharing bonus and earnings allocation a minimum of 0.1% as stated under the Company's articles of incorporation. These employees' sharing bonus were reported under cost of goods sold and operating expenses for the year ended December 31, 2017 and 2016. If there is the change after released financial reporting date in the following year, the difference is treated as a change in accounting estimate, and is charged to profit or loss for 2017 and 2016.

There is no difference between the estimated and distributed employees' profit sharing bonus approved by the BOD for the year ended December 31, 2016, related information can be obtained from the Market Observation Post System website of the Taiwan Stock Exchange.

(m) Results from non-operating activities

(i) Other income

The Company's other income were as follows:

| | <u>2017</u> | <u>2016</u> |
|------------------------------|------------------|---------------|
| Interest income-bank deposit | \$ 58,288 | 26,815 |
| Other | 4,604 | 2,674 |
| | <u>\$ 62,892</u> | <u>29,489</u> |

(ii) Other gains and losses, net

The Company's other gains and losses were as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------------|-----------------|
| Foreign exchange loss | \$ (505,169) | (61,599) |
| Gain on transaction of property | 816 | 1,077 |
| Others | 28,393 | 17,516 |
| | <u>\$ (475,960)</u> | <u>(43,006)</u> |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(n) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum exposed amount to credit risk.

2) Concentration of credit risk

Because the Company has numerous clients, does not make concentrated transactions with any single client and scatters the sales region, there is no concentration of credit risk for accounts receivable.

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including the estimated interest payments and excluding the impact of netting agreements.

| | Carry amount | Contractual cash flow | Within 12 months |
|---|---------------------|--------------------------|---------------------|
| December 31, 2017 | | | |
| Non-derivative financial liabilities | | | |
| Accounts and notes payable(including related parties) | \$ <u>1,900,564</u> | <u>1,900,564</u> | <u>1,900,564</u> |
| December 31, 2016 | | | |
| Non-derivative financial liabilities | | | |
| Accounts and notes payable(including related parties) | \$ <u>1,636,489</u> | <u>1,636,489</u> | <u>1,636,489</u> |

The Company is not expecting the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

(iii) Exchange rate risk

1) Exposure to currency risk

The Company's significant exposure to foreign currency risk was as follows:

| | December 31, 2017 | | | December 31, 2016 | | |
|------------------------------|---------------------|------------------|-----------|---------------------|------------------|-----------|
| | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | \$ 142,290 | 29.76 | 4,234,550 | 250,138 | 32.250 | 8,066,951 |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | 37,205 | 29.76 | 1,107,221 | 14,087 | 32.250 | 454,306 |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, loans and accounts payable. A 1% depreciation or appreciation of the NTD against the USD as of December 31, 2017 and 2016 would have increased or decreased the net income after tax by \$25,957 thousand and \$63,185 thousand respectively. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. The analysis is based on the same basis.

3) Foreign currency gain or loss on monetary items

The realized and unrealized exchange loss amounted to \$505,169 thousand and \$61,599 thousand, at the average rates of 30.432 and 32.263 for the year ended December 31, 2017 and 2016, respectively.

(iv) Interest rate analysis

The Company's exposure to interest rate risk arising from financial assets and liabilities is described in the liquidity risk part of this note.

The following sensitivity analysis is determined through the exposure to interest rate risk of derivative and non-derivative instruments on the reporting date. For floating rate liabilities, the analysis assumes that the balances of outstanding liabilities on the reporting date have been outstanding for the whole period, and their rational change intervals are being estimated. If the interest rate increases/decreases by 1%, representing the reasonable interest rates changes made by management.

(v) Fair value

1) Types and fair value of financial instruments

The Company's financial assets and liabilities are listed as follows: (including (1) the information on the levels in fair value hierarchy, wherein, disclosures are not required for financial instruments not measured at fair value with a carrying value approximating its fair value; and (2) those equity investments in which the fair value cannot be reliably measured and without any quoted price in the open market)

| | Carrying value | December 31, 2017 | | | Total |
|-------------------------------|---------------------|-------------------|----------|----------|----------|
| | | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | |
| Loans and receivables | | | | | |
| Cash and cash equivalents | \$ 1,019,058 | - | - | - | - |
| Notes and accounts receivable | 3,410,894 | - | - | - | - |
| Other receivables | 64,264 | - | - | - | - |
| Total | \$ 4,494,216 | - | - | - | - |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

| | December 31, 2017 | | | | |
|---|---------------------|------------|----------|----------|----------|
| | Carrying value | Fair value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial liabilities measured at amortized cost | | | | | |
| Notes and accounts payable (including related parties) | \$ 1,900,564 | - | - | - | - |
| Other payable | <u>747,525</u> | - | - | - | - |
| Total | <u>\$ 2,648,089</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | | | |
| | December 31, 2016 | | | | |
| | Carrying value | Fair value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Loans and receivables | | | | | |
| Cash and cash equivalents | \$ 5,199,693 | - | - | - | - |
| Notes and accounts receivable | 3,094,863 | - | - | - | - |
| Other receivables | <u>84,254</u> | - | - | - | - |
| Total | <u>\$ 8,378,810</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financial liabilities measured at amortized cost | | | | | |
| Notes and accounts payable (including related parties) | \$ 1,636,489 | - | - | - | - |
| Other payables | <u>694,395</u> | - | - | - | - |
| Total | <u>\$ 2,330,884</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

2) Valuation techniques and assumptions used in fair value determination

If a quoted price is available on an active market, the market price should be used as the fair value; the market price published by the primary stock exchanges and the security exchange center of the central government qualify as the basis of fair value evaluation for listed equity instruments and debt instruments with an active market.

If an open quoted price can be timely and frequently obtained from exchanges, brokers, underwriters, industry associations, pricing service institutions, or authorities, and if such price can represent the actual and frequent transaction price on the fair market, then a quoted price is considered as the active market price. If the above conditions are not met, then the market is deemed as inactive. Generally, a great difference and an increasing gap between the buying and selling price, as well as having a small transaction volume are indicators of an inactive market.

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

Except for the above-mentioned financial instruments with an active market price, the fair value of other financial instruments is measured using the valuation techniques. The fair value obtained through valuation techniques can be used as a reference to the current fair value, discounted cash flow, or other valuation techniques for other financial instruments with substantially similar properties and conditions. Fair value calculated using the valuation models and the available market information on the balance sheet date are also accepted by the market.

3) Transfer level1 to level 2

There were no transfers among the fair value hierarchy levels for 2017 and 2016.

(o) Financial risk management

(i) Nature and extent

The Company has exposure to the following risks from its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

This note expresses the information of risk exposure and goals, policies and procedures for the Company to measure and manage risks. Please refer to notes in financial statements for further quantitative disclosures.

(ii) Risk management framework

The board of directors is responsible for the supervision of the Company's risk management framework.

The risk management policies are established to identify and analyze the Company's exposure to risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aim to develop a disciplines and constructive control environment, in which all employees understand their roles and obligations.

The audit committee of the Company oversees how the management complies in monitoring the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The internal audit sector of the Company reviews the risk management controls and procedure on scheduled and non-scheduled basis, and reports the results to the board of directors.

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(iii) Credit Risk

Credit risk is the risk of financial loss to the Company, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

1) Accounts receivable

Every single client affects the credit risk exposure of the Company, but still, the management should consider the status of its clients, including the industry the client belongs to and the default risk of the country where the client is located. Because the transaction of the Company is not concentrated in one single client for 2017 and 2016, therefore, there is no concentration on credit risk for accounts receivable.

To minimize the risk of accounts receivable, the Company established a risk management procedure relating to the financial condition of the client, credit risk rating, historical transactions inside the Company, and the current economic situation that may affect the clients' ability to pay up the bills. The Company also uses some credit-improved tools such as prepayments and credit insurance in order to reduce specific client's credit risk.

2) Financial investments

The credit risk exposure in the bank deposits, fix income investments and other financial instruments are measured and monitored by the Company's finance department. As the Company deals with the banks and other external parties with good credit standing and financial institutions, corporate organization and government agencies which are graded above investment level, the management believes that the Company does not have any compliance issues, and therefore, there is no significant credit risk.

3) Guarantee

The Company only provide guarantee to wholly owned subsidiaries. The Company did not provide guarantee to any third party as of December 31, 2017 and 2016.

(iv) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as much as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company estimates the cost of products and services based on accounting policy in order to assist in monitoring its cash flow requirements and optimizing its cash return on investments. Generally, the Company ensures that there is sufficient cash to cover expected operating expenditure demand, but excluding potential influence under unexpected extremely condition (i.e. nature disaster). In addition, the total amount of unused credit term as of December 31, 2017 and 2016 amounted to \$1,987,976 thousand and \$1,904,271 thousand respectively.

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(v) Market risk

Market risk is the risk that comes from changes in market prices such as changes of foreign exchange rates, interest rates and equity prices, impacting the Company's income or the value of financial instruments held by the Company. The objective of market risk management is to manage and control market risk exposures within acceptable range and optimize the return on investments.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by board of directors.

1) Exchange rate risk

The Company's exposure to currency risk is on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company, primarily the New Taiwan Dollars (NTD). The currencies used in these transactions are denominated in NTD, USD, VND and CNY.

At any point of time, the Company's principle is to regularly hedge using the net value after offsetting assets and liabilities. The choice of hedging exchange rate risk instruments is based on the cost and the period of hedging. The Company mainly hedges its currency risk using the foreign exchange contracts.

2) Interest rate risk

All of the Company's assets and liabilities bear floating interest rates, and thus suffer from cash flow interest rate risk exposure. The detail of floating interest rates of the Company's assets and liabilities are described in note of liquidity risk management.

(p) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain the future development of the business. The capital includes common stock, capital surplus, retained earnings and other equity. Therefore, the capital management of the Company focuses on ensuring necessary financial resources and increase stockholders' value, examining the capital return periodically. The Company's ratio of capital return as of December 31, 2017 and 2016 were as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------|----------------------|-------------------|
| Net income | \$ <u>3,052,055</u> | <u>3,659,517</u> |
| Total capital | \$ <u>15,072,246</u> | <u>15,096,200</u> |
| Return on capital | <u>20.25 %</u> | <u>24.24 %</u> |

The Company does not have any plan of purchasing treasury stock.

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(7) Related-party transactions:

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

| <u>Name of related party</u> | <u>Relationship with the Company</u> |
|---|--|
| Grand Elite Holdings Inc. (GRAND ELITE) | Subsidiaries |
| Eclat Cayman Islands Holdings (ECLAT CAYMAN) | Subsidiaries |
| Aegis Inc. (Aegis) | Subsidiaries |
| Eclat Textile (Cambodia) Co.,Ltd (Eclat Textile (Cambodia)) | Subsidiaries |
| Unison (Wuxi) Textile and Garment Inc. (Unison) | Subsidiaries |
| Eclat Textile Co.,Ltd(Vietnam) (Eclat Vietnam) | Subsidiaries |
| Eclat Fabrics (Vietnam) Co.,Ltd. (Fabrics) | Subsidiaries |
| E-TOP (Vietnam) Co., Ltd. (E-TOP(VN)) | Subsidiaries |
| Colltex Garment MFY Co.,Ltd. (VN) (Colltex) | Subsidiaries |
| Eclat Enterprise Ltd. (Enterprise) | Subsidiaries |
| Tai-Yuan Garments Co., Ltd. (TAI-YUAN(VN)) | Subsidiaries |
| E&I Printing Company Limited (E&I Printing) | Associates |
| Best Information Co., Ltd.(Best) | Associates |
| Yi Yuan CO., LIMITED | The entity's chairman is the first immediate family of the chairman of the Company |
| ECLAT EDUCATION FOUNDATION | Founded by donation of the Company |

(b) Material transactions among related parties

(i) Sales revenue

| | <u>2017</u> | <u>2016</u> |
|--------------|---------------|-------------|
| Subsidiaries | \$ <u>148</u> | <u>488</u> |

Sales term to subsidiaries is the same as general sales. The term for receivables is O/A30 to 90 days. Receivables among related parties have no collaterals and no bad debts appropriation is required.

(ii) Related parties receivables

| <u>Account</u> | <u>Types of related parties</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|------------------|---------------------------------|--------------------------|--------------------------|
| Notes receivable | Associates | \$ - | 53 |
| Notes receivable | Other related parties | <u>26</u> | <u>-</u> |
| | | <u>\$ 26</u> | <u>53</u> |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(iii) Purchasing and processing

| | <u>2017</u> | <u>2016</u> |
|----------------------------|---------------------|------------------|
| Subsidiaries—Eclat Vietnam | \$ 1,723,922 | 1,304,969 |
| Subsidiaries—FABRICS | 1,522,586 | 1,630,904 |
| Subsidiaries—COLLTEX | 499,573 | 525,650 |
| Subsidiaries—E-TOP(VN) | 490,278 | 417,389 |
| Subsidiaries—Others | 284,149 | 415,073 |
| Associates | <u>141</u> | <u>-</u> |
| | <u>\$ 4,520,649</u> | <u>4,293,985</u> |

Purchasing price to subsidiaries is the same as to general purchases. The term for payables is O/A30 to 60 days.

(iv) Related parties payables

| <u>Account</u> | <u>Types of Related parties</u> | <u>2017</u> | <u>2016</u> |
|-------------------------------------|---------------------------------|-------------------|----------------|
| Accounts payable to related parties | Subsidiaries—Eclat Vietnam | \$ 165,506 | 89,642 |
| Accounts payable to related parties | Subsidiaries—Others | 155,769 | 179,069 |
| Accounts payable to related parties | Associates | <u>11</u> | <u>-</u> |
| | | <u>\$ 321,286</u> | <u>268,711</u> |

(v) Endorsements

| <u>Types of related parties</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------|--------------------------|--------------------------|
| Subsidiaries—ECLAT CAYMAN | \$ 1,443,360 | 1,474,148 |
| Subsidiaries—GRAND ELITE | <u>-</u> | <u>193,500</u> |
| | <u>\$ 1,443,360</u> | <u>1,667,648</u> |

(vi) Lease

| <u>Types of related parties</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------|--------------------------|--------------------------|
| Associates | \$ 600 | 600 |
| Other related parties | <u>300</u> | <u>300</u> |
| | <u>\$ 900</u> | <u>900</u> |

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(vii)

| | <u>Software Maintenance Expense</u> | | <u>Donations</u> | |
|-----------------------|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | <u>December 31,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> | <u>December 31,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
| Associates | \$ 352 | 323 | - | - |
| Other related parties | - | - | 2,000 | 2,000 |
| | <u>\$ 352</u> | <u>323</u> | <u>2,000</u> | <u>2,000</u> |

(c) Key management personnel transactions

Key management personnel compensation comprised:

| | <u>2017</u> | <u>2016</u> |
|------------------------------|------------------|---------------|
| Short-term employee benefits | \$ <u>97,210</u> | <u>89,893</u> |

Cars provided to key management personnel:

| | <u>December 31,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
|------------|------------------------------------|------------------------------------|
| Cost | \$ <u>26,484</u> | <u>19,089</u> |
| Numbers | <u>7</u> | <u>4</u> |
| Book value | \$ <u>8,863</u> | <u>5,510</u> |

(8) Pledged assets:

The Company's pledged assets are as follows:

| <u>Pledged assets</u> | <u>Pledged to secure</u> | <u>December 31,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
|----------------------------------|--------------------------|------------------------------------|------------------------------------|
| Other financial assets - current | Natural gas deposit | \$ <u>2,000</u> | <u>2,000</u> |

(9) Commitments and contingencies:

(a) Unused letters of credit

| | <u>December 31,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
|--------------------------|------------------------------------|------------------------------------|
| Unused letters of credit | \$ <u>99,784</u> | <u>106,479</u> |

(b) Contingent liabilities

Eclat Cayman borrowed US \$16,500 thousand from financial institution as of December 31, 2017, with the Company as its guarantor.

(10) Losses due to major disasters: None.

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ECLAT TEXTILE CO., LTD.
Notes to the Financial Statements

(11) Subsequent events:

According to the amendments to the Income Tax Act enacted by the Office of the President on February 7, 2018, an increase of the income tax rate from 17% to 20% is applicable upon filing the corporate income tax for Fiscal Year 2018. The change in tax rate does not affect the current and deferred income tax recognized as of and for the year ended December 31, 2017. However, it will affect the current and deferred income tax in future periods. If the new tax rate were applied to measure the temporary differences as of December 31, 2017, the deferred tax asset and liability would increase by \$10,718 thousand and \$65 thousand, respectively

(12) Other:

The Company's employee benefit depreciation and amortization expenses, categorized by function, were as follows:

| | 2017 | | | 2016 | | |
|----------------------------|-----------------|--------------------|-----------|-----------------|--------------------|-----------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefits | | | | | | |
| Salary | 366,162 | 938,673 | 1,304,835 | 391,830 | 870,263 | 1,262,093 |
| Labor and health insurance | 31,568 | 62,673 | 94,241 | 31,380 | 54,514 | 85,894 |
| Pension(note) | 13,741 | 32,782 | 46,523 | (1,156) | 32,266 | 31,110 |
| Others | 20,315 | 39,927 | 60,242 | 20,456 | 37,328 | 57,784 |
| Depreciation | 203,040 | 64,632 | 267,672 | 169,488 | 66,149 | 235,637 |
| Amortization | 757 | 11,321 | 12,078 | 757 | 8,424 | 9,181 |

Note: Including gain on curtailment amounting to \$14,740 thousand in 2016, there were no gains on curtailment in 2017.

The numbers of employees for the year ended December 31, 2017 and 2016 were 1,818 and 1,690, respectively.

(Continued)

ECLAT TEXTILE CO., LTD. Notes to Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Company:

(i) Loans to other parties:

(In thousands of NTD / USD)

| Number | Name of lender | Name of borrower | Account name | Related party | Highest balance of financing to other parties during the period | Ending balance (note 3) | Actual usage amount during the period | Range of interest rates during the period | Purposes of fund financing for the borrower (note 4) | Transaction amount for business between two parties | Reasons for short-term financing | Allowance for bad debt | Collateral | | Individual funding loan limits | Maximum limit of fund financing |
|--------|----------------|--------------------------|-------------------|---------------|---|-------------------------|---------------------------------------|---|--|---|----------------------------------|------------------------|------------|-------|--------------------------------|---------------------------------|
| | | | | | | | | | | | | | Item | Value | | |
| 01 | Aegis (Note) | Eclat Vietnam | Other receivables | Yes | 32,250 (USD1,000) | - | - | - | 2 | - | Operating capital | - | - | - | - | - |
| 01 | Aegis (Note) | Colltex | Other receivables | Yes | 31,345 (USD1,000) | - | - | - | 2 | - | Operating capital | - | - | - | - | - |
| 01 | Aegis (Note) | E-TOP (VN) | Other receivables | Yes | 15,673 (USD500) | - | - | - | 2 | - | Operating capital | - | - | - | - | - |
| 02 | Grand Elite | Miaw Shun (Cambodia) | Other receivables | No | 32,250 (USD1,000) | - | - | - | 2 | - | Operating capital | - | - | - | - | - |
| 03 | Eclat Cayman | Fabrics | Other receivables | Yes | 387,000 (USD12,000) | 357,120 (USD12,000) | 238,080 (USD8,000) | 1.5%-1.75% | 2 | - | Operating capital | - | - | - | 2,960,645 (Note2) | 3,330,725 (Note1) |
| 03 | Eclat Cayman | Eclat Vietnam | Other receivables | Yes | 32,250 (USD1,000) | 29,760 (USD1,000) | - | - | 2 | - | Operating capital | - | - | - | 2,960,645 (Note2) | 3,330,725 (Note2) |
| 03 | Eclat Cayman | Colltex | Other receivables | Yes | 258,000 (USD8,000) | 208,320 (USD7,000) | - | - | 2 | - | Operating capital | - | - | - | 2,960,645 (Note2) | 3,330,725 (Note2) |
| 03 | Eclat Cayman | E-TOP (VN) | Other receivables | Yes | 322,500 (USD10,000) | 252,960 (USD8,500) | - | - | 2 | - | Operating capital | - | - | - | 2,960,645 (Note2) | 3,330,725 (Note2) |
| 03 | Eclat Cayman | Eclat Textile (Cambodia) | Other receivables | Yes | 214,713 (USD6,850) | 203,856 (USD6,850) | 148,800 (USD5,000) | 1.6%-1.75% | 2 | - | Operating capital | - | - | - | 2,960,645 (Note2) | 3,330,725 (Note2) |
| 03 | Eclat Cayman | Eclat Enterprise | Other receivables | Yes | 32,250 (USD1,000) | 29,760 (USD1,000) | 19,344 (USD650) | 1.75% | 2 | - | Operating capital | - | - | - | 2,960,645 (Note2) | 3,330,725 (Note2) |
| 03 | Eclat Cayman | Miaw Shun (Cambodia) | Other receivables | No | 64,500 (USD2,000) | - | - | - | 2 | - | Operating capital | - | - | - | - | - |
| 03 | Eclat Cayman | TAL- YUAN (VN) | Other receivables | Yes | 203,743 (USD6,500) | 193,440 (USD6,500) | 163,680 (USD5,500) | 1.5%-1.75% | 2 | - | Operating capital | - | - | - | 2,960,645 (Note2) | 3,330,725 (Note2) |
| 03 | Eclat Cayman | Unison | Other receivables | Yes | 112,875 (USD3,500) | 104,160 (USD3,500) | - | - | 2 | - | Operating capital | - | - | - | 2,960,645 (Note2) | 3,330,725 (Note2) |

Note: The total financing amount of Aegis should not exceed 90% of the net equity of its latest financial statements; individual financing should not exceed 80% of its net equity on its latest financial statements, the B.O.D. has approved the cancellation of the credit line on July 5, 2017.

Note 1: The total financing amount of Eclat Cayman and Grand Elite should not exceed 20% of the net equity of its latest financial statements; individual financing should not exceed 10% of its net equity on its latest financial statements, the B.O.D. has approved the cancellation of the credit line on February 14, 2017.

Note 2: The total financing amount of Eclat Cayman should not exceed 90% of the net equity of its latest financial statements; individual financing should not exceed 80% of its net equity on its latest financial statements.

Note 3: Approved by BOD.

Note 4: Nature of lending: 1 for counterparties and 2 for short-term financing.

Note 5: The exchange rate as of December 31, 2017 is USD 1 to NTD 29.76.

(ii) Guarantees and endorsements for other parties:

(In thousands of NTD / USD)

| No. | Name of guarantor | Counter-party of guarantee and endorsement | | Limitation on amount of guarantees and endorsements for a specific enterprise (note 1) | Highest balance for guarantees and endorsements during the period | Balance of guarantees and endorsements as of reporting date | Actual usage amount during the period | Property pledged for guarantees and endorsements (Amount) | Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements | Maximum amount for guarantees and endorsements (note 2) | Parent company endorsements/ guarantees to third parties on behalf of subsidiary | Subsidiary endorsements/ guarantees to third parties on behalf of parent company | Endorsements/ guarantees to third parties on behalf of companies in Mainland China |
|-----|-------------------|--|--|--|---|---|---------------------------------------|---|---|---|--|--|--|
| | | Name | Relationship with the Company (note 3) | | | | | | | | | | |
| 00 | The Company | Eclat Cayman | 2 | 4,521,674 | 1,564,125 (USD48,500) | 1,443,360 | 491,040 | - | 9.58 % | 7,536,123 | Y | N | N |
| 00 | The Company | Grand Elite | 2 | - | 209,625 (USD6,500) | - | - | - | - % | - | Y | N | N |

Note 1: Guarantees amount provided to single entity must not exceed 30% of the Company's net value disclosed in the recent financial statements.

Note 2: Total guarantees amount provided must not exceed 50% of the Company's net value disclosed in the recent financial statements.

Note 3: 1. Counterparties

2. Subsidiaries held more than 50%

Note 4: The B.O.D. has approved the cancellation of guarantees and endorsement for GRAND ELITE on November 7, 2017.

Note 5: The exchange rate as of December 31, 2017 is USD 1 to NTD 29.76.

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to Financial Statements

- (iii) Securities held as of December 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):None.
- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

| Name of company | Name of property | Transaction date | Transaction amount | Status of payment | Counter-party | Relationship with the Company | If the counter-party is a related party, disclose the previous transfer information | | | | References for determining price | Purpose of acquisition and current condition | Others |
|-----------------|------------------|------------------|--------------------|-------------------|-------------------|-------------------------------|---|-------------------------------|------------------|--------|----------------------------------|--|--------|
| | | | | | | | Owner | Relationship with the Company | Date of transfer | Amount | | | |
| The Company | Land | 2017.11.13 | 3,381,772 | Paid | 16 natural people | None | NA | NA | NA | - | Appraisal report | Operation expansion | None |

- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In thousands of New Taiwan Dollars)

| Name of company | Related party | Nature of relationship | Transaction details | | | | Transactions with terms different from others | | Notes/Accounts receivable (payable) | |
|--------------------------|--------------------------|------------------------------|---------------------|-------------|-------------------------------------|---------------|---|---------------|-------------------------------------|---|
| | | | Purchase/ (Sale) | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance | Percentage of total notes/accounts receivable (payable) |
| The Company | Eclat Vietnam | Indirectly held subsidiaries | processing | 1,723,922 | 26.50% (Note) | 30 days | (Note1) | (Note1) | Account payable (165,506) | (8.71)% |
| Eclat Vietnam | The Company | Parent company | (sales) | (1,723,922) | (100.00)% | 30 days | (Note1) | (Note1) | Account receivable 165,506 | 100.00% |
| The Company | Fabrics | Indirectly held subsidiaries | purchase | 1,522,237 | 13.53% | 30 days | (Note1) | (Note1) | Account payable (66,193) | (3.48)% |
| Fabrics | The Company | Parent company | (sales) | (1,522,237) | (100.00)% | 30 days | (Note1) | (Note1) | Account receivable 66,193 | 99.22% |
| The Company | E-TOP (VN) | Indirectly held subsidiaries | processing | 490,278 | 7.54% (Note) | 30 days | (Note1) | (Note1) | Account payable (41,110) | (2.16)% |
| E-TOP (VN) | The Company | Parent company | (sales) | (490,278) | (100.00)% | 30 days | (Note1) | (Note1) | Account receivable 41,110 | 100.00% |
| The Company | Colltex | Indirectly held subsidiaries | processing | 499,573 | 7.68% (Note) | 30 days | (Note1) | (Note1) | Account payable (28,312) | (1.49)% |
| Colltex | The Company | Parent company | (sales) | (499,573) | (100.00)% | 30 days | (Note1) | (Note1) | Account receivable 28,312 | 100.00% |
| The Company | Eclat Textile (Cambodia) | Indirectly held subsidiaries | processing | 205,829 | 3.16% (Note) | 30 days | (Note1) | (Note1) | Account payable (12,454) | (0.66)% |
| Eclat Textile (Cambodia) | The Company | Parent company | (sales) | (205,829) | (100.00)% | 30 days | (Note1) | (Note1) | Account receivable 12,454 | 100.00% |

Note: Percentage on processing expense
Note 1: The same as general processing / purchasing/sales

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In thousands of NTD / USD)

| Name of company | Counter-party | Nature of relationship | Ending balance | Turnover rate | Overdue | | Amounts received in subsequent period | Allowance for bad debts |
|-----------------|--------------------------|------------------------|--------------------|---------------|---------|--------------|---------------------------------------|-------------------------|
| | | | | | Amount | Action taken | | |
| Eclat Cayman | Fabrics | Subsidiary | 238,080 (USD8,000) | (Note) | - | - | - | - |
| Eclat Cayman | TAI-YUAN (VN) | Subsidiary | 163,680 (USD5,500) | (Note) | - | - | - | - |
| Eclat Cayman | Eclat Textile (Cambodia) | Investee company | 148,800 (USD5,000) | (Note) | - | - | - | - |
| Eclat Vietnam | The Company | Parent company | 165,506 (USD5,561) | (Note) | - | - | - | - |

Note: The ending balance primarily consisted of receivables from related parties, which is not applicable for the calculation of turnover.
Note 1: The exchange rate as of December 31, 2017 is USD 1 to NTD 29.76.

- (ix) Trading in derivative instruments:None.

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to Financial Statements

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2017 (excluding information on investees in Mainland China):

(In thousands of NTD / USD)

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2017 | | | Net income (losses) of investee | Share of profits/losses of investee |
|------------------|--------------------------|------------------------|--|----------------------------|---------------------------|---------------------------------|-------------------------|-----------------------|---------------------------------|-------------------------------------|
| | | | | December 31, 2017 | December 31, 2016 | Shares (thousands) | Percentage of ownership | Carrying value (note) | | |
| The Company | Best | Taiwan | Computer equipment installation, software retailing and international commerce | 8,739 | 8,739 | 881 | 44.05 % | 14,642 | 5,749 | 2,532 |
| The Company | Grand Elite | British Virgin Islands | Investments in securities, real estate, and manufacturing industry | 403,154 (USD14,069) | 391,384 (USD13,699) | 35 | 100.00 % | (4,369) | (93,135) | (93,135) |
| The Company | Eclat Cayman | Cayman Islands | Investments in securities, real estate, and manufacturing industry | 3,867,562 (USD128,085) | 3,847,841 (USD127,435) | 128,085 | 100.00 % | 3,680,306 | 96,400 | 96,400 |
| Grand Elite | Eclat Textile (Cambodia) | Cambodia | Design, manufacture, processing and sale of clothing | 238,080 (USD8,000) | 238,080 (USD8,000) | 8,000 | 100.00 % | (74,536) | (93,228) | (93,228) |
| Grand Elite | Miaw Shun (Cambodia) | Cambodia | Design, manufacture, processing and sale of clothing | - | 41,069 (USD1,380) | - | - % | - | - | - |
| Grand Elite | Aegis | British Virgin Islands | Garment merchandise and manufacture | 53,628 (USD1,802) | 53,628 (USD1,802) | 1,500 | 100.00 % | 51,887 | 52 | 52 |
| Eclat Cayman | Colltex | Vietnam | Design, manufacture, processing and sale of clothing | 474,821 (USD15,955) | 474,821 (USD15,955) | 16,800 | 100.00 % | 482,756 | 23,548 | 22,081 |
| Eclat Cayman | E-TOP(VN) | Vietnam | Design, manufacture, processing and sale of clothing | 1,071,360 (USD36,000) | 1,071,360 (USD36,000) | 36,000 | 100.00 % | 1,057,290 | 4,412 | 2,462 |
| Eclat Cayman | Eclat Enterprise | Cambodia | Investments in securities, real estate, and manufacturing industry | 30 (USD1) | 30 (USD1) | 1 | 100.00 % | (959) | (46) | (46) |
| Eclat Cayman | Eclat Vietnam | Vietnam | Design, manufacture, processing and sale of clothing | 630,049 (USD21,171) | 630,049 (USD21,171) | 22,000 | 100.00 % | 650,953 | 133,120 | 133,120 |
| Eclat Cayman | Fabrics | Vietnam | Knit fabric mills, printing, dyeing and finishing mill | 1,190,400 (USD40,000) | 1,190,400 (USD40,000) | 40,000 | 100.00 % | 1,492,076 | 43,018 | 43,483 |
| Eclat Cayman | TAI-YUAN (VN) | Vietnam | Design, manufacture, processing and sale of clothing | 205,790 (USD6,915) | 205,790 (USD6,915) | 6,800 | 100.00 % | (54,602) | (82,044) | (81,007) |
| Eclat Cayman | E&I Printing | Vietnam | Design, printing, dyeing and finishing mill | 29,760 (USD1,000) | 17,856 (USD600) | 1,000 | 40.00 % | 17,996 | (21,832) | (8,733) |

Note: Accumulated translation is included.

Note 1: The exchange rate as of December 31, 2017 is USD 1 to NTD 29.76; the average exchange rate for 2017 is USD 1 to NTD 30.432.

Note 2: The BOD approved the dissolution and liquidation of Miaw Shun (Cambodia) on May 7, 2015 and sold out by transferring equity in January, 2017.

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(In thousands of NTD / USD)

| Name of investee | Main businesses and products | Total amount of paid-in capital | Method of investment (note 1) | Accumulated outflow of investment from Taiwan as of January 1, 2017 | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2017 | Net income (losses) of the investee | Percentage of ownership | Investment income (losses) | Book value | Accumulated remittance of earnings in current period |
|------------------|--|---------------------------------|-------------------------------|---|------------------|--------|---|-------------------------------------|-------------------------|----------------------------|------------|--|
| | | | | | Outflow | Inflow | | | | | | |
| Unison | Design, manufacture, processing and sale of clothing | 167,400 (USD5,625) | 2 | 127,254 (USD4,276) | - | - | 127,254 (USD4,276) | (15,964) | 100.00% | (15,964) | (41,930) | - |

Note: There are four kinds of investments

1. Invest in mainland china by remitting through third region.
2. Reinvest in mainland china by establishing investing companies in third region.
3. Reinvest in mainland china by reinvesting in companies in third region.
4. Invest directly in Mainland China's companies.

Note1: The exchange rate as of December 31, 2017 is USD 1 to NTD 29.76; the average exchange rate for 2017 is USD 1 to NTD 30.432.

Note2: The Company can no longer maintain its business in mainland China due to the rising cost of labor, material and supply. Therefore, the BOD approved the dissolution and liquidation of Unison on December 7, 2016.

(Continued)

ECLAT TEXTILE CO., LTD.
Notes to Financial Statements

(ii) Limitation on investment in Mainland China:

| Accumulated investment in Mainland China as of December 31, 2017 | Investment amounts authorized by investment commission, MOEA | Upper limit on investment |
|--|--|---------------------------|
| 127,254 (USD 4,276thousand) | 127,254 (USD 4,276thousand) | 9,043,348 |

Note: The exchange rate as of December 31, 2017 is USD 1 to NTD 29.76.

(iii) Significant transactions: None

(14) Segment information:

Please refer to the consolidated financial statements.

ECLAT TEXTILE CO., LTD.
DETAILS OF CASH AND CASH EQUIVALENTS
December 31, 2017
(Expressed in thousands of New Taiwan Dollars)

| <u>Items</u> | <u>Description</u> | <u>Rate</u> | <u>Amount</u> |
|---------------------------|---------------------|-------------|---------------------|
| Cash | | | \$ 4,316 |
| Bank deposits | | | \$ 7,518 |
| Checking deposits | | | 214,958 |
| Term deposits | USD 15,000 thousand | 29.76 | 446,400 |
| Stock deposits | | | 50 |
| Foreign currency deposits | USD 11,605 thousand | 29.76 | 345,360 |
| | EUR 13 thousand | 35.57 | 456 |
| Subtotal | | | <u>1,014,742</u> |
| Total | | | <u>\$ 1,019,058</u> |

ECLAT TEXTILE CO., LTD.

DETAILS OF NOTES RECEIVABLE

December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

| <u>Client name</u> | <u>Description</u> | <u>Amount</u> |
|----------------------|--------------------|-----------------|
| Related parties | | |
| Yi Yuan | Operating | \$ <u>26</u> |
| Non-related parties: | | |
| Han Ji | Operating | \$ 7,200 |
| HAKERS | " | 758 |
| HANN CHANG | " | 760 |
| ANDA TRAVEL | " | 522 |
| Others (Note) | " | <u>728</u> |
| Total | | <u>\$ 9,994</u> |

Note: Consisting of individual accounts with less than 5% of the total amount.

DETAILS OF ACCOUNTS RECEIVABLE

| <u>Client name</u> | <u>Description</u> | <u>Amount</u> |
|---------------------------------------|--------------------|---------------------|
| Non-related parties: | | |
| UNDER ARMOUR | Operating | \$ 495,750 |
| TARGET | " | 352,795 |
| WALMART | " | 308,586 |
| NIKE | " | 241,637 |
| GAP | " | 247,697 |
| KOHL'S | " | 210,550 |
| MAST-VICTORIA | " | 176,043 |
| Others (Note) | " | <u>1,391,928</u> |
| | | 3,424,986 |
| Less: allowance for doubtful accounts | | <u>(24,086)</u> |
| Total | | <u>\$ 3,400,900</u> |

Note: Consisting of individual accounts with less than 5% of the total amount.

ECLAT TEXTILE CO., LTD.

DETAILS OF INVENTORIES

December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

| Items | Amount | |
|-----------------|---------------------|----------------------|
| | Cost(Note) | Net realizable value |
| Finished goods | \$ 125,402 | 178,359 |
| Work in process | 662,551 | 882,553 |
| Raw materials | 2,335,846 | 2,354,026 |
| Supplies | 594,952 | 594,952 |
| Total | <u>\$ 3,718,751</u> | <u>4,009,890</u> |

Note: Inventory value has been reduced to net realizable amount.

ECLAT TEXTILE CO., LTD.

DETAILS OF INVESTMENTS ACCOUNTED FOR USING EQUITY-METHOD

For the year ended December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

| Name of company | Balance as of January 1, 2016 | | Increase | | Decrease | | Investment income/(loss) under equity method, net | Change in translation adjustment | Balance as December 31, 2016 | | Net value of equity | Pledge or collateralization | |
|-----------------|-------------------------------|---------------------|----------|---------------|----------|--------------|---|----------------------------------|------------------------------|--------------------|---------------------|-----------------------------|--------|
| | Share | Amount | Share | Amount | Share | Amount | | | Share | holding percentage | | | Amount |
| Best | 881 | \$ 14,421 | - | - | - | 2,324 | 2,532 | 13 | 881 | 44.05 % | 14,642 | 12,779 | None |
| Eclat Cayman | 127,435 | 3,870,473 | 650 | 19,721 | - | - | 96,400 | (306,288) | 128,085 | 100.00 % | 3,680,306 | 3,700,806 | None |
| Grand Elite | 34 | 82,157 | 1 | 11,770 | - | - | (93,135) | (5,161) | 35 | 100.00 % | (4,369) | (1,670) | None |
| | | <u>\$ 3,967,051</u> | | <u>31,491</u> | | <u>2,324</u> | <u>5,797</u> | <u>(311,436)</u> | | | <u>3,690,579</u> | <u>3,711,915</u> | |

Under equity method:

ECLAT TEXTILE CO., LTD.
DETAILS OF NOTES PAYABLE
December 31, 2017
(Expressed in thousands of New Taiwan Dollars)

| <u>Objects</u> | <u>Description</u> | <u>Amount</u> |
|----------------------|--------------------|-------------------|
| Non-related parties: | | |
| ZIG SHENG | Operating | \$ 51,859 |
| Others (Note) | " | <u>249,801</u> |
| Total | | <u>\$ 301,660</u> |

Note: Consisting of individual accounts with less than 5% of the total amount.

DETAILS OF ACCOUNTS PAYABLE

| <u>Objects</u> | <u>Description</u> | <u>Amount</u> |
|----------------------|--------------------|---------------------|
| Non-related parties: | | |
| INVISTA | Operating | \$ 89,575 |
| LITTLE KING | " | 76,790 |
| BEST PACIFIC | " | 75,271 |
| TOP LEVEL | " | 64,619 |
| Others (Note) | " | <u>971,363</u> |
| Total | | <u>\$ 1,277,618</u> |

Note: Consisting of individual accounts with less than 5% of the total amount.

ECLAT TEXTILE CO., LTD.**DETAILS OF OPERATING REVENUES****For the year ended December 31, 2017****(Expressed in thousands of New Taiwan Dollars)**

| <u>Item</u> | <u>Description</u> | <u>Amount</u> |
|-------------|--------------------|----------------------|
| Knitwear | 13,878,446 kg | \$ 7,327,258 |
| Yarn | 181,803 kg | 1,608 |
| Clothing | 81,206,907 pieces | <u>16,867,965</u> |
| | | <u>\$ 24,196,831</u> |

ECLAT TEXTILE CO., LTD.

STATEMENTS OF OPERATING COSTS

For the year ended December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

| <u>Items</u> | <u>Amount</u> |
|--|----------------------|
| Inventory balance, beginning of year | \$ - |
| Add: Purchases(net) | 1,491,883 |
| Sales of material and work-in-process | 276,057 |
| Less: Inventory balance (goods), end of year | <u>-</u> |
| Merchandising cost of goods sold | 1,767,940 |
| Raw materials & supplies | |
| Raw materials, beginning of year | \$ 1,634,305 |
| Supplies, beginning of year | 471,650 |
| Add: Purchases | 9,558,431 |
| Less: Raw materials, end of year | (2,353,083) |
| Supplies, end of year | (594,952) |
| Sales of raw materials | (36,242) |
| Others(Transferred to R&D expenses) | <u>(41,945)</u> |
| Materials consumed | 8,638,164 |
| Direct labor | 261,735 |
| Manufacturing expenses | <u>7,489,625</u> |
| Manufacturing costs | 16,389,524 |
| Work-in-process, beginning of year | 590,926 |
| Add: Purchase of work-in-process | 200,642 |
| Less: Work-in-process, end of year | (663,417) |
| Sales of work-in-process | (239,815) |
| Others | <u>(34,660)</u> |
| Cost of finished goods | 16,243,200 |
| Add : Finished goods, beginning of year | 168,782 |
| Less : Finished goods, end of year | (125,887) |
| Others | <u>(7,806)</u> |
| Cost of goods sold | <u>16,278,289</u> |
| Other Operating Expenses | <u>(12,675)</u> |
| Total operating costs | <u>\$ 18,033,554</u> |

ECLAT TEXTILE CO., LTD.

STATEMENTS OF OPERATING EXPENSES

For the year ended December 31, 2017

(Expressed in thousands of New Taiwan Dollars)

| <u>Items</u> | <u>Selling expenses</u> | <u>Administrative expenses</u> | <u>R&D expenses</u> |
|--------------------|-----------------------------|------------------------------------|-----------------------------|
| Salaries expense | \$ 550,100 | 355,147 | 33,426 |
| Insurance expense | 40,735 | 38,879 | 471 |
| Depreciation | 28,111 | 33,013 | 3,508 |
| Exporting expense | 279,166 | - | - |
| Testing expense | 71,190 | - | - |
| Materials | - | - | 48,884 |
| Processing expense | - | - | 62,965 |
| Others(Note) | <u>281,734</u> | <u>187,154</u> | <u>14,209</u> |
| Total | <u>\$ 1,251,036</u> | <u>614,193</u> | <u>163,463</u> |

Note: Consisting of individual accounts of less than 5% of the total amount.