

(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese.)

MAKALOT INDUSTRIAL CO., LTD.

Parent-Company-Only Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

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The independent 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 independent auditors' report and financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

To the Board of Directors of Makalot Industrial Co., Ltd.:

Opinion

We have audited the financial statements of Makalot Industrial Co., Ltd. ("the Company"), which comprise the balance sheets as of December 31, 2018 and 2017, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and 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 Auditors' 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. Based on our audits and the reports of other auditors, 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 of the current period. 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 express an opinion on these matters, separately. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Revenue recognition

Please refer to Note 4(o) "Revenue" to the financial statements.

Description of key audit matter

The Company is primarily involved in the manufacturing and processing of garment. Revenue recognition is the main concern of the users of the financial statements. Therefore, we determined that the revenue recognition is a key audit matter.

How the matter was addressed in our audit

Our principal audit procedures included: understanding the design and effectiveness of the Company's internal controls on revenue recognition; assessing whether the revenue recognition was performed in accordance with the Company's policy; performing trend and comparison analysis on revenue from major clients to assess the significant exceptions; performing sales cut-off test of a period before and after the reporting date by vouching relevant documents of sales transactions to determine whether sales transactions have been appropriately recognized.

2. Derecognition of financial assets

Please refer to Note 4(f) "Financial assets" and Note 6(c) "Factoring and derecognition of accounts receivable" to the financial statements.

Description of key audit matter

The Company factored its accounts receivable to certain financial institutions to manage its credit risk on accounts receivable. The judgments on derecognition of financial assets involved particular accounting treatments. Therefore, we determined that the derecognition of financial asset is a key audit matter.

How the matter was addressed in our audit

Our principal audit procedures included: understanding the internal controls of the Company applied in factoring its accounts receivable; reviewing the factoring agreements with banks; assessing whether the factoring of accounts receivable was performed in accordance with the Company's policy; assessing whether the disclosure of factoring transactions was appropriate, including performing the confirmation procedure.

3. Inventory valuation

Please refer to Note 4(g) "Inventories", Note 5 "Significant accounting assumptions and judgments, and major sources of estimation uncertainty" and Note 6(d) "Inventories" of the financial statements.

Description of key audit matter

The inventories of the Company are measured at the lower of cost and net realizable value. Since the environment in the industry changes rapidly, the cost of inventories might have a risk to exceed the net realizable value. Therefore, we determined that the assessment of inventory valuation is a key audit matter.

How the matter was addressed in our audit

Our principal audit procedures included: understanding the Company's inventory management policies, such as the policy of management and valuation of inventories; assessing whether the inventory management and valuation were performed in accordance with the Company's policy; performing sampling procedures to understand the net realizable values used by management and the prices in a period after the reporting date to ensure the appropriateness of the valuation; sampling and inspecting the accuracy of the inventory aging report; assessing whether the disclosure of provision for inventory valuation and obsolescence was appropriate at the reporting date.

4. Investment under equity method

Please refer to Note 4 (h) and (i) "Investment under equity method" and Note 6 (e) "Details of Investment under equity method" to the financial statements.

Description of key audit matter

The investments of the Company under equity method are mainly its subsidiaries all across the globe, wherein amounts of the investments has significant impact on the assets of the Company. Therefore, we determined that the investment under equity method is a key audit matter.

How the matter was addressed in our audit

Our principal audit procedures included: understanding the internal controls of the Company applied in the investment under equity method; acquiring the detail movements of the investment under equity method and examining their transaction records and related documents; assessing whether the investment under equity method was performed in accordance with the Company's policy; acquiring the detailed calculation of the investment under equity method and evaluating whether the Company recognizes the share of profit or loss of its subsidiaries and associates under equity method and the exchange difference on translation of foreign operations according to the appropriate percentage of the investment; understanding whether the difference between the cost of the investment under equity method and the net equity held by the Company was addressed appropriately by the nature of their differences.

Other Matter

We did not audit the financial statements of certain investments, with represented investment under equity method of the Company. The financial statements of certain investments under equity method of the Company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it related to the amounts included below, is based solely on the reports of the other auditors. The book value of the investments under equity method audited by other auditors both constituted 1% of the total assets as of December 31, 2018 and 2017, and the related share of income or loss from these investments under equity method constituted (1)% and (4)% of the profit before income tax for the years ended as of December 31, 2018 and 2017, respectively.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of 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 audit committees) 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditors' 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 auditors' 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 and appropriate audit evidence regarding the financial information of the investment under equity method to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Pei-Chi Chen and Chi-Lung Yu.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2019

Notes to Readers

The accompanying financial statements are intended only to present the statements of financial position, financial performance and 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.

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

Balance Sheets

December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017			December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and Equity				
Current assets:					Current liabilities:				
1100 Cash and cash equivalents (notes 6(a)(i))	\$ 1,486,879	11	949,109	8	2100 Short-term borrowings (notes 6(i)(i))	\$ 396,456	3	277,586	2
1110 Financial assets at fair value through profit or loss-current (notes 6(b)(i))	57,120	-	62,748	-	Notes payable (note 6(i))	729	-	2,546	-
1170 Accounts receivable, net (notes 6(c)(q)(i))	829,869	6	585,944	5	Accounts payable (note 6(i))	1,278,751	10	968,471	8
1210 Other receivables-related parties (notes 6(c)(i) and 7)	6,396	-	125,053	1	Accounts payable-related parties (notes 6(i) and 7))	1,438,053	11	1,456,948	12
1310 Inventories, manufacturing (note 6(d))	2,577,769	19	1,987,324	16	Other payables (note 6(i))	996,790	7	856,164	7
1476 Other financial assets-current (notes 6(c)(i))	1,437,233	11	1,776,851	14	Other payables-related parties (notes 6(i) and 7)	17,180	-	15,308	-
1479 Other current assets-others (note 6(h) and 7)	69,271	1	99,958	1	Current tax liabilities	285,276	2	114,652	1
	6,464,537	48	5,586,987	45	Current provisions for employee benefits (note 6(m))	19,733	-	17,588	-
Non-current assets:					Current other provisions (note 6(k))	125,530	1	137,346	1
1550 Investments under equity method (note 6(e))	1,841,267	14	1,758,328	14	Other current liabilities-others (note 7)	79,769	1	1,785	-
1600 Property, plant and equipment (notes 6(f) and 8)	2,941,847	22	2,973,869	24		4,638,267	35	3,848,394	31
1821 Intangible assets (note 6(g))	12,987	-	11,247	-	Non-Current liabilities:				
1840 Deferred income tax assets (note 6(n))	59,691	-	53,645	1	Deferred income tax liabilities (note 6(n))	5,293	-	11,935	-
1942 Long-term accounts receivables-related parties (notes 6(i) and 7)	2,141,142	16	1,925,195	16	Accrued pension liability (note 6(m))	51,004	-	54,092	1
1990 Other non-current assets-others (notes 6(h)(i) and 8)	4,850	-	7,434	-	Other non-current liabilities-others	3,877	-	3,877	-
	7,001,784	52	6,729,718	55		60,174	-	69,904	1
						4,698,441	35	3,918,298	32
Total assets	\$ 13,466,321	100	12,316,705	100	Total liabilities				
					Equity (notes 6(j)(o)(p)(v)(w)):				
					Ordinary shares	2,093,872	15	2,093,872	17
					Capital surplus	3,356,329	25	3,544,777	29
					Retained earnings	3,345,577	25	2,874,359	23
					Exchange differences on translation of financial statements of foreign operations	(27,898)	-	(114,601)	(1)
					Total equity	8,767,880	65	8,398,407	68
					Total liabilities and equity	\$ 13,466,321	100	12,316,705	100

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

Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars , except earnings per share)

		2018		2017	
		Amount	%	Amount	%
4000	Operating revenue, net (note 6(q))	\$ 22,702,647	100	21,571,177	100
5000	Operating costs (notes 6(d)(l)(m) and 7)	<u>19,154,670</u>	<u>84</u>	<u>18,422,210</u>	<u>85</u>
	Gross profit from operations	3,547,977	16	3,148,967	15
	Operating expenses (notes 6(g)(l)(m)(r), 7 and 12):				
6100	Selling expenses	1,072,464	5	1,001,627	5
6200	Administrative expenses	<u>652,234</u>	<u>3</u>	<u>580,432</u>	<u>3</u>
	Total operating expenses	<u>1,724,698</u>	<u>8</u>	<u>1,582,059</u>	<u>8</u>
	Net operating income	<u>1,823,279</u>	<u>8</u>	<u>1,566,908</u>	<u>7</u>
	Non-operating income and expenses:				
7010	Other income (notes 6(s) and 7)	97,923	-	96,525	-
7020	Other gains and losses (notes 6(s)(t))	36,526	-	(62,099)	-
7050	Finance costs (notes 6(j)(s))	(79,441)	-	(56,935)	-
7070	Share of profit (loss) of investments under equity method	<u>(1,659)</u>	<u>-</u>	<u>4,398</u>	<u>-</u>
	Total non-operating income and expenses	<u>53,349</u>	<u>-</u>	<u>(18,111)</u>	<u>-</u>
7900	Profit before income tax	1,876,628	8	1,548,797	7
7950	Less: income tax expenses (note 6(n))	<u>369,619</u>	<u>1</u>	<u>262,711</u>	<u>1</u>
	Profit	<u>1,507,009</u>	<u>7</u>	<u>1,286,086</u>	<u>6</u>
8300	Other comprehensive income:				
8310	Items that will not be reclassified to profit or loss				
8311	Remeasurements of net defined benefit plans (note 6(m))	(1,441)	-	(4,010)	-
8330	Share of other comprehensive income of subsidiaries and associates under equity method that will not be reclassified to profit or loss	29,042	-	1,711	-
8349	Income tax related to other comprehensive income that will not be reclassified to profit or loss	<u>4,483</u>	<u>-</u>	<u>681</u>	<u>-</u>
		<u>32,084</u>	<u>-</u>	<u>(1,618)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	86,703	-	(254,519)	(1)
8399	Income tax related to other comprehensive income that may be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>86,703</u>	<u>-</u>	<u>(254,519)</u>	<u>(1)</u>
8300	Other comprehensive income, net	<u>118,787</u>	<u>-</u>	<u>(256,137)</u>	<u>(1)</u>
	Comprehensive income	<u>\$ 1,625,796</u>	<u>7</u>	<u>1,029,949</u>	<u>5</u>
	Earnings per share (note 6(p))				
9750	Basic earnings per share (NT dollars)	<u>\$ 7.20</u>		<u>6.18</u>	
9850	Diluted earnings per share (NT dollars)	<u>\$ 7.17</u>		<u>6.12</u>	

See accompanying notes to financial statements.

(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese)
MAKALOT INDUSTRIAL CO., LTD.

Statements of Changes in Equity

For the years ended December 31, 2018 and 2017
(Expressed in thousands of New Taiwan Dollars)

	Retained earnings				Total other equity	
					interest	
					Exchange	
					differences on	
					translation of	
					foreign financial	
					statements	
						Total equity
Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	
\$						
Balance at January 1, 2017	2,067,349	3,403,403	1,394,011	1,586,709	2,980,720	8,591,390
Profit	-	-	-	1,286,086	1,286,086	1,286,086
Other comprehensive income	-	-	-	(1,618)	(1,618)	(256,137)
Total comprehensive income	-	-	-	1,284,468	1,284,468	1,029,949
Appropriation and distribution of retained earnings:						
Legal reserve	-	-	152,286	(152,286)	-	-
Cash dividends of ordinary share	-	-	-	(1,390,829)	(1,390,829)	(1,390,829)
Conversion of convertible bonds	26,523	154,241	-	-	-	180,764
Equity components of convertible bonds	-	(12,867)	-	-	-	(12,867)
Balance at December 31, 2017	2,093,872	3,544,777	1,546,297	1,328,062	2,874,359	8,398,407
Profit	-	-	-	1,507,009	1,507,009	1,507,009
Other comprehensive income	-	-	-	32,084	32,084	118,787
Total comprehensive income	-	-	-	1,539,093	1,539,093	1,625,796
Appropriation and distribution of retained earnings:						
Legal reserve	-	-	128,609	(128,609)	-	-
Special reserve	-	-	-	(114,601)	-	-
Cash dividends of ordinary share	-	-	-	(1,067,875)	(1,067,875)	(1,067,875)
Cash dividends from capital surplus	-	(188,448)	-	-	-	(188,448)
Balance at December 31, 2018	2,093,872	3,356,329	1,674,906	1,556,070	3,345,577	8,767,880

See accompanying notes to financial statements.

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

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

	2018	2017
Cash flows from operating activities:		
Profit before tax	\$ 1,876,628	1,548,797
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	41,551	40,359
Amortization expense	7,274	11,093
Expected credit loss / Provision for bad debt expense	2,541	1,422
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	5,628	(12,921)
Interest expense	54,751	31,754
Interest income	(67,100)	(62,812)
Share of loss (profit) of investments under equity method	1,659	(4,398)
Loss on disposal of property, plant and equipment	1,747	-
Total adjustments to reconcile profit	48,051	4,497
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	(246,466)	(150,025)
Other receivable due from related parties	118,657	(79,890)
Inventories	(590,445)	240,089
Other financial assets	339,757	(147,313)
Other operating assets	30,687	17,628
Total changes in operating assets	(347,810)	(119,511)
Changes in operating liabilities:		
Notes payable	(1,817)	(4,748)
Accounts payable	310,280	(58,373)
Accounts payable to related parties	(18,895)	316,391
Other payable	138,205	(39,581)
Other payable to related parties	1,872	14,311
Other current liabilities	77,984	(10,188)
Accrued pension liabilities	(4,529)	(12,602)
Other operating liabilities	(9,671)	(21,026)
Total changes in operating liabilities	493,429	184,184
Total changes in operating assets and liabilities	145,619	64,673
Total adjustments	193,670	69,170
Cash inflow generated from operations	2,070,298	1,617,967
Interest received	66,961	62,767
Interest paid	(52,330)	(29,980)
Income taxes paid	(207,200)	(236,623)
Net cash flows from operating activities	1,877,729	1,414,131
Cash flows from (used in) investing activities:		
Proceeds from disposal of property, plant and equipment	410	-
Acquisition of investments under equity method	(141,561)	(12,020)
Proceeds from disposal of investments under equity method	5,096	-
Increase long-term prepayments	2,584	2,064
Proceeds from capital reduction of investments under equity method	38,415	120,159
Acquisition of property, plant and equipment	(11,686)	(32,073)
Increase in other receivables due from related parties	(114,938)	(9,973)
Acquisition of intangible assets	(9,014)	(2,582)
Dividends received	28,188	45,774
Net cash flows (used in) investing activities	(202,506)	111,349
Cash flows used in financing activities:		
Increase (decrease) in short-term loans	118,870	(74,372)
Cash dividends paid from retained earnings and capital surplus	(1,256,323)	(1,390,829)
Net cash flows used in financing activities	(1,137,453)	(1,465,201)
Net increase in cash and cash equivalents	537,770	60,279
Cash and cash equivalents at beginning of period	949,109	888,830
Cash and cash equivalents at end of period	\$ 1,486,879	949,109

See accompanying notes to financial statements.

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

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in thousands of New Taiwan Dollars, unless otherwise specified)

(1) Company history

Makalot Industrial Co., Ltd. (the Company) was incorporated on January 10, 1990 and registered with the Ministry of Economic Affairs, R.O.C. The address of the Company's registered office is 8F, No.550, Sec. 4 Zhongxiao E. Rd., Taipei City. The Company is primarily involved in the manufacturing and processing of garments.

(2) Approval date and procedures of the financial statements

The parent-company-only financial statements were authorized for issuance by the Board of Directors on March 26, 2019.

(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, 2018.

<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

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

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

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a five-step single analysis model for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

The Company applied this standard retrospectively to each prior reporting period on its financial statements.

The Company uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2017, and contracts that begin and end within 2017.

The following are the nature and impacts on the changing of accounting policies:

The Company uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2017, and contracts that begin and end within 2017.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue was previously recognized when the related risks and rewards of ownership were transferred. 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. Under IFRS 15, revenue is recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The adoption of IFRS15 did not have any significant impact on its recognition of revenue from contracts and related cost.

(ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instrument: Recognition and Measurement” which contains classification and measurement of financial instruments impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Company adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous 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. For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(f).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(f).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on its asset will not increase significantly since its initial recognition.

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as of January 1, 2018. (The measurement categories and carrying amount of financial liabilities do not change.)

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Loans and receivables	949,109	Amortized cost	949,109
Held-for-trading non-derivative financial assets	Designated as FVTPL (note 1)	62,748	Mandatorily at FVTPL	62,748
Accounts receivable, net	Loans and receivables (note 2)	585,944	Amortized cost	585,944
Other financial assets	Loans and receivables (note 2)	1,776,851	Amortized cost	1,776,851
Long-term receivables -related parties	Loans and receivables (note 2)	1,925,195	Amortized cost	1,925,195
Refundable deposits	Loans and receivables (note 2)	3,778	Amortized cost	3,778

note1: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

note2: Notes and accounts receivables, lease and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

Reconciling the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018 did not have any significant reclassifications, remeasurements and adjustments.

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(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, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
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 19 “Plan Amendment, Curtailment or Settlement”	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

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 signification changes are as follows:

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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2) Transition

As a lessee, the Company can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Company plans to initially apply IFRS 16 using the modified retrospective approach. The Company assessed that the adoption of IFRS 16 did not have impact on the opening balance of retained earnings at January 1, 2019.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

- 3) So far, no significant impact is expected for the Company's new assets and liabilities, as well as the retained earnings on January 1, 2019 for the operating leases of its offices, factory facilities, and warehouses. No significant impact is expected for the Company's finance leases.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

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, as well as 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.

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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, as well as 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.

So far, the Company expects that the changes mentioned above do not have significant adjustment to the financial report.

The actual impact 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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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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 parent-company-only 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 parent-company-only financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the parent-company-only financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the parent-company-only financial statements.

(a) Statement of compliance

The parent-company-only 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

Except for the following significant accounts, the financial statements have been prepared on a historical cost basis:

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments); and
- 2) The defined benefit liability (asset) is recognized as the fair value of the plan assets less the present value of the defined benefit obligation.

(ii) Functional and presentation currency

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

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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 period, adjusted for the effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

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Notes to the Financial Statements

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 the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at average exchange rate of the reporting periods. Exchange differences arising on retranslation 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 of 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 of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a 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.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or

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- (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 issuing equity instruments do not affect its classification.

(e) Cash and cash equivalents

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

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(f) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost and fair value through profit or loss (FVTPL).

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

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2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost described as above are measured at FVTPL, including derivative financial assets and accounts receivable, which is presented as accounts receivable. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

3) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable, guarantee deposit paid and other financial assets).

The Company measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables is always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

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ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Company recognizes the amount of expected credit losses or reversal in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Company recognizes the difference between its 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 – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

On derecognition of financial assets other than a debt instrument in its entirety, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized under continuing involvement, and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income. A cumulative gain or loss that had been recognized in other comprehensive income was allocated to the part that continues to be recognized and the part that is no longer recognized on the basis of relative fair values of those parts.

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(ii) Financial assets (policy applicable before January 1, 2018)

Financial assets are classified into the following categories: financial assets at fair value through profit or loss and 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.

Financial assets are classified as held for trading if they are acquired principally for the purpose of repurchasing or selling in the short term.

The Company designates financial assets, other than those classified as held for trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognizing the gains and losses on them on a different basis;
- b) Performance of the financial asset is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent valuation is measured at fair value, and changes therein, which take into account any 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 the impairment loss and is reported under "financial assets measured at cost".

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 comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus any directly related transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

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3) Impairment of financial assets

A financial asset which is not measured at fair value through profit or loss is evaluated for impairments at the reporting date.

A financial asset is impaired if, and only if, there is 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 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 Group on terms that the Group 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.

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 Group 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 national or regional economic conditions are such that actual losses are likely to be greater or less than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for trade receivables, for 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 of a receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment loss is recognized at the reversal date.

4) Derecognition of financial assets

The Company derecognizes financial assets only 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 consideration received or receivable shall be recognized in profit or loss.

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The Company separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the consideration received for the part derecognized shall be recognized in profit or loss.

(iii) Financial liabilities and equity instruments

1) Classification of liabilities or equity instruments

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.

An equity instrument is any contract that evidence residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the amount of consideration received, less the direct cost of issuing.

Compound financial instruments issued by the Company comprise convertible bonds payable that can be converted to share capital at the option of the holder when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest and losses or gains related to the financial liability are recognized in profit or loss, and included in non-operating income and expenses.

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

2) Financial liabilities 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.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of repurchasing or selling in the short term. The Company designates all other financial liabilities as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognizing the gains and losses on them on a different basis;

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- b) Performance of the financial liabilities is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Financial liabilities classified under this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent valuation is measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss.

3) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at 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 costs at initial recognition. 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.

4) Derecognition of financial liabilities

The Company derecognized a financial liability when its contractual obligation has been discharged or cancelled, or has 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 the line item of non-operating income or expenses in the statement of comprehensive income.

5) Offsetting of financial liabilities and assets

The Company presents financial assets and liabilities on a 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.

(iv) Derivatives financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income or expenses in the statement of comprehensive income. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative it is classified as a financial liability.

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Notes to the Financial Statements

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method and includes expenditure incurred in acquiring the inventories, manufacturing and processing costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

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

The parent-company-only financial statements include the Company's share of the profit or loss and other comprehensive income of subsidiaries and affiliates under the equity method, 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 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, 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 is discontinued except to the extent that the Company has an legal or constructive obligation or has made payments on behalf of the investee.

(i) Investment in subsidiaries

The Company uses the equity method on investees over which the Company has control when preparing the parent-company-only financial statements. The profit or loss for the period and other comprehensive income presented in individual financial statements shall be the same as the allocations of profit or loss for the period and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the individual financial statements shall be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

(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 attributable to the acquisition of the asset. The cost of a self-constructed asset comprises 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. The cost of software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately unless the useful life and depreciation method of that significant part are the same as those of another significant part of that same item.

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 in profit or loss.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure can be reasonably assessed, 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 on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use will be the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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: 15 to 50 years.
- 2) Machinery and equipment: 5 years.

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MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

3) Office and other equipment: 3 to 5 years.

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectation differs from previous estimates, the changes are accounted for as changes in accounting estimates.

(k) Lease

All leases are operating lease and are not recognized in the Company's balance sheets.

Payments made under an operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Contingent lease payable is recognized as an expense in the period when the lease adjustment is affirmed.

(l) 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.

(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 less its residual value.

Except for intangible assets with indefinite useful lives, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 3 to 5 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 a change in accounting estimate.

(m) Impairment of non-financial assets

Non-financial assets, except for inventories, deferred tax assets, and assets arising from employee benefits, are assessed at each reporting date for 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 (the higher of fair value less costs to sell and its value in use) for the individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.**Notes to the Financial Statements**

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. The reduction is an impairment loss, which shall be recognized immediately in profit or loss.

The Company assesses at each reporting date 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.

Goodwill, intangible assets with indefinite useful lives, and unavailable intangible assets are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(n) Provision

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized in profit or loss.

(o) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good to a customer. The accounting policies for the Company's main types of revenue are explained below.

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MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(i) Sale of goods

The Company is involved in the manufacturing, processing and wholesaling of garments. The Company recognizes its revenue when control of the products has been transferred, being when the products are delivered to the customer based on the clauses of the contract and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The Company offers discounts to specific customers. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated discounts. A certain proportion of sales is used to estimate the discounts and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

(ii) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(p) Employee benefits

(i) Defined contribution plan

Obligations for contributions to a 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 plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of a 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, based on the discounted present value of the defined benefit obligation. The fair value of any plan assets are deducted. The discount rate is the market yield at the reporting date 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 is performed annually by a qualified actuary using the projected unit credit method. If the calculation results in a benefit to the Company, the recognized asset is limited to the total of 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 calculating 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.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

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

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company reclassifies the amounts recognized from other comprehensive income to retained earnings.

The Company recognizes 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 or settlement arises from any change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable for more than 12 months after the reporting period, then they are discounted to their present value.

(iv) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as 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.

(q) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to a business combination or 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 income (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 payables in prior years.

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MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

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 are recognized except for the following:

- (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) arising from the transaction.
- (ii) Temporary differences arising from equity investments in 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 are 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.

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 fulfils one of the scenarios below:
 - 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 is 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 the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such deferred tax assets shall also be re-evaluated at each reporting date and adjusted based on the probability that the related tax benefit will be realized.

(r) **Business combination**

Goodwill is measured as the excess of the consideration transferred (which generally is measured at fair value at the acquisition date) and the amount of any non-controlling interest in the acquiree over net fair value at the acquisition date of the identifiable assets acquired and the liabilities assumed (generally at fair value). If the residual balance is negative, the Company shall reassess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain on the bargain purchase thereafter.

For each business combination, non-controlling interest in the acquiree is measured either at acquisition-date fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

In a business combination achieved in stages, the Company re-measures its previously held equity interest in the acquiree at its acquisition-date fair value, and the resulting gain or loss, if any, is recognized in profit or loss. Changes in equity of investees recognized in other comprehensive income before the acquisition date should be settled in the same manner as the Company disposed directly of the previously held equity interest. If the disposal of the equity interest requires a reclassification to profit or loss, such amount shall be reclassified to profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the Company's consolidated financial statements. During the measurement period, the provisional amounts recognized at the acquisition date are retrospectively adjusted, or additional assets or liabilities are recognized to reflect any new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period should not exceed one year from the acquisition date.

Except for the issuance of debt and equity instruments, all transaction costs related to the business combination should be recognized immediately as the Company's expenses when incurred.

(s) Earnings per share

The Company reports the basic earnings per share and the diluted earnings per share. The basic earnings per share are calculated as the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The diluted earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise convertible bonds and accrued employee bonus.

(t) Operating segments

The Company has already disclosed the segment information in the consolidated financial statements; therefore, the Company will not disclose the segment information again in the separate financial statements.

(u) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards.

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

The preparation of the financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers 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 basic assumptions. The management recognizes any changes in accounting estimated during the period and the impact of those changes in accounting estimates in the following period.

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MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

Information about judgments made in applying accounting policies that have the significant effects on the amounts recognized in the individual financial statements is disclosed in note 6(d) inventories.

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash	\$ 1,165	913
Checking accounts and demand deposits	973,876	833,786
Time deposits	511,838	114,410
	<u><u>\$ 1,486,879</u></u>	<u><u>949,109</u></u>

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

(b) Financial assets and liabilities at fair value through profit or loss

- (i) The details of the financial assets and liabilities at fair value through profit or loss were as follows:

	December 31, 2018	December 31, 2017
Financial assets held for trading	\$ <u><u>57,120</u></u>	<u><u>62,748</u></u>

(c) Notes receivable, accounts receivable, and other receivables (including amount due from related parties)

- (i) The details of notes receivable, accounts receivable, and other receivables were as follows:

	December 31, 2018	December 31, 2017
Accounts receivable—measured as amortized cost	\$ 838,328	591,862
Other receivables	6,396	125,053
Other financial assets—current	1,437,233	1,776,851
Less: loss allowance	<u>(8,459)</u>	<u>(5,918)</u>
	<u><u>\$ 2,273,498</u></u>	<u><u>2,487,848</u></u>

As of December 31, 2018, other financial assets—current is measured as amortized costs.

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

The loss allowance provision as of December 31, 2018 was determined as follows:

	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ <u>838,328</u>	1%	<u>8,459</u>

As of December 31, 2017, the Company applies the incurred loss model to consider the loss allowance provision of notes and accounts receivable, and there was no overdue but unimpaired notes receivable, accounts receivable, and other receivables of the Company.

The movement in the allowance for accounts receivable was as follows:

	December 31, 2018	December 31, 2017 Individually assessed impairment	December 31, 2017 Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS39	\$ 5,918	-	4,496
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	5,918		
Impairment losses recognized	2,541	-	1,422
Balance on December 31, 2018 and 2017	\$ <u>8,459</u>	<u>-</u>	<u>5,918</u>

None of the accounts receivable held by the Company were pledged or collateralized as of December 31, 2018 and 2017.

The Company factored its accounts receivable to certain financial institutions without recourse, and under the agreements, the Company is not required to bear the risk of uncollectible accounts receivable within the factoring credit limit. The factored accounts receivable conform to the derecognition criteria when the ownership and the significant risks of the factored accounts receivable are transferred to the financial institutions. As of December 31, 2018 and 2017, the factored accounts receivable were \$1,427,904 thousand and \$1,774,388 thousand, respectively, and they were included in "other financial assets—current" in the accompanying balance sheets.

As of December 31, 2018 and 2017, the relevant information on derecognized accounts receivable factored was as follows:

December 31, 2018							
Factoring financial institution	Factoring credit limit	Advance amount credit limit	Factored amount (Derecognized amount)	Advance amount	Interest rate	Important derecognized provision	Collateral
HSBC Bank	USD 128,800 thousand	USD 122,360 thousand	\$ 2,241,368	1,427,833	(Note 2)	(Note 1)	Promissory note USD87,850 thousand (Note 3)
CTBC Bank	USD 20,200 thousand	USD 18,180 thousand	194,060	-	"	"	None
Mizuho Bank	USD 25,000 thousand	USD 22,500 thousand	335,276	88,399	"	"	None
Sumitomo Mitsui Bank	USD 56,000 thousand	USD 56,000 thousand	1,389,442	1,250,580	"	"	None
Bank SinoPac	USD 7,500 thousand	USD 4,500 thousand	34,570	-	"	"	Promissory note USD6,030 thousand
Total			\$ <u>4,194,716</u>	<u>2,766,812</u>			

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MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

December 31, 2017							
Factoring financial institution	Factoring credit limit	Advance amount credit limit	Factored amount (Derecognized amount)	Advance amount	Interest rate	Important derecognized provision	Collateral
HSBC Bank	USD 113,000 thousand	USD 101,700 thousand	\$ 1,562,892	591,959	(Note 2)	(Note 1)	Promissory note USD87,850 thousand (Note 3)
Standard Chartered Bank	USD 1,000 thousand	USD 1,000 thousand	-	-	"	"	None
CTBC Bank	USD 26,800 thousand	USD 24,120 thousand	179,768	-	"	"	None
E.SUN Commercial Bank	USD 19,000 thousand	USD 17,100 thousand	3,407	-	"	"	Promissory note USD21,600 thousand
Mizuho Bank	USD 25,000 thousand	USD 22,500 thousand	373,774	168,404	"	"	None
Sumitomo Mitsui Bank	USD 56,000 thousand	USD 56,000 thousand	1,383,694	1,014,232	"	"	None
Bank SinoPac	USD 5,000 thousand	USD 4,500 thousand	45,448	-	"	"	Promissory note USD6,030 thousand
Total			<u>\$ 3,548,983</u>	<u>1,774,595</u>			

Note 1: According to the accounts receivable purchase agreements or the approval letters issued by the factoring financial institutions, the accounts receivable were factored without recourse. The funds are transferred to the appointed reserve accounts or directly to the factoring financial institutions.

Note 2: For 2018 and 2017, the average interest rates on factored accounts receivable were 1.88%~3.59% and 1.14%~2.30%, respectively.

Note 3: The aggregate credit limit of the promissory note includes letters of credit, export bill negotiations, borrowings, derivatives, and accounts receivable factored.

(d) Inventories

	December 31, 2018	December 31, 2017
Raw materials	\$ 2,527,046	1,952,430
Finished goods (including merchandise)	50,723	34,894
	<u>\$ 2,577,769</u>	<u>1,987,324</u>

In 2017, the reversal of write-downs amounted to \$12,719 thousands. In 2018, the write-downs of inventories to the net realizable value amounted to \$14,944 thousands. The write-downs and reversals were included in cost of goods sold.

None of the inventories held by the Company were pledged as collateral as of December 31, 2018 and 2017.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

(e) Investment under equity method

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

	December 31, 2018	December 31, 2017
Subsidiaries	\$ <u>1,841,267</u>	<u>1,758,328</u>

(i) Subsidiaries

Please refer to the consolidated financial statements.

(ii) Collateral

None of the investment under the equity method held by the Company was pledged as collateral as of December 31, 2018 and 2017.

(f) Property, plant and equipment

The cost, depreciation and impairment loss of the property, plant and equipment of the Company for the years ended December 31, 2018 and 2017, were as follows:

	Land	Buildings	Machinery	Office and other equipment	Total
Cost :					
Balance at January 1, 2018	\$ 2,538,791	453,386	39,848	101,497	3,133,522
Additions	-	3,118	3,634	4,934	11,686
Disposals	-	-	(9,053)	(3,102)	(12,155)
Reclassification	-	291	-	(291)	-
Balance at December 31, 2018	\$ <u>2,538,791</u>	<u>456,795</u>	<u>34,429</u>	<u>103,038</u>	<u>3,133,053</u>
Balance at January 1, 2017	\$ 2,538,791	447,755	34,433	80,470	3,101,449
Additions	-	5,376	5,196	21,501	32,073
Reclassification	-	255	219	(474)	-
Balance at December 31, 2017	\$ <u>2,538,791</u>	<u>453,386</u>	<u>39,848</u>	<u>101,497</u>	<u>3,133,522</u>
Depreciation and impairment loss:					
Balance at January 1, 2018	\$ -	81,807	26,705	51,141	159,653
Depreciation for the year	-	27,375	2,439	11,737	41,551
Disposals	-	-	(7,158)	(2,840)	(9,998)
Reclassification	-	10	-	(10)	-
Balance at December 31, 2018	\$ <u>-</u>	<u>109,192</u>	<u>21,986</u>	<u>60,028</u>	<u>191,206</u>
Balance at January 1, 2017	\$ -	54,933	24,403	39,958	119,294
Depreciation for the year	-	26,870	2,150	11,339	40,359
Reclassification	-	4	152	(156)	-
Balance at December 31, 2017	\$ <u>-</u>	<u>81,807</u>	<u>26,705</u>	<u>51,141</u>	<u>159,653</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Office and other equipment</u>	<u>Total</u>
Carrying amounts:					
Balance at December 31, 2018	\$ <u>2,538,791</u>	<u>347,603</u>	<u>12,443</u>	<u>43,010</u>	<u>2,941,847</u>
Balance at January 1, 2017	\$ <u>2,538,791</u>	<u>392,822</u>	<u>10,030</u>	<u>40,512</u>	<u>2,982,155</u>
Balance at December 31, 2017	\$ <u>2,538,791</u>	<u>371,579</u>	<u>13,143</u>	<u>50,356</u>	<u>2,973,869</u>

Please refer to note 8 for assets pledged as collateral for loans as of December 31, 2018 and 2017.

(g) Intangible assets

The movements of cost, amortization, and impairment losses of intangible assets in 2018 and 2017, were as follows:

	<u>Intangible assets</u>
Cost:	
Balance at January 1, 2018	\$ 167,527
Additions	<u>9,014</u>
Balance at December 31, 2018	\$ <u>176,541</u>
Balance at January 1, 2017	\$ 164,945
Additions	<u>2,582</u>
Balance at December 31, 2017	\$ <u>167,527</u>
Accumulated amortization and impairment losses:	
Balance at January 1, 2018	\$ 156,280
Amortization for the year	<u>7,274</u>
Balance at December 31, 2018	\$ <u>163,554</u>
Balance at January 1, 2017	145,187
Amortization for the year	<u>11,093</u>
Balance at December 31, 2017	\$ <u>156,280</u>
Carrying value:	
Balance at December 31, 2018	\$ <u>12,987</u>
Balance at January 1, 2017	\$ <u>19,758</u>
Balance at December 31, 2017	\$ <u>11,247</u>

Amortization expenses for the years ended December 31, 2018 and 2017, were recognized as operating expenses in the comprehensive income statements, amounting to \$7,274 thousand and \$11,093 thousand, respectively.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(h) Other current and non-current assets

The details of other current and non-current assets were as follows:

	December 31, 2018	December 31, 2017
Prepayments for equipment	\$ 1,072	3,656
Prepayments for inventory	15,658	2,919
Prepaid for inventory- related parties	7,831	20,093
Refundable deposits	3,778	3,778
Other	45,782	76,946
	<u>\$ 74,121</u>	<u>107,392</u>

(i) Short-term borrowings

	December 31, 2018	December 31, 2017
Unsecured bank loans	\$ 396,456	277,586
Unused facilities	\$ 4,636,314	4,270,743
Range of interest rates	<u>1.85%~2.70%</u>	<u>1.14%~2.30%</u>

(j) Convertible bond payable

The details of convertible bond payable of the Company were as follows:

	December 31, 2018	December 31, 2017
Amount of convertible bond issued	\$ -	700,000
Cumulative converted amount	-	(700,000)
	<u>\$ -</u>	<u>-</u>
Embedded derivative—put and call options (accounted for as financial liabilities at fair value through profit or loss—current)	\$ -	-
Equity component—conversion options (accounted for as capital surplus)	\$ -	-
	<u>2018</u>	<u>2017</u>
Embedded derivative—put and call options (accounted for as evaluation loss (gain) on financial instruments)	\$ -	-
Interest expense (accounted for as finance cost)	\$ -	1,641

The Company issued the No. 4 five-years unsecured convertible bonds in Taiwan without coupon rate. These convertible bonds cover a period from August 24, 2012, to August 24, 2017.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

At any time during the period from September 25, 2012, to July 15, 2017, the Company may redeem the bonds with cash at face value with certain circumstances.

At any time on or after August 24, 2015, the bondholders may request the Company to repurchase the convertible bond at 100.7519% of the face value. During the period from July 25, 2016, to August 25, 2016, the bondholders may request the Company to repurchase the convertible bond at 101.0038% of the face value.

The bondholders may request conversion of the bond to the Company's common stock at any time during the period from September 25, 2012, to August 14, 2017. The Company will pay the principal in cash when the bonds are not converted into common stock nor redeemed at the maturity date.

(k) Provisions

	Provisions
Balance at January 1, 2018	\$ 137,346
Provisions used during the year	<u>(11,816)</u>
Balance at December 31, 2018	<u><u>\$ 125,530</u></u>
Balance at January 1, 2017	\$ 161,490
Provisions used during the year	<u>(24,144)</u>
Balance at December 31, 2017	<u><u>\$ 137,346</u></u>

Provisions mainly are accrued for abnormal losses from operation and others.

(l) Operating lease

Non-cancellable operating lease rentals were payable as follows:

	December 31, 2018	December 31, 2017
Less than one year	\$ 11,722	11,381
Between one and five years	<u>23,444</u>	<u>-</u>
	<u><u>\$ 35,166</u></u>	<u><u>11,381</u></u>

For the years ended December 31, 2018 and 2017, operating lease expenses were \$12,720 thousand and \$13,046 thousand, respectively.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

(m) Employee benefits

(i) Defined benefit plans

The present value of defined benefit obligations and the fair value of plan assets were as follows:

	December 31, 2018	December 31, 2017
Present value of the defined benefit obligations	\$ (95,937)	(101,490)
Fair value of plan assets	44,933	47,398
Net defined benefit (liabilities) assets	<u>\$ (51,004)</u>	<u>(54,092)</u>

The employee benefits liabilities of the Company was as follows:

	December 31, 2018	December 31, 2017
Employee paid leave liabilities	<u>\$ 19,733</u>	<u>17,588</u>

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plan (covered by the Labor Standards Law) entitles a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

1) Composition of the plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$44,956 thousand as of December 31, 2018. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations for the Company were as follows:

	2018	2017
Defined benefit obligations on January 1	\$ 101,490	134,340
Current service costs and interest costs	3,030	3,266
Remeasurement of net defined benefit obligations (assets)	3,012	3,821
Benefits paid	<u>(11,595)</u>	<u>(39,937)</u>
Defined benefit obligations on December 31	<u>\$ 95,937</u>	<u>101,490</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

3) Movements in fair value of the plan assets

The movements in the present value of the defined plan assets for the Company were as follows:

	<u>2018</u>	<u>2017</u>
Fair value of plan assets on January 1	\$ 47,398	71,656
Return of plan assets	645	760
Remeasurement of net defined benefit (obligations assets)	1,571	(189)
Contribution to the plan	6,914	3,466
Benefits paid by plan assets	(11,595)	(28,295)
Fair value of plan assets on December 31	<u>\$ 44,933</u>	<u>47,398</u>

4) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 1,646	1,805
Interest on net defined benefit obligations (assets)	739	701
	<u>\$ 2,385</u>	<u>2,506</u>

Above pension expenses were recognized as operating expenses.

5) Remeasurement of net defined benefit liability (asset) recognized immediately in other comprehensive income

The Company's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2018 and 2017, was as follows:

	<u>2018</u>	<u>2017</u>
Actuarial losses or (gains)	\$ 3,012	3,821
Return on plan assets	(1,571)	189
	<u>\$ 1,441</u>	<u>4,010</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

The rate applied in calculating the present value of defined benefit obligations for the years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Discount rate	1.125 %	1.375 %
Future salary changes	2.50 %	2.50 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is \$310 thousand.

The weighted average lifetime of the defined benefits plans is 14.28 years.

7) Sensitivity analysis

When calculating the present value of defined benefit obligations, the Company used judgments and estimations to determine the actuarial assumptions, including the discount rates and future salary changes, as of the end of the reporting period. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

Changes in the main actuarial assumptions that might have an impact on the present value of the defined benefit obligation for the years ended December 31, 2018 and 2017:

	Effects on defined benefit obligation	
	Increase by 1%	Decrease by 1%
December 31, 2018		
Discount rate	\$ (10,110)	11,962
Future salary changes	11,463	(9,910)
December 31, 2017		
Discount rate	(10,607)	12,552
Future salary changes	12,061	(10,421)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The Company's pension costs under the defined contribution pension plans amounted to \$27,096 thousand and \$26,043 thousand in 2018 and 2017, respectively.

(n) Income tax

(i) Income tax expense

The details of income tax expense in 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Current income tax expense	\$ 377,824	244,108
Deferred income tax expense (benefit)	(8,205)	18,603
Total income tax expense	<u>\$ 369,619</u>	<u>262,711</u>

The amount of income tax recognized in other comprehensive income for 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Items that will not be reclassified subsequently to profit of loss:		
Remeasurement from defined benefit plans	<u>\$ 4,483</u>	<u>681</u>

Reconciliation of income tax expense and income before tax was as follows:

	<u>2018</u>	<u>2017</u>
Income before tax	\$ 1,876,628	1,548,797
Income tax based on the Company's domestic tax rate	375,326	263,295
Adjustment in income tax	(7,723)	-
Non-deductible expense	(1,142)	(578)
Change in unrecognized temporary differences	366	2,175
Others	2,792	(2,181)
	<u>\$ 369,619</u>	<u>262,711</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

(ii) Deferred tax liabilities and assets

1) Unrecognized deferred tax assets and liabilities

As of December 31, 2018 and 2017, the temporary differences associated with the investments in subsidiaries were not recognized as deferred income tax assets and liabilities as the Company was able to control the timing of reversal of these temporary differences, and management believed that it was probable that the temporary differences would not reverse in the foreseeable future. The related amounts were as follows:

Unrecognized deferred tax liabilities:

	December 31, 2018	December 31, 2017
Unrecognized deferred tax liabilities	\$ <u>63,967</u>	<u>43,795</u>
Unrecognized deferred tax assets	\$ <u>40,456</u>	<u>19,918</u>

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

	Defined benefit plan	Provision	Loss on valuation of inventories	Others	Total
Deferred tax assets					
January 1, 2017	\$ 7,074	27,453	10,754	22,866	68,147
Debit to profit / loss	(7,755)	(4,105)	(2,162)	(1,161)	(15,183)
Credit to other comprehensive income	<u>681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>681</u>
December 31, 2017	\$ <u>-</u>	<u>23,348</u>	<u>8,592</u>	<u>21,705</u>	<u>53,645</u>
January 1, 2018	\$ -	23,348	8,592	21,705	53,645
Credit (debit) to profit / loss	(3,393)	(5,559)	4,505	6,010	1,563
Credit to other comprehensive income	<u>4,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,483</u>
December 31, 2018	\$ <u>1,090</u>	<u>17,789</u>	<u>13,097</u>	<u>27,715</u>	<u>59,691</u>

	Unrealized exchange gain	Others	Total
Deferred tax liabilities:			
January 1, 2017	\$ 6,963	1,552	8,515
Debit (credit) to profit / loss	<u>(5,674)</u>	<u>9,094</u>	<u>3,420</u>
December 31, 2017	\$ <u>1,289</u>	<u>10,646</u>	<u>11,935</u>
January 1, 2018	\$ 1,289	10,646	11,935
Credit to profit / loss	<u>(1,023)</u>	<u>(5,619)</u>	<u>(6,642)</u>
December 31, 2018	\$ <u>266</u>	<u>5,027</u>	<u>5,293</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(iii) Assessment of income tax

The Company's income tax returns for the years through 2016 were assessed by the Taipei National Tax Administration.

(o) Capital and other equity

(i) Ordinary shares

As of December 31, 2018 and 2017, the authorized capital of the Company both amounted to \$2,500,000 thousand, consisting of 250,000 thousand, at a par value of \$10 per share, and the issued capital both consisted of 209,387 thousand shares. All proceeds from the shares issued have been collected.

The movements in outstanding shares for the years ended December 31, 2018 and 2017, were as follows:

	Common stock (thousand shares)	
	2018	2017
Beginning balance at January 1	\$ 209,387	206,735
Addition: Conversion of convertible bonds	-	2,652
Ending balance at December 31	<u>\$ 209,387</u>	<u>209,387</u>

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2018	December 31, 2017
Surplus arising from bond conversion option	\$ 1,618,137	1,618,137
Paid-in capital in excess of par value	1,690,906	1,879,354
Capital surplus—premium from combination	593	593
Capital surplus—interest payable reimbursement	17,181	17,181
Expired stock options	307	307
Gain or loss on disposal of subsidiaries' shares	4,914	4,914
Adjustments to share of changes in equity of subsidiaries	24,291	24,291
	<u>\$ 3,356,329</u>	<u>3,544,777</u>

According to the R.O.C. Company Act, 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 but shall not exceed 10% of the total issued and outstanding common stock in each year according to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

Capital surplus distributions for 2017 were decided in the Company's general meetings of shareholders held on June 27, 2018. The relevant dividend distributions to the shareholders were as follows:

	2017	
	Amount per share (NT dollars)	Total amount
Cash	\$ 0.90	<u>188,448</u>

Information on the capital surplus distribution by cash proposed by the Company's board of directors and approved by the Company's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(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. Unless and until the accumulated legal reserve equals the Company's total capital, the Company may set aside a special reserve in accordance with Article 41 of the Securities and Exchange Act. After the board of directors considers the Company's budget for funding needs, financial structure, current-period earnings, and steady profit distribution when proposing the distribution of earnings, the proposal should be resolved during the stockholders' meeting.

The Company is now in the growth stage, and profits may be distributed by way of cash dividends and stock dividends. Cash dividends shall not be lower than 10% of the total distribution.

In accordance with the R.O.C. Company Act amended in May 2015, the recipients of dividends and bonuses arising from earnings distributions are limited to shareholders and do not include employees. The Company plans to make consequential amendments to the Company's articles of incorporation to coincide with the aforementioned change in the law.

1) Legal reserve

According to the amendment of the R.O.C. Company Act announced in January 2012, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. If the Company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, capitalize the amount of its reserve that exceeds 25% of common stock by issuing new shares or distribute a cash dividend.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings appropriation and distribution

Earnings distributions for 2017 and 2016 were decided in the general meetings of shareholders held on June 27, 2018, and June 19, 2017, respectively. The relevant dividend distributions to the shareholders were as follows:

	2017		2016	
	Amount per share (NT dollars)	Total amount	Amount per share (NT dollars)	Total amount
Cash	\$ 5.10	<u>1,067,875</u>	6.72	<u>1,390,829</u>

Information on the earnings appropriation proposed by the Company's board of directors and approved by the Company's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(p) Earnings per share

(i) Basic earnings per share

The basic earnings per share for the years ended December 31, 2018 and 2017, were calculated on the basis of profit attributable to ordinary shareholders and the weighted-average number of outstanding ordinary shares. Calculations were as follows:

1) Profit attributable to ordinary shareholders

	2018	2017
	Continuing operations	Continuing operations
Profit attributable to ordinary shareholders	<u>\$ 1,507,009</u>	<u>1,286,086</u>

2) Weighted-average number of outstanding ordinary shares

	2018	2017
Number of outstanding ordinary shares on January 1	\$ 209,387	206,735
Effect of conversion of convertible bonds	-	1,212
Weighted-average number of outstanding ordinary shares on December 31	<u>\$ 209,387</u>	<u>207,947</u>

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

(ii) Diluted earnings per share

The diluted earnings per share for the years ended December 31, 2018 and 2017, were calculated on the basis of profit attributable to ordinary shareholders and the weighted-average number of outstanding ordinary shares, with all potential ordinary shares retroactively adjusted. Calculations were as follows:

1) Profit attributable to ordinary shareholders (diluted)

	<u>2018</u>	<u>2017</u>
	<u>Continuing</u>	<u>Continuing</u>
	<u>operations</u>	<u>operations</u>
Profit attributable to ordinary shareholders (basic)	\$ 1,507,009	1,286,086
Interest on convertible bonds, other gains and losses	-	1,362
Profit attributable to ordinary shareholders (diluted)	<u>\$ 1,507,009</u>	<u>1,287,448</u>

2) Weighted-average number of outstanding ordinary shares (diluted)

	<u>2018</u>	<u>2017</u>
Weighted-average number of outstanding ordinary shares (basic)	209,387	207,947
Effect of conversion of convertible bonds	-	1,440
Effect of employee stock dividends	801	937
Weighted-average number of outstanding ordinary shares on December 31 (diluted)	<u>210,188</u>	<u>210,324</u>

(q) Revenue from contracts with the customers

(i) Disaggregation of revenue

	<u>2018</u>
Primary geographical markets:	
American region	\$ 17,446,980
Others	<u>5,255,667</u>
	<u>\$ 22,702,647</u>
	<u>2017</u>
Primary geographical markets:	
American region	\$ 17,119,802
Others	<u>4,451,375</u>
	<u>\$ 21,571,177</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(ii) Contract balances

	December 31, 2018	January 1, 2018
Accounts receivable	\$ 838,328	591,862
Less: allowance for impairment	<u>(8,459)</u>	<u>(5,918)</u>
	<u><u>\$ 829,869</u></u>	<u><u>585,944</u></u>

For details on accounts receivable and allowance for impairment, please refer to note 6(c).

(iii) Transaction price allocated to the remaining performance obligations

The contract has an original expected duration of less than one year, thus the Company applies the practical expedient of IFRS 15 and does not disclose information about the transaction price allocated to the remaining performance obligations of the contract.

(r) Employees, directors' and supervisors' remuneration

In accordance with the Articles of incorporation, the Company should contribute at least 1% and not more than 8% of the profit as employee compensation and not exceed 5% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2018 and 2017, the Company estimated its employee remuneration amounting to \$108,931 thousand and \$92,746 thousand. For the year ended December 31, 2018, the directors' remuneration amounting to \$46,743 thousand. For the year ended December 31, 2017, the directors' and supervisors' remuneration amounting to \$38,644 thousand. The estimated amounts mentioned above were calculated based on the net profit before tax, excluding remuneration to employee, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. The remunerations were expensed under operating costs or operating expenses during 2018 and 2017.

Related information would be available at the Market Observation Post System website. The differences between the amounts approved by the board of directors and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in next year.

The amounts of employees' remuneration, as estimated in parent-company-only financial statements, were identical to those amount approved for 2017 and 2016.

The differences between actual approved amount directors' and supervisors' remuneration and those estimated in the financial statements in 2017 and 2016 were as follows:

	2017			2016		
	Actual approved amount	Estimated amount in financial statement	Difference	Actual approved amount	Estimated amount in financial statement	Difference
Directors' and supervisors' remuneration	\$ <u>38,420</u>	<u>38,644</u>	<u>(224)</u>	<u>37,500</u>	<u>46,112</u>	<u>(8,612)</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

The difference between the actual remuneration to directors and supervisors and the recognized amount in 2017 and 2016 were not significant, therefore, were recognized as profit or loss in 2018 and 2017, respectively. Related information would be available at the Market Observation Post System website.

(s) Non-operating income and expenses

(i) Other income

The Company's other income in 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Interest income—bank deposit	\$ 6,683	4,110
Interest income—loan	60,417	58,702
Rental income	17,469	17,472
Dividend income and others	<u>13,354</u>	<u>16,241</u>
	<u>\$ 97,923</u>	<u>96,525</u>

(ii) Other gains and losses

The Company's other gains and losses in 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Foreign exchange gains (losses)	\$ 6,446	(94,552)
Net gains (losses) on financial assets at fair value through profit or loss-valuation	(5,628)	12,921
Net gains (losses) on financial assets at fair value through profit or loss-realized	35,054	23,316
Impairment loss of property, plant and equipment	(1,730)	-
Others	<u>2,384</u>	<u>(3,784)</u>
	<u>\$ 36,526</u>	<u>(62,099)</u>

(iii) Finance costs

The details of finance expenses in 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Interest expense—bank borrowings	\$ (54,751)	(30,113)
Interest expense—convertible bonds	-	(1,641)
Expenses from accounts receivable factoring	<u>(24,690)</u>	<u>(25,181)</u>
	<u>\$ (79,441)</u>	<u>(56,935)</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(t) Financial Instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

The Company's credit risk is impacted by each customer. For the years ended December 31, 2018 and 2017, the sales to major customers accounted for 64% and 69%, respectively. In addition, for the years ended December 31, 2018 and 2017, the sales to American region accounted for 77% and 79%, respectively.

3) Receivables and debt securities

For credit risk exposure of accounts receivables, please refer to note 6(c).

Other financial assets at amortized cost includes other financial assets-current and time deposits, please refer to note 6(c).

The time deposits held by the group in financial institutions with investment grades or above is considered to have low credit risk.

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flow	Within 6 months	6~12 months	1~2 years	2~5 years	Over 5 years
December 31, 2018							
Non-derivative financial liabilities							
Short-term borrowings	\$ 396,456	(399,304)	(399,304)	-	-	-	-
Accounts payable and other payables	<u>3,731,503</u>	<u>(3,731,503)</u>	<u>(3,731,503)</u>	-	-	-	-
	<u>\$ 4,127,959</u>	<u>(4,130,807)</u>	<u>(4,130,807)</u>	-	-	-	-
December 31, 2017							
Non-derivative financial liabilities							
Short-term borrowings	\$ 277,586	(278,352)	(278,352)	-	-	-	-
Accounts payable and other payables	<u>3,299,437</u>	<u>(3,299,437)</u>	<u>(3,299,437)</u>	-	-	-	-
	<u>\$ 3,577,023</u>	<u>(3,577,789)</u>	<u>(3,577,789)</u>	-	-	-	-

The Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

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Notes to the Financial Statements

(iii) Exchange rate risk

1) Exposure to currency risk

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

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
<u>Monetary items</u>						
USD	\$ 154,406	30.733	4,745,360	159,327	29.848	4,755,592
CNY	28,613	4.4735	128,000	32,966	4.5764	150,866
<u>Non-monetary items</u>						
USD	4,977	30.733	152,958	5,953	29.848	177,696
Financial liabilities						
<u>Monetary items</u>						
USD	92,357	30.733	2,838,417	69,541	29.848	2,075,660
CNY	38,282	4.4735	171,255	109,411	4.5764	500,709

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, other receivables, loans, accounts payable, and other payables. A 1% depreciation or appreciation of the TWD against the USD and CNY as of December 31, 2018 and 2017, would have increased or decreased the net income after tax by \$18,637 thousand and \$23,301 thousand, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

3) Exchanged gains or losses on monetary items

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2018 and 2017, the foreign exchange gain (loss), including realized and unrealized, amounted to \$6,446 thousand and \$(94,552) thousand, respectively.

(iv) Interest rate analysis

There is no significant interest rate risk.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(v) Fair value of financial instruments

1) Fair value hierarchy

The book value, fair value, and fair value hierarchy for the financial assets and financial liabilities of the Company were as followed (excluding the disclosure of financial assets and liabilities for which the book value is close to the fair value, or the fair value cannot be reliably measured).

December 31, 2018				
Book value	Fair value			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:				
Non-derivative financial assets mandatorily measured at fair value through profit or loss	\$ 57,120	57,120	-	57,120
Financial assets measured at amortized cost:				
Cash and cash equivalents	1,486,879	-	-	-
Accounts receivable	829,869	-	-	-
Other financial assets (including other receivables)	1,443,629	-	-	-
Long-term receivables related parties	2,141,142	-	-	-
Subtotal	5,901,519	-	-	-
Refundable deposit	3,778	-	-	-
Financial liabilities measured at amortized cost:				
Short-term borrowings	396,456	-	-	-
Accounts payable and other payables	3,731,503	-	-	-
Subtotal	4,127,959	-	-	-
December 31, 2017				
Book value	Fair value			Total
	Level 1	Level 2	Level 2	
Financial assets at fair value through profit or loss:				
Non-derivative financial assets held for trading	\$ 62,748	62,748	-	62,748
Loans and receivables:				
Cash and cash equivalents	949,109	-	-	-
Notes receivable and accounts receivable	585,944	-	-	-
Other financial assets (including other receivables)	1,901,904	-	-	-
Long-term receivables related parties	1,925,195	-	-	-
Subtotal	5,362,152	-	-	-
Refundable deposit	3,778	-	-	-
Financial liabilities at fair value through profit or loss:				
Financial liabilities at amortized cost:				
Short-term borrowings	277,586	-	-	-
Accounts payable and other payables	3,299,437	-	-	-
Subtotal	3,577,023	-	-	-

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

2) Valuation techniques for financial instruments measured at fair value

a) Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

Except for the aforementioned financial instruments, the fair value of other financial instruments is determined by using valuation techniques or the quoted price from a counterparty. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation techniques including a model using observable market data at the reporting date.

b) Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants. The fair value of a forward exchange contract is usually determined by the forward exchange rate. Measurement of the fair value of an embedded derivative financial instrument is based on an option pricing model or other valuation technique.

There were no transfers in either direction for the years ended December 31, 2018 and 2017.

(u) Financial risk management

(i) Nature and extent

The Company is exposed to the following risks from its financial instruments:

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

This note discloses information on exposure to each of the above risks and objectives, policies, and procedures for measuring and managing risk. For further quantitative information, please refer to the relevant notes to the consolidated financial statements.

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MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(ii) Risk management framework

The board of directors of the Company is responsible for establishing and overseeing the risk management structure of the Company.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The board of directors of the Company oversees how management monitors the risks, which should be in compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation of the risks faced by the Company. The internal auditor undertakes regular reviews of the risk management controls and procedures and exception management, the results of which are reported to the board of directors.

(iii) Credit risk

Credit risk means the potential loss to the Company if the client or counterparty involved in that transaction defaults. The primary potential credit risk is from the accounts receivable and financial investments of the Company.

1) Accounts receivable and other receivables

The Company periodically reviews payment histories and financial positions of customers, and factors part of its accounts receivable to certain financial institutions without recourse to lower the credit risk. The Company also aggressively markets to Europe and Asia to diversify the risk of concentration of customers in a certain area.

The Company establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables, other receivables, and investment. The components of this impairment allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

2) Financial investments

The Company held its bank deposits in different financial institutions to manage the exposure to credit risk of each institution to prevent concentration risk.

As the Company deals with banks and other external parties with good credit standing, the management believes that there is no significant credit risk. In addition, the Company invests only in public companies to mitigate credit risk exposure.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

3) Guarantee

The Company only provides guarantees to wholly owned subsidiaries. The Company did not provide any guarantee to companies which were not in the Company as of December 31, 2018 and 2017.

(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 has 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 ensures it has sufficient cash to fund its expected operating expenditure for a 60-day period, including financial obligation fulfillment but excluding the unexpected potential impact of extreme cases such as natural disasters. For the Company's available credit limits, please refer to note 6(i).

(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 an acceptable range and optimize the return on investments.

1) Exchange rate risk

The Company mainly uses the USD for its sales and purchases. The overall hedge ratio is over 80%. The net foreign currency position is still exposed to exchange rate risk. The Company takes advice from professionals in banks and periodically uses foreign currency forward contracts to hedge the net foreign currency exposure, within the range of 50% to 75%, for the next six months. The Company has effectively minimized the impact of exchange gain and loss within an acceptable range.

2) Interest rate risk

The Company does not have any significant liability with a floating interest rate, and changes in market interest rates do not have any significant impact on the future cash flow of the Company.

3) Other market risk

Except for purchase agreements to meet expected consumption and sales requirements, the Company does not enter into any other long-term purchase agreements.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(v) Capital management

To maintain investor relationships, market confidence, and future operation, the board manages working capital by periodically reviewing the financial structure, and optimizes the liability and equity balance to lower the finance costs,

The Company's review comprises:

- (i) The growth rate of its future sales and profit.
- (ii) The dilution impact on EPS from the growth of capital stock.
- (iii) Various types of finance costs and related risks.

The management may adjust the amounts and types of dividend payments or issue new shares or bonds in capital markets to maintain and adjust its capital structure.

The Company's equity-to-asset ratios at the end of the reporting periods were as follows:

	December 31, 2018	December 31, 2017
Total equity	\$ <u>8,767,880</u>	<u>8,398,407</u>
Total assets	\$ <u>13,466,321</u>	<u>12,316,705</u>
Equity-to-asset ratio	<u>65%</u>	<u>68%</u>

There were no charges in the Company's approach to capital management as of December 31, 2018.

(w) Investing and financing activities not affecting current cash flow

The Company's investing and financing activities which did not affect the current cash flow were the conversion of convertible bonds. The sum of ordinary shares and capital surplus amounted to \$180,764 for the year ended December 31, 2017.

(7) Related-party transactions

(a) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Company and its subsidiaries.

(b) Names and relationship with related parties

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

Name of related parties	Relationship with the Company
PT Crystal Garment (PT Crystal)	A subsidiary
Global Trading Int'l Corp. (Global)	A subsidiary
Loyal Trading Int'l Co., Ltd. (Loyal)	A subsidiary
Leader Garments Corp. (Leader PH)	A subsidiary
Diamond Apparel Mfg., Inc. (Diamond)	A subsidiary

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

Name of related parties	Relationship with the Company
Primeline Fashion, Inc. (Primeline)	A subsidiary
Fortune Star Investment Limited (Fortune Star)	A subsidiary
Triple Int'l Corp. (Triple)	A subsidiary
Ecolot Textile Co., Ltd. (Ecolot)	A subsidiary
Great Time Global Co., Ltd. (Great Time)	A subsidiary (as of January 30, 2018)
Glida Athletics Co., Ltd. (Glida)	A subsidiary
PT Glory Industrial Semarang (PT Glory)	A subsidiary
Makalot Garments (Cambodia) Co., Ltd. (Makalot Cambodia)	A subsidiary
Makalot Garments (Vietnam) Co., Ltd. (Makalot Vietnam)	A subsidiary
Fund Eagle International Limited (Fund Eagle)	A subsidiary
Wintop Industrial Limited (Wintop)	A subsidiary
Crown Era Industrial Limited (Crown Era)	A subsidiary
Crownway International Development Limited (Crownway)	A subsidiary
PT Starlight Garment Semarang (PT Starlight)	A subsidiary
Moha Garments Co., Ltd. (Moha)	A subsidiary
Triple Garment (Vietnam) Co., Limited (Triple Vietnam)	A subsidiary
Top Trend Global Inc. (Top Trend)	A subsidiary
Leader Garment (Vietnam) Co., Ltd. (Leader Vietnam)	A subsidiary
Jiaying Ruiyang Garment Co., Limited (CJR)	A subsidiary
Jiaying Rising Garment Co., Limited (CJY)	A subsidiary
Shanghai Makalot Garment Co., Limited (CMK)	A subsidiary
Eco-Lot Textile Co., Ltd. (CBS)	A subsidiary
Jiaying Suntext Garment Co., Limited (CMZ)	A subsidiary
Top Shiny Industrial Limited (Top Shiny)	A subsidiary
Namtex Co., Ltd. (Namtex)	An associate

(c) Significant transactions with related parties

(i) Purchasing and processing

The amounts of the materials purchased from related parties were as follows:

	2018	2017
Subsidiaries:		
Global	\$ 2,566,052	2,173,129
Other subsidiaries	581,199	453,138
Associates	401,764	219,311
	<u>\$ 3,549,015</u>	<u>2,845,578</u>

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

The terms for payables for purchasing materials from subsidiaries are O/A 30 to 60 days, or depending on funding needs. Payment is made to third-party suppliers by L/C and T/T, with payment terms of O/A 45 to 60 days. The purchasing price is calculated as the material cost, plus a certain percentage of margin. The percentage of margin is determined by considering the costs and expenses incurred by the subsidiaries.

Purchasing prices and payment terms with associates are the same as those of general purchases.

The amounts of goods purchased from related parties were as follows:

	<u>2018</u>	<u>2017</u>
Subsidiaries:		
Loyal	\$ <u>429,732</u>	<u>1,171,036</u>

The terms for payables with related parties are O/A 30 to 60 days, or depending on funding needs. The purchasing price for related parties is calculated as the order price, plus a certain percentage of margin, considering the costs and expenses incurred by the related parties.

The transaction amounts of the processing consigned to related parties were as follows:

	<u>2018</u>	<u>2017</u>
Subsidiaries:		
PT Glory	\$ 1,606,626	1,446,623
Makalot Cambodia	1,411,273	1,413,241
Makalot Vietnam	1,256,005	1,137,287
Moha	885,041	842,472
Triple Vietnam	736,353	709,723
Other subsidiaries	<u>1,150,762</u>	<u>1,149,006</u>
	\$ <u>7,046,060</u>	<u>6,698,352</u>

The Company sets the processing fee by considering the cost incurred by the related parties.

Payment terms of the processing fee are O/A 30 to 90 days or in advance, depending on funding needs.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

(ii) Financing provided to related parties

Balances of financing provided by the Company to related parties were as follows:

	<u>2018</u>	<u>2017</u>
Subsidiaries:		
PT Glory	\$ 590,688	573,678
Makalot Vietnam	405,368	363,847
Moha	268,606	260,872
Leader Vietnam	350,356	256,693
Makalot Cambodia	213,569	207,419
Other subsidiaries	<u>312,555</u>	<u>304,151</u>
	<u>\$ 2,141,142</u>	<u>1,966,660</u>

The Company provides unsecured financing with interest, and after evaluation, the Company believes there is no bad debt that should be accounted for.

The interest on the financing is accrued, and amounts for the years ended December 31, 2018 and 2017, were \$60,417 thousand and \$58,702 thousand, respectively.

As of December 31, 2017, the balances of financing provided by the Company to related parties, less the credit balance of investment under equity method, were \$1,925,195 thousand, recognized in long-term receivables — related parties.

(iii) Related-party receivables

Details of related-party receivable, were as follows:

<u>Account name</u>	<u>Types of related parties</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other receivables — related parties	Subsidiaries:		
	Loyal	-	114,142
	Other subsidiaries	6,130	10,469
Other receivables-related parties	Associates	266	442
Long-term receivables related parties	Subsidiaries		
	(Note)	<u>2,141,142</u>	<u>1,925,195</u>
		<u>\$ 2,147,538</u>	<u>2,050,248</u>

Note: please refer to “(ii) Financing provided to related parties” for subsidiaries list.

(Continued)

MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(iv) Related-party payable

Details of related-party payables were as follows:

Account name	Types of related parties	December 31, 2018	December 31, 2017
Accounts payable—related parties	Subsidiaries:		
	Global	430,986	482,224
	Makalot Vietnam	273,027	243,641
	PT Glory	146,007	-
	Triple Vietnam	128,419	93,388
	PT Starlight	112,483	67,157
	Makalot Cambodia	75,721	159,708
	Loyal	-	278,259
	Other subsidiaries	197,381	78,650
Accounts payable—related parties	Associates	74,029	53,921
Other payables—related parties	Subsidiaries:		
	PT Glory	13,640	11,799
	Makalot Cambodia	2,597	2,128
	Other subsidiaries	943	1,381
		<u>\$ 1,455,233</u>	<u>1,472,256</u>

(v) Advances to related parties

Details of advances to related parties were as follows:

Account name	Types of related parties	December 31, 2018	December 31, 2017
Other current assets	Subsidiaries:		
	Leader	\$ 7,831	-
	Moha	-	20,093
		<u>\$ 7,831</u>	<u>20,093</u>

The above balances were prepayment of processing fees.

(vi) Collections and payment transfer

Details of collections and payment transfer to related parties were as follows:

Account name	Types of related parties	December 31, 2018	December 31, 2017
Other current liabilities	Subsidiaries	<u>\$ 74,952</u>	<u>-</u>

(Continued)

MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

The above balances were collections and payment transfer for materials.

- (vii) The amounts of research and development expense the Company commissions its related parties in 2018 and 2017 were included in administrative expenses. The details were as follows:

	2018	2017
Subsidiaries	\$ -	11,800

- (viii) Key management personnel compensation

Key management personnel compensation comprised:

	2018	2017
Short-term employee benefits	\$ 81,312	79,253
Post-employment benefits	88	69
	\$ 81,400	79,322

(8) Pledged assets

The Company's assets pledged to secure loans were as follows:

Pledged assets	Pledged to secure	December 31, 2018	December 31, 2017
Land	Security of bank loans facility	\$ 2,484,818	2,484,818
Property, plant and equipment	Security of bank loans facility	255,533	271,588
Refundable deposits	Lease deposit	3,778	3,778
		\$ 2,744,129	2,760,184

(9) Commitments and contingencies

Unrecognized significant commitments:

- (a) Unused letters of credit

	December 31, 2018	December 31, 2017
Unused letters of credit	\$ 200,819	118,506

- (b) The Company issued promissory notes to the banks to apply for borrowings, export bills negotiation, derivatives, and factoring of accounts receivable. The issued promissory notes were as follows:

	December 31, 2018	December 31, 2017
Issued promissory notes	\$ 7,700,922	8,374,652

(10) Losses Due to Major Disasters: None

(11) Subsequent Events: None

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MAKALOT INDUSTRIAL CO., LTD.
Notes to the Financial Statements

(12) Other

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

	2018			2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salaries	-	1,036,745	1,036,745	-	902,497	902,497
Labor and health insurance	-	60,290	60,290	-	59,281	59,281
Pension	-	29,481	29,481	-	28,549	28,549
Directors' remuneration	-	46,834	46,834	-	39,051	39,051
Others	-	25,174	25,174	-	25,470	25,470
Depreciation	-	41,551	41,551	-	40,359	40,359
Amortization	-	7,274	7,274	-	11,093	11,093

As of December 31, 2018 and 2017, the Company's employee headcounts were 797 and 777, respectively, and 6 of Company's directors were not employees in both years.

(13) Other disclosures

(a) Information on significant transactions

The followings were the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company for the year ended December 31, 2018:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars/shares)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount of 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		
0	The Company	PT Crystal	Other receivable-related parties	Yes	100,065	51,631	51,631	3.0%	2	-	Operating capital	-	None	-	1,753,576	3,507,152
0	The Company	PT Glory	Other receivable-related parties	Yes	663,644	658,608	590,688	3.0%	1	Processing 1,606,626	None	-	None	-	1,606,626	3,507,152
0	The Company	PT Starlight	Other receivable-related parties	Yes	189,834	188,394	184,091	3.0%	1	Processing 575,267	None	-	None	-	575,267	3,507,152
0	The Company	Makalot Cambodia	Other receivable-related parties	Yes	261,989	260,001	213,569	3.0%	1	Processing 1,411,273	None	-	None	-	1,411,273	3,507,152
0	The Company	Molia	Other receivable-related parties	Yes	270,660	268,606	268,606	3.0%	1	Processing 885,041	None	-	None	-	885,041	3,507,152
0	The Company	Makalot Vietnam	Other receivable-related parties	Yes	408,468	405,368	405,368	3.0%	1	Processing 1,256,005	None	-	None	-	1,256,005	3,507,152
0	The Company	Triple Vietnam	Other receivable-related parties	Yes	77,420	76,833	76,833	3.0%	1	Processing 736,353	None	-	None	-	736,353	3,507,152
0	The Company	Leader Vietnam	Other receivable-related parties	Yes	670,458	437,946	350,356	3.0%	2	-	Operating capital	-	None	-	1,753,576	3,507,152
0	The Company	Leader Vietnam	Other receivable-related parties	Yes	36,877	-	-	3.0%	1	Processing 286,972	None	-	None	-	286,972	3,507,152
1	CMZ, CJY, CJR, CMK (Note 4)	CMZ, CJY, CJR, CMK (Note 4)	Other receivables	Yes	46,831	22,368	22,368	2.5 %	2	-	Operating capital	-	None	-	46,339	77,233

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

Note: The ceiling on total loans granted by the Company to all parties is 40% of its net assets in the financial statements; the ceiling on the short-term financing for each entity's operating capital granted by the Company is 20% of its net assets in the financial statements; the ceiling on the loan granted by the Company to each entity which has business transactions with the Company is the transaction amount within a year. The policy for loans granted mutually between its overseas subsidiaries of which the Company directly or indirectly holds 100% of their voting shares is as follows:

The ceiling on total loans granted by an on overseas subsidiary to all overseas subsidiaries is 50% of the lender's net assets in the financial statements; the limit on loans granted by an overseas subsidiary to each overseas subsidiary is 30% of the lender's net assets in the financial statements.

Note 1: Nature of financing: 1. Business transaction purpose. 2. Short-term financing purpose.

Note 2: Ending facility balance approved by BOD.

Note 3: The trading companies purchase materials from the Company and sell the final products back to the Company after processing. The Company provides the materials through Loyal Trading Int'l Co., Ltd. to its subsidiaries for productions. According to the regulation, the Company only discloses the amount of processing; however, the ceiling on the loan to the above entities is the actual amount of the transactions involving the final products.

Note 4: The credit limit between subsidiaries in China.

(ii) Guarantees and endorsements for other parties: None

(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars/thousand shares)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Dimerco Data System Corporation (DDSC)	None	Financial assets at fair value through profit or loss—current	1,680	57,120	2.68 %	57,120	

(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: 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\$300 million or 20% of the capital stock:

(In thousands of New Taiwan Dollars / share)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			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	Global	Subsidiary	Purchase	2,566,052	27 %	30–60 days	Note 1	-	(430,986)	16%	
The Company	Loyal	Subsidiary	Purchase	429,732	4 %	30–60 days	Note 1	-	-	-%	
The Company	Loyal	Subsidiary	Processing	2,988	- %	30–60 days	-	-	-	-%	
The Company	Ecolot	Subsidiary	Purchase	581,199	5 %	45–60 days	-	-	(55,307)	2%	

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			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	Namtex	Subsidiary	Purchase	401,764	3 %	30-45 days	-	-	(74,029)	3%	
The Company	PT Glory	Subsidiary	Processing	1,606,626	22 %	30-60 days	-	-	(146,007)	5%	
The Company	Makalot Cambodia	Subsidiary	Processing	1,411,273	19 %	30-60 days	-	-	(75,721)	3%	
The Company	Makalot Vietnam	Subsidiary	Processing	1,256,005	17 %	30-90 days	-	-	(273,027)	10%	
The Company	Moha	Subsidiary	Processing	885,041	12 %	30-60 days	-	-	(38,375)	1%	
The Company	Triple Vietnam	Subsidiary	Processing	736,353	10 %	30-60 days	-	-	(128,419)	5%	
The Company	PT Starlight	Subsidiary	Processing	575,267	8 %	30-60 days	-	-	(112,483)	4%	
The Company	Leader PH	Subsidiary	Processing	285,535	4 %	30-90 days	-	-	-	-%	
The Company	Leader Vietnam	Subsidiary	Processing	286,972	4 %	30-60 days	-	-	(51,136)	2%	
The Company	CJR	Subsidiary	Processing	176,102	2 %	30-60 days	-	-	(2,388)	-%	
The Company	CJY	Subsidiary	Processing	196,644	3 %	30-60 days	-	-	(26,144)	1%	
The Company	CMZ	Subsidiary	Processing	210,290	3 %	30-60 days	-	-	(24,022)	1%	
CJR	Loyal	Associates	Sale	174,628	45 %	30 days after exportation	-	-	-	-%	
CJY	Loyal	Associates	Sale	150,334	37 %	"	-	-	-	-%	
CMZ	Loyal	Associates	Sale	103,249	29 %	"	-	-	-	-%	
CBS	Ecolot company	Parent company	Sale	431,132	88 %	45-60 days	-	-	2,497	15%	

Note 1: The mark-up price is based on the cost or re-sale price with a fixed ratio which is based on the cost and expense that the subsidiary incurred.

(viii) Receivables from related parties 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	Ending balance	Turnover days	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
The Company	PT Glory	Subsidiary	Other receivables 590,688	-	-	-	- (Note 1)	-
The Company	Makalot Vietnam	Subsidiary	Other receivables 408,321	-	-	-	2,952(Note 1)	-
The Company	Moha	Subsidiary	Other receivables 270,339	-	-	-	1,733(Note 1)	-
The Company	Leader Vietnam	Subsidiary	Other receivables 350,356	-	-	-	- (Note 1)	-
The Company	Makalot Cambodia	Subsidiary	Other receivables 214,946	-	-	-	1,378(Note 1)	-
The Company	PT Starlight	Subsidiary	Other receivables 184,091	-	-	-	- (Note 2)	-
Global	The Company	Parent company	430,986	5.62	-	-	412,158	-
Glory	The Company	Parent company	146,007	17.97	-	-	146,007	-
Makalot Vietnam	The Company	Parent company	273,027	4.82	-	-	211,193	-
PT Starlight	The Company	Parent company	112,483	6.66	-	-	102,341	-
Triple Vietnam	The Company	Parent company	128,419	6.63	-	-	117,330	-

Note 1: The uncollected accounts receivable primarily consisted of loans.

Note 2: The amount was collected before February 19, 2019.

(ix) Trading in derivative instruments: None.

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

(b) Information on investees:

The following is the information on investees for the year 2018 (excluding information on investees in Mainland China):

(In thousands of New Taiwan Dollars/shares)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying amount			
The Company	Global	British Virgin Islands	Sale of textiles	564,601	518,400	17,237	100.00 %	697,636	8,622	5,953	Subsidiary
The Company	Loyal	British Virgin Islands	Sale of textiles	19,857	19,857	10,000	100.00 %	173,572	(3,308)	(3,308)	Subsidiary
The Company	PT Crystal	Indonesia	Manufacture of garments	34,464	34,464	993,191	99.40 %	(44,486)	(1,753)	(1,753)	Subsidiary
The Company	Leader PH	Philippines	Manufacture of garments	7,281	7,281	249,995	99.99 %	38,895	(3,482)	(3,482)	Subsidiary
The Company	Diamond	Philippines	Manufacture of garments	-	-	149,995	99.99 %	3,126	(119)	(119)	Subsidiary
The Company	Primeline	Philippines	Manufacture of garments	9,945	9,945	99,995	99.99 %	58	(3)	(3)	Subsidiary
The Company	Fortune Star	Samoa	Investment holding	649,788	688,203	20,303,591	100.00 %	529,426	(8,973)	(7,953)	Subsidiary
The Company	Triple	Samoa	Investment holding	556,051	460,691	14,000,000	100.00 %	256,176	(16,659)	(15,178)	Subsidiary
The Company	Ecolot	Taiwan	Sale of garments	59,472	59,472	9,864,000	61.65 %	181,883	27,051	24,253	Subsidiary
The Company	Great Time	Taiwan	Sale of garments	-	4,575	-	- %	-	(69)	(69)	Subsidiary
The Company	Gilda	Taiwan	Sale of garments	5,000	5,000	500,000	100.00 %	4,981	(1)	(1)	Subsidiary
Global	PT Glory	Indonesia	Manufacture of garments	189,900	189,900	60,895	95.00 %	249,768	14,717	13,981	Subsidiary
Global	PT Starlight	Indonesia	Manufacture of garments	3,645	3,645	1,050	5.00 %	4,237	9,377	469	Subsidiary
Global	Makalot Cambodia	Cambodia	Manufacture of garments	153,340	107,139	1,000	100.00 %	11,252	(6,659)	(6,659)	Subsidiary
Global	Makalot Vietnam	Vietnam	Manufacture of garments	240,208	240,208	-	100.00 %	329,355	29,273	29,273	Subsidiary
Triple	Moha	Cambodia	Manufacture of garments	94,524	94,524	1,000	100.00 %	(17,317)	(12,723)	(12,723)	Subsidiary
Triple	Triple Vietnam	Vietnam	Manufacture of garments	81,171	81,171	-	100.00 %	128,140	17,212	17,212	Subsidiary
Triple	Top Trend	Samoa	Investment holding	266,960	171,600	8,400,000	100.00 %	166,052	(1,485)	(1,485)	Subsidiary
Top Trend	Leader Garment	Vietnam	Manufacture of garments	267,500	172,140	-	100.00 %	166,090	(1,448)	(1,448)	Subsidiary
Fortune Star	Fund Eagle	Hong Kong	Investment holding	-	-	-	100.00 %	-	-	-	Subsidiary
Fortune Star	Wintop	Hong Kong	Investment holding	277,755	316,170	9,070,000	100.00 %	192,073	(3,391)	(3,391)	Subsidiary
Fortune Star	Crown Era	Hong Kong	Investment holding	117,740	117,740	3,580,000	100.00 %	154,475	(1,834)	(1,834)	Subsidiary
Fortune Star	Crownway	Hong Kong	Investment holding	162,422	162,422	4,560,000	100.00 %	93,031	(10,689)	(10,689)	Subsidiary

(Continued)

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MAKALOT INDUSTRIAL CO., LTD.**Notes to the Financial Statements**

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares	Percentage of ownership	Carrying amount			
Fortune Star	PT Starlight	Indonesia	Manufacture of garments	61,532	61,532	19,950	95.00 %	80,500	9,377	8,908	Subsidiary
Fortune Star	PT Glory	Indonesia	Manufacture of garments	12,094	12,094	3,205	5.00 %	13,146	14,717	736	Subsidiary
Wintop	Namtex	Vietnam	Wearing	270,979	270,979	-	50.00 %	152,958	(2,335)	(5,624)	The Company indirectly holds 50% of ownership
Ecolot	Top Shiny	Hong Kong	Investment holding	17,016	38,498	540,026	100.00 %	23,559	1,695	1,695	Subsidiary
Top Shiny	Texlot Company Limited (Texlot)	British Virgin Islands	Investment holding	-	24,413	-	- %	-	(3,567)	(187)	Associate

Note: Investment gain or loss recognized in the current period included sales from subsidiaries to parent company.

(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 New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated investment paid by Taiwan as of January 1, 2018	Investment flows		Accumulated investment paid by Taiwan as of December 31, 2018	Net income (losses) of the investee	Investment income (losses)	Book value	Accumulated remittance of earnings as of this year
					Outflow	Inflow					
CFY	Manufacture of garments	-	2	67,228	-	-	67,228 (Note 1)	-	-	-	-
CMK	Manufacture of garments	27,033	2	65,448	-	38,415	27,033	1,339	1,339	38,068	14,378
CMZ	Manufacture of garments	117,740	2	117,740	-	-	117,740	(1,834)	(1,834)	154,466	7,304
CJY	Manufacture of garments	68,120	2	68,120	-	-	68,120	(3,045)	(3,045)	57,364	-
CJR	Manufacture of garments	94,302	2	94,302	-	-	94,302	(7,645)	(7,645)	35,652	-
CBS	Trade service	11,039	2	11,039	-	-	11,039	1,882	1,882	23,558	-

Note : There are three kinds of investments

1. Invest directly in Mainland China companies.
2. Invest in Mainland China by remitting through a third region.
3. Others.

Note 1: CFY was liquidated on August 9, 2017, the accumulated outflow of investment from Taiwan as of December 31, 2017 is including the amount of capital reduction for cover accumulated deficits.

- (ii) Limitation on investment in Mainland China:

Name of investor	Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
The Company	385,462	553,262	5,260,728

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MAKALOT INDUSTRIAL CO., LTD.

Notes to the Financial Statements

(iii) Significant transactions:

The significant inter-company transactions with the subsidiaries in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions”.

(14) Segment information

Please refer to the consolidated financial statements of the Company and its subsidiaries as of December 31, 2018 and 2017, and for the years then ended.

MAKALOT INDUSTRIAL CO., LTD.

Statement of Cash and Cash Equivalents

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Items</u>	<u>Description</u>	<u>Amount</u>
Cash	Petty cash and cash on hand	\$ 1,165
Time deposits		400,000
Checking accounts and demand deposits		484,332
Foreign currency deposits	USD	472,127
	CNY	15,975
	HKD	1,393
	EUR	23
	GBP	26
Foreign time deposits	CNY	<u>111,838</u>
Total		<u><u>\$ 1,486,879</u></u>

Note: The aforementioned foreign currency was valued in the rate at reporting date.

Statement of Notes and Accounts Receivable

<u>Client name</u>	<u>Amount</u>
Walmart Global Logistics	\$ 565,553
SanMar Corporation	73,282
Oakley Inc.	58,122
Others (Note)	<u>141,371</u>
Subtotal	838,328
Less: loss allowance	<u>(8,459)</u>
Total	<u><u>\$ 829,869</u></u>

Note: Amounts less than 5% of the account balance are not disclosed individually.

MAKALOT INDUSTRIAL CO., LTD.

Statement of Financial Assets at Fair Value through Profit or Loss – Current

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Items						Amount		
Listed stock						\$	57,120	
Details of listed stock:								
Financial asset item	Description	Shares (in thousand shares)	Par value (in TWD)	Total amount	Acquisition cost	Fair Value		Notes
						Price per unit	Total amount	
DDSC	Ordinary Shares	1,680	\$ 10	57,120	40,695	34.00	57,120	-

Statement of Inventories

Items	Amount		Market price basis
	Cost	Market price	
Materials (including materials in transit)	\$ 2,586,918	2,974,697	Net realizable value
Merchandise inventory	50,723	58,327	"
Less: allowance for inventory impairment	<u>(59,872)</u>		
Total	<u>\$ 2,577,769</u>		

MAKALOT INDUSTRIAL CO., LTD.

Statement of Other Financial Assets – Current

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Items</u>	<u>Amount</u>
Factoring of accounts receivable	\$ 1,427,904
Others (note)	<u>9,329</u>
	<u><u>\$ 1,437,233</u></u>

Note: Amounts less than 5% of the account balance are not disclosed individually.

MAKALOT INDUSTRIAL CO., LTD.

Statement of Changes in Investments Under Equity Method

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Investees	Beginning balance		Additions		Decrease(Note)		Others		Ending balance		Market value or	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Percentage of ownership	net asset value	Collateral
Equity method:												
Global Trading Int'l Co.	15,740	\$ 602,870	1,497	46,201	-	-	-	48,565	17,237	100.00	700,909	Nil
Leader Garments Corp.	249,995	41,090	-	-	-	-	-	(2,195)	249,995	99.99	38,899	"
Diamond Apparel Mfg., Inc.	149,995	3,159	-	-	-	-	-	(33)	149,995	99.99	3,126	"
Primeline Fashion, Inc.	99,995	60	-	-	-	-	-	(2)	99,995	99.99	58	"
PT Crystal Garment	993,191	(41,465)	-	-	-	-	-	(3,021)	993,191	99.40	(44,486)	"
Loyal Trading Int'l Co.	10,000	171,741	-	-	-	-	-	1,831	10,000	100.00	173,572	"
Triple Int'l Co.	10,800,000	169,277	3,200,000	95,360	-	-	-	(8,461)	14,000,000	100.00	256,176	"
Fortune Star Investment Ltd.	21,603,591	589,229	-	-	(1,300,000)	(52,793)	-	(7,010)	20,303,591	100.00	529,426	"
Ecolot Textile Co., Ltd.	9,864,000	170,755	-	-	-	(13,810)	-	24,938	9,864,000	61.65	181,883	"
Great Time Global Co., Ltd.	500,000	5,165	-	-	(500,000)	(5,096)	-	(69)	-	-	-	"
Glida Athletics Co., Ltd.	500,000	4,982	-	-	-	-	-	(1)	500,000	100.00	4,981	"
Total		<u>\$ 1,716,863</u>		<u>141,561</u>		<u>(71,699)</u>		<u>54,542</u>			<u>1,841,267</u>	

Note: The amount includes the dividends, return of capital reduction and cash dividends paid.

MAKALOT INDUSTRIAL CO., LTD.

Statement of Notes Payable and Accounts Payable

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Items</u>	<u>Amount</u>
HSBC Bank	\$ 207,395
Chin Chyun Industrial Co., Ltd.	125,462
Victorcity Co., Ltd.	56,386
Kam Hing Piece Works Ltd.	54,444
P.T. KAHATEX	48,903
Others (Note)	<u>786,890</u>
Total	<u><u>\$ 1,279,480</u></u>

Note: Amounts less than 5% of the account balance are not disclosed individually.

Statement of Other Payables

<u>Items</u>	<u>Amount</u>
Salaries payable	\$ 862,496
Remuneration payable to board of directors	48,193
Others (Note)	<u>86,101</u>
Total	<u><u>\$ 996,790</u></u>

Note: Amounts less than 5% of the account balance are not disclosed individually.

MAKALOT INDUSTRIAL CO., LTD.

Statement of Net Revenue

For the year ended December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

<u>Items</u>	<u>Quantity (thousand dozens)</u>	<u>Amount</u>
Garments	12,678	\$ <u><u>22,702,647</u></u>

Statement of Cost of Revenue

<u>Items</u>	<u>Amount</u>
Raw materials, beginning of year	\$ 1,755,503
Add: Raw materials purchased	9,726,441
Less: Raw materials, end of year	<u>2,272,689</u>
Raw materials consumed	<u>9,209,255</u>
Accessories, beginning of year	241,855
Add: Accessories purchased	1,403,770
Less: Accessories, end of year	<u>314,229</u>
Accessories consumed	<u>1,331,396</u>
Processing cost	7,260,597
Manufacturing overhead	<u>198,429</u>
Manufacturing cost	17,999,677
Add: Work in process, beginning of year	-
Less: Work in process, end of year	<u>-</u>
Cost of finished goods	17,999,677
Less: Finished goods, end of year	-
Cost of production	<u>17,999,677</u>
Merchandise inventory, beginning of year	34,894
Add: Merchandise inventory purchased	1,155,878
Less: Merchandise inventory, end of year	<u>50,723</u>
Cost of merchandise inventory	<u>1,140,049</u>
Allowance for inventory obsolescence and market price decline	<u>14,944</u>
Cost of revenue	\$ <u><u>19,154,670</u></u>

MAKALOT INDUSTRIAL CO., LTD.

Statement of Operating Expenses

December 31, 2018

(Expressed in thousands of New Taiwan Dollars)

Item	Selling expense	Administrative and general expenses
Payroll and bonus	\$ 587,280	449,465
Exporting expense	186,450	-
Sampling expense	71,566	-
Others (note)	227,168	202,769
Total	<u>\$ 1,072,464</u>	<u>652,234</u>

Note: Amounts less than 5% of the account balance are not disclosed individually

Property, plant and equipment, please refer to Note 6(f).

Accumulated depreciation of property, plant and equipment, please refer to Note 6(f).

Intangible assets, please refer to Note 6(g).

Deferred tax assets, please refer to Note 6(n).

Other assets—current and non-current, please refer to Note 6(h).

Provision, please refer to Note 6(k).

Deferred tax liabilities, please refer to Note 6(n).

Other gains and losses, please refer to Note 6(s).

Finance costs, please refer to Note 6(s).