

POYA INTERNATIONAL CO., LTD.
FINANCIAL STATEMENTS AND REVIEW REPORT
OF INDEPENDENT ACCOUNTANTS
SEPTEMBER 30, 2018 AND 2017

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of POYA International Co., Ltd.

Introduction

We have reviewed the accompanying balance sheets of POYA International Co., Ltd. as at September 30, 2018 and 2017, and the related statements of comprehensive income for the three-month and nine-month periods then ended, as well as the statements of changes in equity and of cash flows for the nine-month periods then ended, and notes to the financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of the Company as at September 30, 2018 and 2017, and of its financial performance for the three-month and nine-month periods then ended and its cash flows for the nine-month periods then ended in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Liu, Tzu-Meng

Independent Accountants

Lin, Tzu-Shu

PricewaterhouseCoopers, Taiwan

Republic of China

October 29, 2018

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

POYA INTERNATIONAL CO., LTD.

BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The balance sheets as of September 30, 2018 and 2017 are reviewed, not audited)

Assets	Notes	September 30, 2018		December 31, 2017		September 30, 2017	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets							
Cash and cash equivalents	6(1)	\$ 1,142,740	15	\$ 972,751	13	\$ 1,023,786	14
Notes receivable, net		5,036	-	8,307	-	5,196	-
Accounts receivable, net	6(2)	705,540	9	678,875	9	597,281	8
Other receivables		4,026	-	7,595	-	6,126	-
Inventories	5(2) and 6(3)	2,803,633	35	2,638,948	35	2,543,759	35
Prepayments	6(4)	92,116	1	101,032	2	100,621	2
Other current financial assets	8	16,132	-	23,151	-	25,915	-
Total current assets		<u>4,769,223</u>	<u>60</u>	<u>4,430,659</u>	<u>59</u>	<u>4,302,684</u>	<u>59</u>
Non-current assets							
Property, plant and equipment, net	6(5)	2,711,132	34	2,621,317	35	2,537,908	35
Deferred income tax assets	6(18)	41,800	-	32,698	-	32,403	-
Refundable deposits	6(20)	301,040	4	283,840	4	282,367	4
Other non-current financial assets	8	5,000	-	4,200	-	4,200	-
Long-term prepaid rents		163,445	2	144,352	2	118,403	2
Other non-current assets		12,384	-	12,063	-	10,830	-
Total non-current assets		<u>3,234,801</u>	<u>40</u>	<u>3,098,470</u>	<u>41</u>	<u>2,986,111</u>	<u>41</u>
Total assets		<u>\$ 8,004,024</u>	<u>100</u>	<u>\$ 7,529,129</u>	<u>100</u>	<u>\$ 7,288,795</u>	<u>100</u>
Liabilities and Equity							
Current liabilities							
Current contract liabilities	6(12)	\$ 32,092	-	\$ -	-	\$ -	-
Notes payable		68,794	1	58,027	1	59,596	1
Accounts payable		1,772,476	22	1,644,272	22	1,733,553	24
Other payables	6(6)	564,828	7	644,116	9	576,222	8
Current income tax liabilities	6(18)	178,356	2	173,229	2	96,033	1
Receipts in advance	3(1)	261	-	9,487	-	10,340	-
Long-term liabilities, current portion	6(7)	620,548	8	536,665	7	546,665	8
Other current liabilities	3(1)	-	-	22,765	-	24,197	-
Total current liabilities		<u>3,237,355</u>	<u>40</u>	<u>3,088,561</u>	<u>41</u>	<u>3,046,606</u>	<u>42</u>
Non-current liabilities							
Long-term borrowings	6(7)	1,097,972	14	793,335	11	970,002	13
Deferred income tax liabilities	6(18)	4,116	-	3,431	-	3,160	-
Net defined benefit liabilities-non-current	6(8)	6,455	-	7,640	-	6,465	-
Guarantee deposits received		6,957	-	6,337	-	6,487	-
Total non-current liabilities		<u>1,115,500</u>	<u>14</u>	<u>810,743</u>	<u>11</u>	<u>986,114</u>	<u>13</u>
Total liabilities		<u>4,352,855</u>	<u>54</u>	<u>3,899,304</u>	<u>52</u>	<u>4,032,720</u>	<u>55</u>
Equity							
Share capital							
Common stock	6(9)(11)	976,850	12	976,850	13	976,850	13
Capital surplus	6(9)(10)	640,419	8	640,419	8	640,419	9
Retained earnings	6(9)(11)						
Legal reserve		712,549	9	569,643	8	569,643	8
Unappropriated retained earnings		1,321,351	17	1,442,913	19	1,069,163	15
Total equity		<u>3,651,169</u>	<u>46</u>	<u>3,629,825</u>	<u>48</u>	<u>3,256,075</u>	<u>45</u>
Significant Contingent Liabilities and Unrecognized Contract Commitments	6(20) and 9						
Total liabilities and equity		<u>\$ 8,004,024</u>	<u>100</u>	<u>\$ 7,529,129</u>	<u>100</u>	<u>\$ 7,288,795</u>	<u>100</u>

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

POYA INTERNATIONAL CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)
(REVIEWED, NOT AUDITED)

Items	Notes	For the three-month periods ended September 30			For the nine-month periods ended September 30		
		2018		2017	2018		2017
		AMOUNT	%	AMOUNT	AMOUNT	%	AMOUNT
Operating revenue	6(12) and 12	\$ 3,667,966	100	\$ 3,462,497	\$ 10,510,227	100	\$ 9,879,968
Operating costs	6(3)(8)(16)(17)(20)	(2,016,223)	(55)	(1,926,184)	(5,894,548)	(56)	(5,632,719)
Net operating margin		<u>1,651,743</u>	<u>45</u>	<u>1,536,313</u>	<u>4,615,679</u>	<u>44</u>	<u>4,247,249</u>
Operating expenses	6(8)(16)(17)(20) and 7	(905,734)	(25)	(861,242)	(2,584,526)	(25)	(2,514,297)
Selling expenses		(151,146)	(4)	(165,442)	(447,912)	(4)	(463,336)
General and administrative expenses		(1,056,880)	(29)	(1,026,684)	(3,032,438)	(29)	(2,977,633)
Total operating expenses		<u>594,863</u>	<u>16</u>	<u>509,629</u>	<u>1,583,241</u>	<u>15</u>	<u>1,269,616</u>
Operating profit							
Non-operating income and expenses							
Other income	6(13)	12,657	-	13,038	37,283	-	38,505
Other gains and losses	6(14)	601	-	616	456	-	31,729
Finance costs	6(5)(15)	(4,339)	-	(2,683)	(11,153)	-	(6,070)
Total non-operating income and expenses		<u>8,919</u>	<u>-</u>	<u>9,739</u>	<u>26,586</u>	<u>-</u>	<u>706</u>
Profit before income tax		<u>603,782</u>	<u>16</u>	<u>519,368</u>	<u>1,609,827</u>	<u>15</u>	<u>1,270,322</u>
Income tax expense	6(18)	(122,276)	(3)	(88,389)	(318,802)	(3)	(216,307)
Net income for the period		<u>\$ 481,506</u>	<u>13</u>	<u>\$ 430,979</u>	<u>\$ 1,291,025</u>	<u>12</u>	<u>\$ 1,054,015</u>
Other comprehensive income							
Components of other comprehensive income that will not be reclassified to profit or loss							
Income tax relating to the components of other comprehensive income that will not be reclassified to profit or loss	6(18)	\$ -	-	\$ -	\$ 224	-	\$ -
Total comprehensive income for the period		<u>\$ 481,506</u>	<u>13</u>	<u>\$ 430,979</u>	<u>\$ 1,291,249</u>	<u>12</u>	<u>\$ 1,054,015</u>
Earnings per share (in dollars)							
Basic	6(19)	\$ 4.93		\$ 4.41	\$ 13.22		\$ 10.79
Diluted		\$ 4.91		\$ 4.40	\$ 13.17		\$ 10.77

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

POYA INTERNATIONAL CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, NOT AUDITED)

	Notes	Common stock	Additional paid-in capital	Legal reserve	Unappropriated retained earnings	Total equity
<u>For the nine-month period ended September 30, 2017</u>						
Balance at January 1, 2017		\$ 964,760	\$ 552,861	\$ 452,695	\$ 1,174,037	\$ 3,144,353
Net income for the nine-month period ended September 30, 2017		-	-	-	1,054,015	1,054,015
Total comprehensive income for the nine-month period ended September 30, 2017		-	-	-	1,054,015	1,054,015
Distribution of 2016 net income:						
Legal reserve		-	-	116,948	(116,948)	-
Cash dividends	6(11)	-	-	-	(1,032,293)	(1,032,293)
Stock dividends	6(9)(11)	9,648	-	-	(9,648)	-
Employees' stock bonuses	6(9)	2,442	87,558	-	-	90,000
Balance at September 30, 2017		\$ 976,850	\$ 640,419	\$ 569,643	\$ 1,069,163	\$ 3,256,075
<u>For the nine-month period ended September 30, 2018</u>						
Balance at January 1, 2018		\$ 976,850	\$ 640,419	\$ 569,643	\$ 1,442,913	\$ 3,629,825
Net income for the nine-month period ended September 30, 2018		-	-	-	1,291,025	1,291,025
Other comprehensive income for the nine-month period ended September 30, 2018		-	-	-	224	224
Total comprehensive income for the nine-month period ended September 30, 2018		-	-	-	1,291,249	1,291,249
Distribution of 2017 net income:						
Legal reserve		-	-	142,906	(142,906)	-
Cash dividends	6(11)	-	-	-	(1,269,905)	(1,269,905)
Balance at September 30, 2018		\$ 976,850	\$ 640,419	\$ 712,549	\$ 1,321,351	\$ 3,651,169

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

POYA INTERNATIONAL CO., LTD.
STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, NOT AUDITED)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 1,609,827	\$ 1,270,322
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(5)(16)	375,188	327,584
(Gain) loss on disposal of property, plant and equipment	6(14)	(955)	31,605
Interest income	6(13)	(1,596)	(1,221)
Interest expense	6(15)	11,153	6,070
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		3,271	5,223
Accounts receivable		(26,665)	58,619
Other receivables		3,569	(2,644)
Inventories		(164,685)	(228,944)
Prepayments		8,916	(6,831)
Changes in operating liabilities			
Current contract liabilities		(160)	-
Notes payable		10,767	(554,666)
Accounts payable		128,204	764,518
Other payables		(20,601)	63,432
Receipts in advance		261	(6,187)
Other current liabilities		-	4,057
Net defined benefit liabilities-non-current		(1,185)	(1,211)
Cash inflow generated from operations		1,935,309	1,729,726
Interest received		1,596	1,221
Interest paid		(11,153)	(6,070)
Income tax paid		(321,868)	(274,612)
Net cash flows from operating activities		1,603,884	1,450,265
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other current financial assets		7,019	4,697
Acquisition of property, plant and equipment	6(21)	(523,309)	(733,420)
Interest paid for acquisition of property, plant and equipment	6(5)(15)(21)	(826)	(2,952)
Proceeds from disposal of property, plant and equipment		1,400	-
Increase in refundable deposits		(17,200)	(30,172)
Increase in other non-current financial assets		(800)	-
Increase in long-term prepaid rent		(19,093)	(20,110)
Increase in other non-current assets		(321)	(65)
Net cash flows used in investing activities		(553,130)	(782,022)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings		1,746,667	1,460,000
Repayment of long-term borrowings		(1,358,147)	(905,287)
Increase (decrease) in guarantee deposits received		620	(11)
Cash dividends paid		(1,269,905)	(1,032,293)
Net cash flows used in financing activities		(880,765)	(477,591)
Net increase in cash and cash equivalents		169,989	190,652
Cash and cash equivalents at beginning of period	6(1)	972,751	833,134
Cash and cash equivalents at end of period	6(1)	\$ 1,142,740	\$ 1,023,786

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

POYA INTERNATIONAL CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(REVIEWED, NOT AUDITED)

1. HISTORY AND ORGANIZATION

(1) POYA International Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company is primarily engaged in selling fashion accessories, arts and crafts, food, stationery and a variety of products.

(2) The common shares of the Company have been listed on the Taipei Exchange since September 2002.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These financial statements were reported to the Board of Directors on October 29, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments as endorsed by FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, ‘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
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, ‘First-time adoption of International Financial Reporting Standards’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, ‘Disclosure of interests in other entities’	January 1, 2017

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

IFRS 15, 'Revenue from contracts with customers' and amendments

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognize revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company has elected not to restate prior period financial statements and recognized the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarized below:

Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Company changed the presentation of certain accounts in the balance sheet as follows:

- A. Under IFRS 15, liabilities in relation to sales contracts are recognized as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance amounted to \$9,487.
- B. Under IFRS 15, liabilities in relation to the customer loyalty programme are recognized as

contract liabilities, but were previously presented as deferred revenue in the balance sheet. As of January 1, 2018, the balance amounted to \$22,765.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	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
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

In the first quarter of 2018, the Company reported to the Board of Directors that IFRS 16 has material impact to the Company.

The Company expects to recognize the lease contract of lessees in line with IFRS 16. However, the Company intends not to restate the financial statements of prior period (referred herein as the "modified retrospective approach"), and the impact will be adjusted on January 1, 2019.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021
The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.	

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standards 34, "Interim financial reporting" as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the following items, these financial statements have been prepared under the historical cost convention:

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

B. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has elected to apply the modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 and the third quarter of 2017 were not restated. The financial statements for the year ended December 31, 2017 or the third quarter of 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in New Taiwan Dollars, which is the Company’s functional and presentation currency.

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- D. In the statement of comprehensive income, all foreign exchange gains and losses are presented in “Other gains and losses”.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - a. Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
 - b. Assets held mainly for trading purposes;
 - c. Assets that are expected to be realized within twelve months from the balance sheet date;
 - d. Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - a. Liabilities that are expected to be paid off within the normal operating cycle;
 - b. Liabilities arising mainly from trading activities;
 - c. Liabilities that are to be paid off within twelve months from the balance sheet date;
 - d. Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its

classification.

(5) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(6) Inventories

- A. Self-owned inventories: Inventories are initially recognized at cost and at the end of the year, all inventories are stated at the lower of cost and net realizable value.
- B. Concessionaire: The concessionaire recognizes the full amount collected from customers as revenue when the following criteria are met: a.) Concessionaire acts as a principal and provides goods or services to customers; b.) The Company earns a fixed amount or percentage of profit in the transaction; and c.) Concessionaire assumes credit risks. The difference between the full amount collected from customers and the amount paid to concessionaire is recognized as license income by the Company. Unsold goods at the balance sheet date belong to the Concessionaire, and are not included in the ending balance of the Company's inventories. If the above are not met, the full amount collected from customers is recognized as revenue.

(7) Impairment of financial assets

At each reporting date, for accounts receivable that do not contain a significant financing component, the Company recognizes the impairment provision for lifetime expected credit losses (ECLs).

(8) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to receive cash flows from the financial asset expire.

(9) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Property, plant and equipment apply the cost model. Except for land, other property, plant and equipment are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each component of property, plant and equipment is significant, it is depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future

economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

<u>Asset</u>	<u>Useful lives</u>
Transportation equipment	5 years
Office equipment	2~15 years
Leasehold improvements	2~50 years
Other equipment	5~20 years

(10) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(11) Impairment of non-financial assets

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

(12) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(13) Borrowings

- A. Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
- B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(14) Derecognition of financial liabilities

A financial liability is derecognized when the obligation specified in the contract is either discharged or cancelled or expires.

(15) Employee benefits

A. Short-term employee benefits

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

B. Pensions

a. Defined contribution plan

For the defined contribution plan, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

b. Defined benefit plan

- I. The liability recognized in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (at the balance sheet date).
- II. Remeasurement arising on defined benefit plan is recognized in other comprehensive income in the period in which they arise, and presented in retained earnings.
- III. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. The related information is disclosed accordingly.

C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(16) Income tax

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

comprehensive income or equity.

- B. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pre-tax income of the interim period, and the related information is disclosed accordingly.
- G. If a change in tax rate is enacted or substantively enacted in an interim period, the Company recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(17) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the

effective date of new shares issuance.

(18) Revenue recognition

- A. The Company operates a chain of retail stores selling daily supplies. Revenue from the sale of goods is recognized when the Company sells a product to the customer.
- B. Payment of the transaction price is due immediately when the customer purchases the product. It is the Company's policy to sell its products to the end customer with a right of return within a period. Therefore, a refund liability and a right to the returned goods (included in other current assets) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns using the expected value method. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.
- C. The Company operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. The points provide a material right to customers that they would not receive without entering into a contract. Therefore, the promise to provide points to the customer is a separate performance obligation. The transaction price is allocated to the product and the points on a relative stand-alone selling price basis. The stand-alone selling price per point is estimated on the basis of the discount granted when the points are redeemed and on the basis of the likelihood of redemption, based on past experience. The stand-alone selling price of the product sold is estimated on the basis of the retail price. A contract liability is recognized for the transaction price which is allocated to the points and revenue is recognized when the points are redeemed or expire.
- D. Commission revenue

In accordance with IAS 15 'Revenue', revenue is recognized when the counters sell its goods. The Company's transactions are not subject to significant risks and rewards associated with the sale of goods or the rendering of service and conform to the definition of an agent. Accordingly, the counter's net revenue is recognized representing commissions earned.

(19) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these financial statements requires management to make critical judgments in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, and the related information is addressed below:

(1) Critical judgments in applying the Company's accounting policies

Revenue recognition on a net/gross basis

The Company determines whether the nature of its performance obligation is to provide the specified goods or services itself (i.e. the Company is a principal) or to arrange for the other party to provide those goods or services (i.e. the Company is an agent) based on the transaction model and its economic substance. The Company is a principal if it controls a promised good or service before it transfers the good or service to a customer. The Company recognizes revenue at gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred. The Company is an agent if its performance obligation is to arrange for the provision of goods or services by another party. The Company recognizes revenue at the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its goods or services.

Indicators that the Company controls the good or service before it is provided to a customer include the following:

- A. The Company is primarily responsible for the provision of goods or services;
- B. The Company assumes the inventory risk before transferring the specified goods or services to the customer or after transferring control of the goods or services to the customer.
- C. The Company has discretion in establishing prices for the goods or services.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

- A. As inventories are stated at the lower of cost and net realizable value, the Company must determine the net realizable value of inventories on balance sheet date using judgments and estimates. Because of the change in market demand and the sales strategy, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on the balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.
- B. As of September 30, 2018, the carrying amount of inventories was \$2,803,633.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Cash on hand	\$ 28,323	\$ 40,237	\$ 39,199
Checking deposits and demand deposits	1,114,417	932,514	984,587
	<u>\$ 1,142,740</u>	<u>\$ 972,751</u>	<u>\$ 1,023,786</u>

- A. The Company transacts with a variety of financial institutions all with high credit rankings to diversify credit risk, so it expects that the probability of counterparty default is remote.
- B. As of September 30, 2018, December 31, 2017 and September 30, 2017, details of the Company's cash and cash equivalents pledged to others as collateral are provided in Note 8,

“Pledged assets”.

(2) Accounts receivable, net

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Accounts receivable - sponsorship	\$ 641,550	\$ 625,430	\$ 579,357
Accounts receivable - customer	<u>63,990</u>	<u>53,445</u>	<u>17,924</u>
	<u>\$ 705,540</u>	<u>\$ 678,875</u>	<u>\$ 597,281</u>

- A. The Company has no past due accounts receivable as of September 30, 2018, December 31, 2017 and September 30, 2017.
- B. The Company did not hold any collateral as security as of September 30, 2018, December 31, 2017 and September 30, 2017.
- C. Information relating to credit risk of accounts receivable is provided in Note 12(2), “Financial instruments”.

(3) Inventories

<u>September 30, 2018</u>			
	<u>Cost</u>	<u>Allowance for price decline of inventories</u>	<u>Carrying amount</u>
Merchandise	\$ 2,803,633	\$ -	\$ 2,803,633
<u>December 31, 2017</u>			
	<u>Cost</u>	<u>Allowance for price decline of inventories</u>	<u>Carrying amount</u>
Merchandise	\$ 2,638,948	\$ -	\$ 2,638,948
<u>September 30, 2017</u>			
	<u>Cost</u>	<u>Allowance for price decline of inventories</u>	<u>Carrying amount</u>
Merchandise	\$ 2,543,759	\$ -	\$ 2,543,759

The cost of inventories recognized as expense for the period:

	For the three-month periods ended September 30,	
	2018	2017
Cost of inventories sold	\$ 2,005,200	\$ 1,918,387
Loss on physical inventory	11,023	7,797
	<u>\$ 2,016,223</u>	<u>\$ 1,926,184</u>

	For the nine-month periods ended September 30,	
	2018	2017
Cost of inventories sold	\$ 5,855,610	\$ 5,611,846
Loss on physical inventory	38,938	20,873
	<u>\$ 5,894,548</u>	<u>\$ 5,632,719</u>

(4) Prepayments

	September 30, 2018	December 31, 2017	September 30, 2017
Prepaid rent	\$ 85,172	\$ 76,700	\$ 75,834
Overpaid value-added tax	-	12,454	11,325
Other prepaid expenses	6,944	11,878	13,462
	<u>\$ 92,116</u>	<u>\$ 101,032</u>	<u>\$ 100,621</u>

(5) Property, plant and equipment

	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>At January 1, 2018</u>						
Cost	\$ 18,156	\$ 924,791	\$ 2,562,128	\$ 364,846	\$ 65,328	\$ 3,935,249
Accumulated depreciation	(8,860)	(451,342)	(721,307)	(132,423)	-	(1,313,932)
	<u>\$ 9,296</u>	<u>\$ 473,449</u>	<u>\$ 1,840,821</u>	<u>\$ 232,423</u>	<u>\$ 65,328</u>	<u>\$ 2,621,317</u>
<u>For the nine-month period ended September 30, 2018</u>						
At January 1	\$ 9,296	\$ 473,449	\$ 1,840,821	\$ 232,423	\$ 65,328	\$ 2,621,317
Additions	-	-	-	-	465,448	465,448
Transferred after acceptance inspection	5,001	222,512	226,968	36,031	(490,512)	-
Depreciation	(2,713)	(145,215)	(194,747)	(32,513)	-	(375,188)
Disposal-Cost	(4,131)	(143,562)	(88,593)	(15,553)	-	(251,839)
-Accumulated depreciation	3,686	143,562	88,593	15,553	-	251,394
At September 30	<u>\$ 11,139</u>	<u>\$ 550,746</u>	<u>\$ 1,873,042</u>	<u>\$ 235,941</u>	<u>\$ 40,264</u>	<u>\$ 2,711,132</u>
<u>At September 30, 2018</u>						
Cost	\$ 19,026	\$ 1,003,741	\$ 2,700,503	\$ 385,324	\$ 40,264	4,148,858
Accumulated depreciation	(7,887)	(452,995)	(827,461)	(149,383)	-	(1,437,726)
	<u>\$ 11,139</u>	<u>\$ 550,746</u>	<u>\$ 1,873,042</u>	<u>\$ 235,941</u>	<u>\$ 40,264</u>	<u>\$ 2,711,132</u>

	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>At January 1, 2017</u>						
Cost	\$ 15,514	\$ 836,644	\$ 1,903,429	\$ 346,515	\$ 233,068	\$ 3,335,170
Accumulated depreciation	(6,366)	(418,314)	(634,105)	(148,490)	-	(1,207,275)
	<u>\$ 9,148</u>	<u>\$ 418,330</u>	<u>\$ 1,269,324</u>	<u>\$ 198,025</u>	<u>\$ 233,068</u>	<u>\$ 2,127,895</u>
For the nine-month period ended <u>September 30, 2017</u>						
At January 1	\$ 9,148	\$ 418,330	\$ 1,269,324	\$ 198,025	\$ 233,068	\$ 2,127,895
Additions	-	-	-	-	769,202	769,202
Transferred after acceptance inspection						
Depreciation	2,039	158,077	664,634	51,461	(876,211)	-
Disposal-Cost	(2,532)	(129,881)	(160,580)	(34,591)	-	(327,584)
-Accumulated depreciation	-	(110,956)	(128,814)	(51,913)	-	(291,683)
	-	110,839	97,379	51,860	-	260,078
At September 30	<u>\$ 8,655</u>	<u>\$ 446,409</u>	<u>\$ 1,741,943</u>	<u>\$ 214,842</u>	<u>\$ 126,059</u>	<u>\$ 2,537,908</u>
<u>At September 30, 2017</u>						
Cost	\$ 17,553	\$ 883,765	\$ 2,439,249	\$ 346,063	\$ 126,059	3,812,689
Accumulated depreciation	(8,898)	(437,356)	(697,306)	(131,221)	-	(1,274,781)
	<u>\$ 8,655</u>	<u>\$ 446,409</u>	<u>\$ 1,741,943</u>	<u>\$ 214,842</u>	<u>\$ 126,059</u>	<u>\$ 2,537,908</u>

- A. Amount of borrowing costs capitalized as part of property, plant and equipment and the range of interest rates for such capitalization are as follows:

		For the three-month periods ended September 30,	
		2018	2017
Amount capitalized	\$	223	\$ 797
Interest rate range		0.74% ~ 1.24%	0.92% ~ 1.25%

		For the nine-month periods ended September 30,	
		2018	2017
Amount capitalized	\$	826	\$ 2,952
Interest rate range		0.74% ~ 1.25%	0.92% ~ 1.43%

- B. As of September 30, 2018, December 31, 2017 and September 30, 2017, no property, plant and equipment were pledged to others.

(6) Other payables

	September 30, 2018	December 31, 2017	September 30, 2017
Salaries and bonuses payable	\$ 197,956	\$ 216,751	\$ 202,713
Rent payable	118,559	106,811	107,051
Accrued employees' remuneration and directors' remuneration	90,100	96,800	72,600
Labor and health insurance payable	24,326	24,209	25,051
Equipment payable	23,001	81,688	77,412
Others	110,886	117,857	91,395
	<u>\$ 564,828</u>	<u>\$ 644,116</u>	<u>\$ 576,222</u>

(7) Long-term borrowings

Nature	Borrowing period	Range of interest rates	Collateral	September 30, 2018
Long-term bank borrowings				
Unsecured bank borrowings	8.5.2016 ~ 7.9.2021	1.19% ~ 1.25%	None	\$ 1,718,520
Less: Current portion of long-term borrowings				(620,548)
				<u>\$ 1,097,972</u>

<u>Nature</u>	<u>Borrowing period</u>	<u>Range of interest rates</u>	<u>Collateral</u>	<u>December 31, 2017</u>
Long-term bank borrowings				
Unsecured bank borrowings	8.5.2016~ 8.16.2020	1.19%~1.25%	None	\$ 1,330,000
Less: Current portion of long-term borrowings				(536,665)
				<u>\$ 793,335</u>
<u>Nature</u>	<u>Borrowing period</u>	<u>Range of interest rates</u>	<u>Collateral</u>	<u>September 30, 2017</u>
Long-term bank borrowings				
Unsecured bank borrowings	8.5.2016~ 8.16.2020	1.19%~1.30%	None	\$ 1,516,667
Less: Current portion of long-term borrowings				(546,665)
				<u>\$ 970,002</u>

(8) Pensions

A. The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by next March. Information on the Company's aforementioned pension plan is as follows:

- a. For the aforementioned pension plan, the Company recognized pension costs of \$91, \$107, \$274 and \$321 for the three-month periods and nine-month periods ended September 30, 2018 and 2017, respectively.
- b. Expected contributions to the defined benefit pension plan of the Company for 2018 amount to \$1,925.

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the

“New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company for the three-month periods and nine-month periods ended September 30, 2018 and 2017 were \$18,059, \$18,225, \$53,048 and \$53,648, respectively.

(9) Common stock

- A. Movements in the number of the Company’s ordinary shares outstanding are as follows (in thousands of shares):

	For the nine-month periods ended September 30,	
	2018	2017
At January 1	97,685	96,476
Stock dividends	-	965
Exercised employee stock bonuses	-	244
Balance as at September 30	97,685	97,685

- B. On June 13, 2017, the Company’s shareholders adopted a resolution to issue new shares of common stock through capitalization of unappropriated retained earnings of \$9,648 and employees’ bonus payable of \$90,000. As approved by the Securities and Futures Bureau, Financial Supervisory Commission, the effective date of the capitalization was set on August 1, 2017. Of the amount of \$90,000 employees’ stock bonuses, 244 thousand shares were calculated based on the fair value per share at the preceding day of the Board of Directors’ meeting, after taking into account the effects of ex-rights and ex-dividends. Amounts arising in excess of par value on issuance are classified as capital surplus-additional paid-in capital.
- C. After the abovementioned capitalization, the Company’s total authorized capital was \$1,200,000 (including \$20,000 reserved for employee stock options) and the paid-in capital was \$976,850 (97,685 thousand shares) with par value of \$10 (in dollars) per share.

(10) Capital surplus

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

(11) Retained earnings

- A. The legal reserve shall be exclusively used to cover accumulated deficit, to issue new stocks or distribute cash to shareholders in proportion to their share ownership. The use of legal reserve for the issuance of stocks or cash dividends to shareholders in proportion to their

share ownership is permitted provided that the balance of such reserve exceeds 25% of the Company's paid-in capital.

- B. Under the Company's Articles of Incorporation, the Company operates in a volatile business environment and is in stable growth stage, the appropriation of earnings should consider fund requirements and capital budgets to decide how much earnings will be kept or distributed and how much cash dividends will be distributed. 10% of the annual net income, after offsetting any loss of prior years and paying all taxes and dues, shall be set aside as legal reserve. The remaining net income is the distributable net profit of this period, which is added to the unappropriated retained earnings from prior years to arrive at the accumulated distributable net profit. After considering business environment, future operations, the need for reinvestment, and so on, the Board of Directors will propose a resolution for the distribution of earnings which will be approved at the shareholders' meeting. The distributable net profit shall be appropriated as: 50%~100% of accumulated distributable net profit will be appropriated as dividends and bonuses to shareholders, with cash dividends being at least 1% of the total dividends. Amounts shall be distributed as stock dividends when the price per share of cash dividend is less than \$0.5 (in dollars).
- C. In accordance with the regulations, the Company shall set aside special reserve arising from the debit balance in other equity items at the balance sheet date before distributing earnings. When debit balance in other equity items is reversed subsequently, an equal amount could then be used for distribution.
- D. The Company recognized dividends distributed to owners in 2018 and 2017 amounting to \$1,269,905 (\$13 dollars per share) and \$ - for cash dividends, respectively; and \$1,032,293 (\$10.70 dollars per share) and \$9,648 (\$0.10 dollars per share) for stock dividends, respectively.
- E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(17), "Employee benefit expenses".

(12) Operating revenue

	For the three-month period ended September 30, 2018	For the nine-month period ended September 30, 2018
Revenue from contracts with customers		
Merchandise sales	\$ 3,629,564	\$ 10,405,722
License income	38,402	104,505
	<u>\$ 3,667,966</u>	<u>\$ 10,510,227</u>

A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services at a point in time in the following:

	<u>For the three-month period ended September 30, 2018</u>	<u>For the nine-month period ended September 30, 2018</u>
Merchandise sales:		
Revenue from external customer contracts	<u>\$ 3,667,966</u>	<u>\$ 10,510,227</u>

B. Contract assets and liabilities

As of September 30, 2018 and 2017, the Company has no revenue-related contract assets, and the Company has recognized the following revenue-related contract liabilities:

	<u>September 30, 2018</u>
Contract liabilities:	
– Customer loyalty programmes	\$ 27,764
– Unearned receipts	<u>4,328</u>
	<u>\$ 32,092</u>

(a) Significant changes in contract assets and liabilities

The Company has no significant changes in contract assets and liabilities for the nine-month period ended September 30, 2018.

(b) Revenue recognized that was included in the contract liability balance at the beginning of the period is shown below:

	<u>For the nine-month period ended September 30, 2018</u>
Revenue recognized that was included in the contract liability balance at the beginning of the period	
Customer loyalty programmes	\$ 15,012
Unearned receipts	<u>9,359</u>
	<u>\$ 24,371</u>

C. Related disclosures on operating revenue for the nine-month period ended September 30, 2017 are provided in Note 12(5)B.

(13) Other income

For the three-month periods ended September 30,			
	2018		2017
Rental income	\$ 6,456	\$	6,054
Interest income:			
Interest income from bank deposits	138		14
Other interest income	199		190
Other income	5,864		6,780
	<u>\$ 12,657</u>	<u>\$</u>	<u>13,038</u>

For the nine-month periods ended September 30,			
	2018		2017
Rental income	\$ 19,006	\$	18,789
Interest income:			
Interest income from bank deposits	750		489
Other interest income	846		732
Other income	16,681		18,495
	<u>\$ 37,283</u>	<u>\$</u>	<u>38,505</u>

(14) Other gains and losses

For the three-month periods ended September 30,			
	2018		2017
Gain (loss) on disposal of property, plant and equipment	\$ 602	(\$	601)
Other losses	(1)	(15)
	<u>\$ 601</u>	<u>(\$</u>	<u>616)</u>

For the nine-month periods ended September 30,			
	2018		2017
Gain (loss) on disposal of property, plant and equipment	\$ 955	(\$	31,605)
Other losses	(499)	(124)
	<u>\$ 456</u>	<u>(\$</u>	<u>31,729)</u>

(15) Finance costs

For the three-month periods ended September 30,			
	2018		2017
Interest expense:			
Bank borrowings	\$ 4,562	\$	3,480
Less: Capitalization of qualifying assets	(223)	(797)
	<u>\$ 4,339</u>	<u>\$</u>	<u>2,683</u>

	For the nine-month periods ended September 30,	
	2018	2017
Interest expense:		
Bank borrowings	\$ 11,979	\$ 9,022
Less: Capitalization of qualifying assets	(826)	(2,952)
	<u>\$ 11,153</u>	<u>\$ 6,070</u>

(16) Expenses by nature

	For the three-month period ended September 30, 2018		
	Operating expenses	Operating costs	Total
Employee benefit expense	<u>\$ 440,403</u>	<u>\$ 40,206</u>	<u>\$ 480,609</u>
Depreciation	<u>\$ 117,642</u>	<u>\$ 9,261</u>	<u>\$ 126,903</u>

	For the three-month period ended September 30, 2017		
	Operating expenses	Operating costs	Total
Employee benefit expense	<u>\$ 449,210</u>	<u>\$ 30,196</u>	<u>\$ 479,406</u>
Depreciation	<u>\$ 108,737</u>	<u>\$ 4,343</u>	<u>\$ 113,080</u>

	For the nine-month period ended September 30, 2018		
	Operating expenses	Operating costs	Total
Employee benefit expense	<u>\$ 1,273,706</u>	<u>\$ 112,619</u>	<u>\$ 1,386,325</u>
Depreciation	<u>\$ 350,626</u>	<u>\$ 24,562</u>	<u>\$ 375,188</u>

	For the nine-month period ended September 30, 2017		
	Operating expenses	Operating costs	Total
Employee benefit expense	<u>\$ 1,310,258</u>	<u>\$ 35,628</u>	<u>\$ 1,345,886</u>
Depreciation	<u>\$ 322,642</u>	<u>\$ 4,942</u>	<u>\$ 327,584</u>

(17) Employee benefit expenses

For the three-month period ended September 30, 2018			
<u>Full time employees</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Total</u>
Wages and salaries	\$ 317,715	\$ 10,448	\$ 328,163
Labor and health insurance expense	28,663	1,243	29,906
Pension costs	13,590	550	14,140
Other personnel expenses	1,993	-	1,993
	<u>\$ 361,961</u>	<u>\$ 12,241</u>	<u>\$ 374,202</u>

For the three-month period ended September 30, 2018			
<u>Part time employees</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Total</u>
Wages and salaries	\$ 65,740	\$ 843	\$ 66,583
Labor and health insurance expense	8,692	-	8,692
Pension costs	4,010	-	4,010
Other personnel expenses	-	27,122	27,122
	<u>\$ 78,442</u>	<u>\$ 27,965</u>	<u>\$ 106,407</u>

For the three-month period ended September 30, 2017			
<u>Full time employees</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Total</u>
Wages and salaries	\$ 290,377	\$ 9,924	\$ 300,301
Labor and health insurance expense	28,015	1,110	29,125
Pension costs	13,263	567	13,830
Other personnel expenses	13,926	7	13,933
	<u>\$ 345,581</u>	<u>\$ 11,608</u>	<u>\$ 357,189</u>

For the three-month period ended September 30, 2017			
<u>Part time employees</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Total</u>
Wages and salaries	\$ 88,702	\$ -	\$ 88,702
Labor and health insurance expense	10,425	-	10,425
Pension costs	4,502	-	4,502
Other personnel expenses	-	18,588	18,588
	<u>\$ 103,629</u>	<u>\$ 18,588</u>	<u>\$ 122,217</u>

	For the nine-month period ended September 30, 2018		
<u>Full time employees</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Total</u>
Wages and salaries	\$ 901,207	\$ 28,090	\$ 929,297
Labor and health insurance expense	81,818	3,188	85,006
Pension costs	39,909	1,453	41,362
Other personnel expenses	5,663	-	5,663
	<u>\$ 1,028,597</u>	<u>\$ 32,731</u>	<u>\$ 1,061,328</u>

	For the nine-month period ended September 30, 2018		
<u>Part time employees</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Total</u>
Wages and salaries	\$ 206,982	\$ 2,384	\$ 209,366
Labor and health insurance expense	26,167	-	26,167
Pension costs	11,960	-	11,960
Other personnel expenses	-	77,504	77,504
	<u>\$ 245,109</u>	<u>\$ 79,888</u>	<u>\$ 324,997</u>

	For the nine-month period ended September 30, 2017		
<u>Full time employees</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Total</u>
Wages and salaries	\$ 849,681	\$ 9,924	\$ 859,605
Labor and health insurance expense	82,425	1,110	83,535
Pension costs	40,185	567	40,752
Other personnel expenses	42,282	7	42,289
	<u>\$ 1,014,573</u>	<u>\$ 11,608</u>	<u>\$ 1,026,181</u>

	For the nine-month period ended September 30, 2017		
<u>Part time employees</u>	<u>Operating expenses</u>	<u>Operating costs</u>	<u>Total</u>
Wages and salaries	\$ 252,087	\$ -	\$ 252,087
Labor and health insurance expense	30,381	-	30,381
Pension costs	13,217	-	13,217
Other personnel expenses	-	24,020	24,020
	<u>\$ 295,685</u>	<u>\$ 24,020</u>	<u>\$ 319,705</u>

- A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 5% for employees' compensation and shall not be higher than 6% for directors' remuneration.
- B. For the three-month periods and nine-month periods ended September 30, 2018 and 2017, employees' compensation was accrued at \$28,500, \$28,000, \$86,500 and \$69,000, respectively; while directors' remuneration was accrued at \$1,200 and \$3,600 for both periods. The aforementioned amounts were recognized in salary expenses that were estimated and accrued based on the distributable net profit of current year calculated by the percentage prescribed under the Company's Articles of Incorporation. The actual amount approved at the board of directors' during its meeting for employees' compensation and directors' remuneration for 2017 was \$96,800, which was the same as the estimated amount recognized in the 2017 financial statements. The employees' compensation will be distributed in the form of cash.

Information about the appropriation of employees' compensation and directors' remuneration by the Company as approved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(18) Income tax

A. Income tax expense

(a) Components of income tax expense:

	For the three-month periods ended September 30,	
	2018	2017
Current income tax:		
Current tax on profits for the period	\$ 124,007	\$ 89,414
Total current tax	<u>\$ 124,007</u>	<u>\$ 89,414</u>
Deferred tax:		
Origination and reversal of temporary differences	(1,731)	(1,025)
Total deferred tax	<u>(1,731)</u>	<u>(1,025)</u>
Income tax expense	<u>\$ 122,276</u>	<u>\$ 88,389</u>
	For the nine-month periods ended September 30,	
	2018	2017
Current income tax:		
Current tax on profits for the period	\$ 325,500	\$ 219,904
Tax on undistributed surplus earnings	1,495	516
Prior year income tax over estimation	-	(40)
Total current tax	<u>\$ 326,995</u>	<u>\$ 220,380</u>
Deferred tax:		
Origination and reversal of temporary differences	(3,252)	(4,073)
Impact of change in tax rate	(4,941)	-
Total deferred tax	<u>(8,193)</u>	<u>(4,073)</u>
Income tax expense	<u>\$ 318,802</u>	<u>\$ 216,307</u>

(b) The income tax (charged)/credited to components of other comprehensive income during the period is as follows:

	For the three-month periods ended September 30,	
	2018	2017
Impact of change in tax rate	<u>\$ -</u>	<u>\$ -</u>
	For the nine-month periods ended September 30,	
	2018	2017
Impact of change in tax rate	<u>(\$ 224)</u>	<u>\$ -</u>

- B. As of October 29, 2018, the Company's income tax returns through 2016 have been assessed by the Tax Authority, and there were no disputes existing between the Company and the Tax Authority.
- C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(19) Earnings per share

<u>For the three-month period ended September 30, 2018</u>			
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 481,506	97,685	\$ 4.93
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 481,506	97,685	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	326	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 481,506	98,011	\$ 4.91
<u>For the three-month period ended September 30, 2017</u>			
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 430,979	97,685	\$ 4.41
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 430,979	97,685	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	207	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 430,979	97,892	\$ 4.40

<u>For the nine-month period ended September 30, 2018</u>			
	<u>Amount after</u>	<u>Weighted average</u> <u>number of ordinary</u> <u>shares outstanding</u> <u>(shares in thousands)</u>	<u>Earnings</u> <u>per share</u> <u>(in dollars)</u>
<u>Basic earnings per share</u>	<u>tax</u>		
Profit attributable to ordinary shareholders	<u>\$ 1,291,025</u>	<u>97,685</u>	<u>\$ 13.22</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 1,291,025	97,685	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>377</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 1,291,025</u>	<u>98,062</u>	<u>\$ 13.17</u>
<u>For the nine-month period ended September 30, 2017</u>			
	<u>Amount after</u>	<u>Weighted average</u> <u>number of ordinary</u> <u>shares outstanding</u> <u>(shares in thousands)</u>	<u>Earnings</u> <u>per share</u> <u>(in dollars)</u>
<u>Basic earnings per share</u>	<u>tax</u>		
Profit attributable to ordinary shareholders	<u>\$ 1,054,015</u>	<u>97,640</u>	<u>\$ 10.79</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 1,054,015	97,640	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>252</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 1,054,015</u>	<u>97,892</u>	<u>\$ 10.77</u>

(20) Operating leases

The Company has lease contracts with the key management and non-related parties. The lease terms are between 3 to 20 years. As of September 30, 2018, December 31, 2017 and September 30, 2017, the amount of deposits paid in accordance with the lease contracts was \$296,011, \$281,756 and \$278,283, respectively and was classified as refundable deposits. The Company recognized rental expenses of \$291,438, \$261,627, \$844,701 and \$764,416 for these leases in profit or loss for the three-month periods and nine-month periods ended September 30, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Within 1 year	\$ 1,176,747	\$ 1,085,487	\$ 1,052,046
Between 1 and 5 years	4,225,175	4,016,148	3,915,649
Over 5 years	4,017,274	4,066,371	4,053,088
	<u>\$ 9,419,196</u>	<u>\$ 9,168,006</u>	<u>\$ 9,020,783</u>

(21) Supplemental cash flow information

A. Investing activities with partial cash payments:

	For the nine-month periods ended September 30,	
	2018	2017
Purchase of property, plant and equipment	\$ 465,448	\$ 769,202
Add: Beginning balance of payable on equipment (Other payables)	81,688	44,582
Less: Ending balance of payable on equipment (Other payables)	(23,001)	(77,412)
Capitalization of interest	(826)	(2,952)
Cash paid for acquisition of property, plant and equipment	<u>\$ 523,309</u>	<u>\$ 733,420</u>

B. Financing activities without cash payments:

	For the nine-month periods ended September 30,	
	2018	2017
Accrued employees' bonus transferred to stock dividends to be distributed	<u>\$ -</u>	<u>\$ 90,000</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Company
Chen Chien Tsao	Key management of the Company

(2) Significant related party transactions

Rental expense

				For the three-month periods ended September 30,	
	Leased subject	Determination of rental	Payment method	2018	2017
Key management	Tainan office	Negotiation	Monthly payment	<u>\$ 750</u>	<u>\$ 750</u>

		Determination of rental	Payment method	For the nine-month periods ended September 30,	
	Leased subject			2018	2017
Key management	Tainan office	Negotiation	Monthly payment	\$ 2,250	\$ 2,250

For details on operating lease agreements, please refer to Note 6 (20), "Operating leases".

(3) Key management compensation

		For the three-month periods ended September 30,	
		2018	2017
Salaries and other short-term employee benefits		\$ 5,772	\$ 5,694

		For the nine-month periods ended September 30,	
		2018	2017
Salaries and other short-term employee benefits		\$ 13,389	\$ 13,324

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

Assets		September 30, 2018	December 31, 2017	September 30, 2017	Purpose of collateral
Demand deposits	(Note)	\$ 15,082	\$ 22,101	\$ 24,865	Performance guarantee
Certificate of deposit	(Note)	6,050	5,250	5,250	Refundable deposits
		\$ 21,132	\$ 27,351	\$ 30,115	

(Note) Classified as "Other current financial assets" and "Other non-current financial assets".

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Capital expenditures contracted for but not yet incurred

	September 30, 2018	December 31, 2017	September 30, 2017
Property, plant and equipment	\$ 55,755	\$ 62,970	\$ 87,183

(2) For details on operating lease agreements, please refer to Note 6 (20), "Operating leases".

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to

shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Financial instruments by category

The Company's financial instruments not measured at fair value, including cash and cash equivalents, notes receivable, accounts receivable, other receivables, other current financial assets, refundable deposits, other non-current financial assets, notes payable, accounts payable, other payables, long-term borrowings (including current portion) and guarantee deposits received are based on their book value as book value approximates fair value. In addition, the fair value information of financial instruments measured at fair value is described in Note 12 (3), "Fair value information".

B. Financial risk management policies

The Company adopts a comprehensive risk management system to identify all risks (including market risk, credit risk and liquidity risk) and to enable key management to measure and control all risks. The Company's objectives when managing market risk are achieving optimal risk exposure, maintaining appropriate liquidity and managing all market risks centrally by taking into account the economic environment, competition and market risk.

C. Significant financial risks and degrees of financial risks

(a) Market risk

I. Foreign exchange risk

Since the main transactions of the Company are denominated in New Taiwan dollars, the Company is not engaged in foreign exchange contracts. Therefore, the Company is not exposed to significant foreign exchange risk.

II. Price risk

The Company is not engaged in any financial instrument or derivatives investment, hence is not exposed to price risk.

III. Cash flow and fair value interest rate risk

- i. The Company's main interest rate risk arises from long-term borrowings with variable rates, which expose the Company to cash flow interest rate risk. During 2018 and 2017, the Company's borrowings at variable rate were mainly denominated in New Taiwan dollars.
- ii. The Company's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
- iii. If the borrowing interest rate had increased/decreased by 10% with all other variables held constant, other comprehensive income for the periods ended September 30, 2018 and 2017 would have decreased/increased by \$113 and \$79, respectively. The main factor is that changes in interest expense result from floating rate borrowings.

(b) Credit risk

- I. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- II. The Company manages their credit risk taking into consideration the entire company's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- III. The Company adopts the following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition: If the contract payments are past due over 60 days based on the terms, there is a significant increase in credit risk on that instrument since initial recognition.
- IV. The Company classifies customers' accounts receivable in accordance with credit risk on trade. The Company applies the modified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
- V. The Company uses the forecast to adjust historical and timely information to assess the default possibility of accounts receivable. As of September 30, 2018 and 2017, the Company's expected loss rate used in not past due accounts receivable is immaterial, and the Company has no past due accounts receivable.
- VI. The Company did not recognize the immaterial impairment losses when applying the modified approach for the nine-month periods ended September 30, 2018 and 2017.
- VII. Credit risk information for the period ended September 30, 2017 is provided in Note 12(4), "Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017".

(c) Liquidity risk

- I. Cash flow forecasting is performed by the Company. The Company's Finance Department monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.
- II. The Company has the following undrawn borrowing facilities:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Floating rate:			
Expiring within one year	\$ 420,966	\$ 330,000	\$ 329,866
Expiring beyond one year	<u>186,480</u>	<u>670,000</u>	<u>483,333</u>
	<u>\$ 607,446</u>	<u>\$ 1,000,000</u>	<u>\$ 813,199</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2018. The other facilities have been arranged to help finance the proposed operating business activities of the Company.

III. The table below analyses the Company's non-derivative financial liabilities and relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<u>September 30, 2018</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Non-derivative financial liabilities				
Notes payable	\$ 68,794	\$ -	\$ -	\$ -
Accounts payable	1,772,476	-	-	-
Other payables	564,828	-	-	-
Long-term borrowings (including current portion)	627,913	620,042	490,961	-
Guarantee deposits received	-	6,957	-	-
<u>December 31, 2017</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Non-derivative financial liabilities				
Notes payable	\$ 58,027	\$ -	\$ -	\$ -
Accounts payable	1,644,272	-	-	-
Other payables	644,116	-	-	-
Long-term borrowings (including current portion)	543,348	492,725	310,489	-
Guarantee deposits received	-	6,337	-	-

<u>September 30, 2017</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Non-derivative financial liabilities				
Notes payable	\$ 59,596	\$ -	\$ -	\$ -
Accounts payable	1,733,553	-	-	-
Other payables	576,222	-	-	-
Long-term borrowings (including current portion)	553,468	548,406	433,667	-
Guarantee deposits received	-	6,487	-	-

(3) Fair value information

The Company had no fair value financial instruments as of September 30, 2018, December 31, 2017 and September 30, 2017.

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in the third quarter of 2017:

(a) Receivables

Accounts receivable are receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business, including vendor sponsorship receivable from purchase cost adjustments generated from main operating activities. Accounts receivable are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, for short-term accounts receivable without bearing interest, as the effect of discounting is insignificant, they are measured subsequently at original invoice amount.

(b) Impairment of financial assets

- I. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- II. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
 - i. Significant financial difficulty of the issuer or debtor;
 - ii. The disappearance of an active market for that financial asset because of financial difficulties;
 - iii. Observable data indicating that there is a measurable decrease in the estimated

future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

- iv. Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.

- III. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

For financial assets measured at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

- B. Credit risk information for the nine-month period ended September 30, 2017 is as follows:
 - (a) The Company has no significant past due but not impaired accounts receivable as of September 30, 2017.
 - (b) The Company's accounts receivable that were neither overdue nor impaired have met the credit standards in line with the credit standards prescribed based on counterparties industrial characteristics, scale of business and profitability as of September 30, 2017.
 - (c) The Company did not hold any collateral as security as of September 30, 2017.

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

- A. The significant accounting policies applied on revenue recognition for the third quarter of 2017 are set out below.

- (a) Revenue recognition

- I. Sales revenue

- i. Revenue is measured at the fair value of the consideration received or receivable taking into account the value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities.

Revenue arising from the sales of goods is recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

- ii. The Company has customer loyalty programs where the Company grants loyalty awards credits (such as ‘points’; the award credits can be used to exchange for free or discounted goods) to customers as part of a sales transaction. The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the initial sale of goods and the award credits. The amount of proceeds allocated to the award credits is measured by reference to the fair value of goods that can be redeemed by using the award credits and the proportion of award credits that are expected to be redeemed by customers. The Company recognizes the deferred portion of the proceeds allocated to the award credits as revenue only when it has fulfilled its obligations in respect of the award credits.

II. Commission revenue

In accordance with IAS 18, ‘Revenue’, revenue is recognized when the counters sell its goods. The Company’s transactions are not subject to significant risks and rewards associated with the sale of goods or the rendering of service and conform to the definition of an agent. Accordingly, the counter’s net revenue is recognized as commissions earned.

- B. The revenue recognized by using above accounting policies for the third quarter of 2017 are as follows:

	For the three-month period ended September 30, 2017	For the nine-month period ended September 30, 2017
Merchandise sales	\$ 3,422,553	\$ 9,778,156
License income	39,944	101,812
	<u>\$ 3,462,497</u>	<u>\$ 9,879,968</u>

- C. There is no significant effect on current balance sheet and comprehensive income statement, if the Company continues adopting the above accounting policies for the third quarter of 2018.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transaction information

(In accordance with the current regulatory requirements, the Company is only required to disclose the information for the nine-month period ended September 30, 2018.)

- A. Loans to others: None.

- B. Provision of endorsements and guarantee to others provided: None.
- C. Holding of marketable securities at the end of the period: None.
- D. Marketable securities acquired and disposed of at costs or prices of at least \$300 million or 20% of paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Total purchases or sales of goods from or to related parties reaching \$100 million or 20% of the paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of the paid-in capital or more: None.
- I. Derivative financial instruments undertaken: None.
- J. Significant inter-company transactions: None.

(2) Disclosure information of investee company

(In accordance with the current regulatory requirements, the Company is only required to disclose the information for the nine-month period ended September 30, 2018.)

None.

(3) Disclosure information on indirect investments in Mainland China

(In accordance with the current regulatory requirements, the Company is only required to disclose the information for the nine-month period ended September 30, 2018.)

As of September 30, 2018, the Company had no investments in Mainland China.

14. SEGMENT INFORMATION

(1) General information

The Company operates business only in a single industry. The Company's chief operating decision-maker, who allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment.

(2) Information about segment profit or loss, assets and liabilities

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

	For the nine-month periods ended September 30,	
	2018	2017
	Retailing	Retailing
Segment revenue	\$ 10,510,227	\$ 9,879,968
Revenue from external customers (net)	10,510,227	9,879,968
Depreciation	375,188	327,584
Finance cost	11,153	6,070
Segment pre-tax profit	1,609,827	1,270,322
Segment assets	8,004,024	7,288,795
Segment liabilities	4,352,855	4,032,720

(3) Reconciliation for segment income (loss)

The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income. The segment income reported to the chief operating decision-maker is measured in a manner consistent with that in the financial statements. Therefore, a reconciliation is not needed.