POYA INTERNATIONAL CO., LTD.

FINANCIAL STATEMENTS AND REVIEW REPORT

OF INDEPENDENT ACCOUNTANTS

SEPTEMBER 30, 2017 AND 2016

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 Stockholders of POYA International Co., Ltd.

We have reviewed the accompanying balance sheets of POYA International Co., Ltd. as of September 30, 2017 and 2016, and the related statements of comprehensive income, of changes in equity and of cash flows for the three-month and nine-month periods then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express a conclusion on these financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36, “Engagements to Review Financial Statements” in the Republic of China. A review consists primarily of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above in order for them to be in conformity with the "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 of the Republic of China.

Liu, Tzu-Meng

Independent Accountants

Lin, Tzu-Shu

PricewaterhouseCoopers, Taiwan
Republic of China
October 30, 2017

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, 2017 and 2016 are reviewed, not audited)

Assets	Notes	September 30, 2017 AMOUNT	%	December 31, 2016 AMOUNT	%	September 30, 2016 AMOUNT	%
Current assets							
Cash and cash equivalents	6(1)	$ 1,023,786	14	$ 833,134	13	$ 875,572	14
Notes receivable, net		5,196	-	10,419	-	8,201	-
Accounts receivable, net	6(2)	597,281	8	655,900	10	559,386	9
Other receivables		6,126	-	3,482	-	6,854	-
Inventories	5(2) and 6(3)	2,543,759	35	2,314,815	36	2,298,950	37
Prepayments	6(4)	100,621	2	93,790	1	96,851	2
Other current financial assets	8	25,915	-	30,612	1	41,050	1
Current Assets		4,302,684	59	3,942,152	61	3,886,864	63
Non-current assets							
Property, plant and equipment, net	6(5)(21)	2,537,908	35	2,127,895	33	1,902,139	31
Deferred income tax assets	6(18)	32,403	-	28,330	-	25,090	1
Refundable deposits	6(20)	282,367	4	252,195	4	243,267	4
Other non-current financial assets	8	4,200	-	4,200	-	4,200	-
Long-term prepaid rents		118,403	2	98,293	2	84,136	1
Other non-current assets		10,830	-	10,765	-	10,311	-
Non-current assets		2,986,111	41	2,521,678	39	2,269,143	37
Total assets		$ 7,288,795	100	$ 6,463,830	100	$ 6,156,007	100

(Continued)

POYA INTERNATIONAL CO., LTD.
BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)
(The balance sheets as of September 30, 2017 and 2016 are reviewed, not audited)

Liabilities and Equity	Notes	September 30, 2017 AMOUNT	%	December 31, 2016 AMOUNT	%	September 30, 2016 AMOUNT	%
Current liabilities							
Notes payable		$ 59,596	1	$ 614,262	10	$ 588,862	10
Accounts payable		1,733,553	24	969,035	15	1,020,918	17
Other payables	6(6)(11)(21)	576,222	8	569,960	9	486,905	8
Current income tax liabilities	6(18)	96,033	1	150,265	2	88,019	1
Receipts in advance		10,340	-	16,527	-	17,744	-
Long-term liabilities, current portion	6(7)	546,665	8	405,679	6	412,235	7
Other current liabilities		24,197	-	20,140	-	21,193	-
Total current liabilities		3,046,606	42	2,745,868	42	2,635,876	43
Non-current liabilities							
Long-term borrowings	6(7)	970,002	13	556,275	9	653,809	11
Deferred income tax liabilities	6(18)	3,160	-	3,160	-	2,865	-
Net defined benefit liabilities-non-current	6(8)	6,465	-	7,676	-	1,567	-
Guarantee deposits received		6,487	-	6,498	-	6,466	-
Total non-current liabilities		986,114	13	573,609	9	664,707	11
Total liabilities		4,032,720	55	3,319,477	51	3,300,583	54
Equity							
Share capital	6(9)(11)(21)						
Common stock		976,850	13	964,760	15	964,760	16
Capital surplus	6(9)(10)	640,419	9	552,861	9	552,861	9
Retained earnings	6(9)(11)(17)(18)						
Legal reserve		569,643	8	452,695	7	452,695	7
Unappropriated retained earnings		1,069,163	15	1,174,037	18	885,108	14
Total equity		3,256,075	45	3,144,353	49	2,855,424	46
Significant Contingent Liabilities and Unrecognized Contract Commitments	6(20) and 9						
Total liabilities and equity		$ 7,288,795	100	$ 6,463,830	100	$ 6,156,007	100

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, BUT NOT AUDITED)

		Three months ended September 30				Nine months ended September 30			
		2017		2016		2017		2016	
Items	Notes	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
Operating revenue	6(12)	$ 3,462,497	100	$ 3,208,692	100	$ 9,879,968	100	$ 9,264,795	100
Operating costs	6(3)(8)(16)(17)(20)	(1,926,184)	(56)	(1,822,044)	(57)	(5,632,719)	(57)	(5,484,039)	(59)
Net operating margin		1,536,313	44	1,386,648	43	4,247,249	43	3,780,756	41
Operating expenses	6(8)(16)(17)(20) and 7								
Selling expenses		(861,242)	(25)	(811,277)	(25)	(2,514,297)	(25)	(2,294,746)	(25)
General and administrative expenses		(165,442)	(5)	(164,574)	(5)	(463,336)	(5)	(469,442)	(5)
Total operating expenses		(1,026,684)	(30)	(975,851)	(30)	(2,977,633)	(30)	(2,764,188)	(30)
Operating profit		509,629	14	410,797	13	1,269,616	13	1,016,568	11
Non-operating income and expenses									
Other income	6(13)	13,038	-	12,179	-	38,505	-	36,071	-
Other gains and losses	6(14)	(616)	-	(109)	-	(31,729)	-	8,250	-
Finance costs	6(5)(15)(21)	(2,683)	-	(2,102)	-	(6,070)	-	(5,529)	-
Total non-operating income and expenses		9,739	-	9,968	-	706	-	38,792	-
Profit before income tax		519,368	14	420,765	13	1,270,322	13	1,055,360	11
Income tax expense	6(18)	(88,389)	(2)	(71,815)	(2)	(216,307)	(2)	(180,235)	(2)
Net income for the period		$ 430,979	12	$ 348,950	11	$ 1,054,015	11	$ 875,125	9
Total comprehensive income for the period		$ 430,979	12	$ 348,950	11	$ 1,054,015	11	$ 875,125	9
Earnings per share (in dollars)	6(19)								
Basic		$ 4.41		$ 3.58		$ 10.79		$ 8.99	
Diluted		$ 4.40		$ 3.58		$ 10.77		$ 8.97	

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, BUT NOT AUDITED)

		Share Capital	Capital Surplus	Retained Earnings		
	Notes	Common stock	Additional paid-in capital	Legal reserve	Unappropriated retained earnings	Total equity
For the nine-month period ended September 30, 2016						
Balance at January 1, 2016		$ 952,774	$ 473,319	$ 357,480	$ 953,167	$ 2,736,740
Distribution of 2015 net income:						
Legal reserve		-	-	95,215	(95,215)	-
Cash dividends	6(11)(21)	-	-	-	(838,441)	(838,441)
Stock dividends	6(9)(11)	9,528	-	-	(9,528)	-
Employees' stock bonuses	6(9)(21)	2,458	79,542	-	-	82,000
Net income for the period		-	-	-	875,125	875,125
Balance at September 30, 2016		$ 964,760	$ 552,861	$ 452,695	$ 885,108	$ 2,855,424
For the nine-month period ended September 30, 2017						
Balance at January 1, 2017		$ 964,760	$ 552,861	$ 452,695	$ 1,174,037	$ 3,144,353
Distribution of 2016 net income:						
Legal reserve		-	-	116,948	(116,948)	-
Cash dividends	6(11)(21)	-	-	-	(1,032,293)	(1,032,293)
Stock dividends	6(9)(11)	9,648	-	-	(9,648)	-
Employees' stock bonuses	6(9)(21)	2,442	87,558	-	-	90,000
Net income for the period		-	-	-	1,054,015	1,054,015
Balance at September 30, 2017		$ 976,850	$ 640,419	$ 569,643	$ 1,069,163	$ 3,256,075

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, BUT NOT AUDITED)

	Notes	For the nine-month periods ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		$ 1,270,322	$ 1,055,360
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(5)(16)	327,584	285,705
Loss (gain) on disposal of property, plant and equipment	6(14)	31,605	(9,088)
Interest income	6(13)	(1,221)	(1,310)
Interest expense	6(15)	6,070	5,529
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		5,223	(962)
Accounts receivable		58,619	7,340
Other receivables		(2,644)	(4,498)
Inventories		(228,944)	(231,312)
Prepayments		(6,831)	10,590
Changes in operating liabilities			
Notes payable		(554,666)	26,571
Accounts payable		764,518	10,100
Other payables		63,432	61,987
Receipts in advance		(6,187)	4,954
Other current liabilities		4,057	5,014
Net defined benefit liabilities-non-current		(1,211)	(1,302)
Cash inflow generated from operations		1,729,726	1,224,678
Interest received		1,221	1,310
Interest paid		(6,070)	(5,529)
Income tax paid		(274,612)	(212,962)
Net cash flows from operating activities		1,450,265	1,007,497
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in other current financial assets		4,697	(35,000)
Acquisition of property, plant and equipment	6(21)	(733,420)	(637,335)
Interest paid for acquisition of property, plant and equipment	6(5)(15)(21)	(2,952)	(984)
Proceeds from disposal of property, plant and equipment	6(21)	-	258,102
Increase in refundable deposits		(30,172)	(36,975)
Increase in other non-current financial assets		-	(1,650)
Increase in long-term prepaid rent		(20,110)	(3,330)
(Increase) decrease in other non-current assets		(65)	95
Net cash flows used in investing activities		(782,022)	(457,077)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings		1,460,000	911,841
Repayment of long-term borrowings		(905,287)	(513,296)
(Decrease) increase in guarantee deposits received		(11)	1,440
Cash dividends paid	6(11)	(1,032,293)	(838,441)
Net cash flows used in financing activities		(477,591)	(438,456)
Net increase in cash and cash equivalents		190,652	111,964
Cash and cash equivalents at beginning of period	6(1)	833,134	763,608
Cash and cash equivalents at end of period	6(1)	$ 1,023,786	$ 875,572

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, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, expect as otherwise indicated)
(REVIEWED, BUT 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 30, 2017.

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 2017 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board ("IASB")
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014

New Standards, Interpretations and Amendments	Effective Date by IASB
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

(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 as endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective Date by IASB
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	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
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. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

a. Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortized cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

b. The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

B. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(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 IASB
Prepayment features with negative compensation (amendments to IFRS 9)	January 1, 2019
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by IASB
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Long-term interests in associates and joint ventures (amendments to IAS 28)	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	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 recognise 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.

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 Standard 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:

   a. Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

   b. Defined benefit liabilities recognised 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.

(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 recognised 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 recognised 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 recognised 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 recognised 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) 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 recognised at fair value and subsequently measured at amortized 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.

(6) Inventories

A. Self-owned inventories: Inventories are initially recognised 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 recognises 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 recognised 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 recognised as revenue.

(7) Impairment of financial assets

A. 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.

B. The criteria that the Company uses to determine whether there is objective evidence of impairment loss is as follows:

a. Significant financial difficulty of the issuer or debtor;

b. The disappearance of an active market for that financial asset because of financial difficulties;

c. 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;

d. 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.

C. 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 amortized 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 recognised 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 recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(8) Derecognition of financial assets

The Company derecognises 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 recognised 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 derecognised. 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:

Asset	Useful lives
Buildings and structures	30~40 years
Transportation equipment	5 years
Office equipment	3~15 years
Leasehold improvements	2~30 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 recognised 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 recognised 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 recognised.

(12) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method. However, for short-term accounts payable without bearing interest, as the effect of discounting is insignificant, they are measured subsequently at original invoice amount.

(13) Borrowings

A. Borrowings are recognised 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 recognised 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 recognised 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 derecognised when the obligation under the liability specified in the contract is 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 recognised as expenses in that period when the employees render service.

B. Pensions

a. Defined contribution plan

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

b. Defined benefit plan

I. The liability recognised 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 unrecognised 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 recognised 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 recognised 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) <u>Income tax</u>

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised 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 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the shareholders resolve to retain the earnings.

C. Deferred income tax is recognised, 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 recognised 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, unrecognised and recognised 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 recognised 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 recognised 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.

(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. 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 recognised 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 recognises 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.

B. Commission revenue

In accordance with IAS 18, ‘Revenue’, revenue is recognised 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 recognised as 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 determination of whether the Company is acting as principal or agent in a transaction is based on an evaluation of the Company’s exposure to the significant risks and rewards associated with the sale of goods or the rendering of service in accordance with the business model and substance of the transaction. Where the Company acts as a principal, the amount received or receivable from customer is recognised as revenue on a gross basis. Where the Company acts as an agent, net revenue is recognised representing commissions earned.

The following characteristics of a principal are used as indicators to determine whether the Company shall recognise revenue on a gross basis:

A. The Company has primary responsibilities for the goods or services it provides.

B. The Company bears inventory risk.

C. The Company has a latitude in establishing prices for the goods or services, either directly or indirectly.

D. The Company bears credit risks of customers.

(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, 2017, the carrying amount of inventories was $2,543,759.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	September 30, 2017	December 31, 2016	September 30, 2016
Cash on hand	$ 39,199	$ 36,401	$ 34,742
Checking deposits and demand deposits	984,587	796,733	840,830
	$ 1,023,786	$ 833,134	$ 875,572

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, 2017, December 31, 2016 and September 30, 2016, 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

	September 30, 2017	December 31, 2016	September 30, 2016
Accounts receivable - sponsorship	$ 579,357	$ 623,767	$ 547,661
Accounts receivable - customer	17,924	32,133	11,725
	$ 597,281	$ 655,900	$ 559,386

A. The Company has no significant past due but not impaired accounts receivable as of September 30, 2017, December 31, 2016 and September 30, 2016.

B. The Company’s accounts receivable that were neither overdue nor impaired have met the credit standards prescribed based on counterparties industrial characteristics, scale of business and profitability as of September 30, 2017, December 31, 2016 and September 30, 2016.

C. The Company did not hold any collateral as security as of September 30, 2017, December 31, 2016 and September 30, 2016.

(3) Inventories

	September 30, 2017		
	Cost	Allowance for price decline of inventories	Carrying amount
Merchandise	$ 2,543,759	$ -	$ 2,543,759

	December 31, 2016		
	Cost	Allowance for price decline of inventories	Carrying amount
Merchandise	$ 2,314,815	$ -	$ 2,314,815

	September 30, 2016		
	Cost	Allowance for price decline of inventories	Carrying amount
Merchandise	$ 2,298,950	$ -	$ 2,298,950

The cost of inventories recognised as expense for the period:

	For the three-month periods ended September 30,	
	2017	2016
Cost of inventories sold	$ 1,918,387	$ 1,810,583
Loss on physical inventory	7,797	11,461
Cost of goods sold	$ 1,926,184	$ 1,822,044

	For the nine-month periods ended September 30,	
	2017	2016
Cost of inventories sold	$ 5,611,846	$ 5,459,273
Loss on physical inventory	20,873	24,766
Cost of goods sold	$ 5,632,719	$ 5,484,039

(4) Prepayments

	September 30, 2017	December 31, 2016	September 30, 2016
Prepaid rent	$ 75,834	$ 64,811	$ 70,312
Overpaid value-added tax	11,325	21,727	16,291
Other prepaid expenses	13,462	7,252	10,248
	$ 100,621	$ 93,790	$ 96,851

(5) Property, plant and equipment

	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Construction in progress and equipment before acceptance inspection	Total
At January 1, 2017						
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)
	$ 9,148	$ 418,330	$ 1,269,324	$ 198,025	$ 233,068	$ 2,127,895
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	2,039	158,077	664,634	51,461	(876,211)	-
Depreciation	(2,532)	(129,881)	(160,580)	(34,591)	-	(327,584)
Disposal-Cost	-	(110,956)	(128,814)	(51,913)	-	(291,683)
-Accumulated depreciation	-	110,839	97,379	51,860	-	260,078
At September 30	$ 8,655	$ 446,409	$ 1,741,943	$ 214,842	$ 126,059	$ 2,537,908
At September 30, 2017						
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)
	$ 8,655	$ 446,409	$ 1,741,943	$ 214,842	$ 126,059	$ 2,537,908

	Land	Buildings and structures	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Construction in progress and equipment before acceptance inspection	Total
At January 1, 2016								
Cost	$ 240,242	$ 8,017	$ 24,411	$ 756,072	$ 1,497,913	$ 311,681	$ 83,777	$ 2,922,113
Accumulated depreciation	-	(117)	(12,321)	(362,879)	(556,510)	(159,851)	-	(1,091,678)
	$ 240,242	$ 7,900	$ 12,090	$ 393,193	$ 941,403	$ 151,830	$ 83,777	$ 1,830,435
At January 1	$ 240,242	$ 7,900	$ 12,090	$ 393,193	$ 941,403	$ 151,830	$ 83,777	$ 1,830,435
Additions	-	-	-	-	-	-	606,423	606,423
Transferred after acceptance inspection	-	-	1,674	126,761	344,030	67,486	(539,951)	-
Depreciation	-	(84)	(2,873)	(116,608)	(130,413)	(35,727)	-	(285,705)
Disposal-Cost	(240,242)	(8,017)	(10,118)	(64,983)	(90,408)	(46,780)	-	(460,548)
-Accumulated depreciation	-	201	9,162	64,983	90,408	46,780	-	211,534
At September 30	$ -	$ -	$ 9,935	$ 403,346	$ 1,155,020	$ 183,589	$ 150,249	$ 1,902,139
At September 30, 2016								
Cost	$ -	$ -	$ 15,967	$ 817,850	$ 1,751,535	$ 332,387	$ 150,249	$ 3,067,988
Accumulated depreciation	-	-	(6,032)	(414,504)	(596,515)	(148,798)	-	(1,165,849)
	$ -	$ -	$ 9,935	$ 403,346	$ 1,155,020	$ 183,589	$ 150,249	$ 1,902,139

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,	
	2017	2016
Amount capitalized	$ 797	$ 322
Interest rate range	0.92% ～1.25%	0.91% ～1.33%

	For the nine-month periods ended September 30,	
	2017	2016
Amount capitalized	$ 2,952	$ 984
Interest rate range	0.92% ～1.43%	0.91%～1.46%

B. As of September 30, 2017, December 31, 2016 and September 30, 2016, no property, plant and equipment were pledged to others.

(6) Other payables

	September 30, 2017	December 31, 2016	September 30, 2016
Salaries and bonuses payable	$ 202,713	$ 197,518	$ 166,616
Rent payable	107,051	99,586	79,899
Accrued employees' remuneration and directors' remuneration	72,600	94,800	60,100
Equipment payable	77,412	44,582	52,489
Labor and health insurance payable	25,051	31,144	30,137
Others	91,395	102,330	97,664
	$ 576,222	$ 569,960	$ 486,905

(7) Long-term borrowings

Nature	Borrowing period	Range of interest rates	Collateral	September 30, 2017
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)
				$ 970,002

Nature	Borrowing period	Range of interest rates	Collateral	December 31, 2016
Long-term bank borrowings				
Unsecured bank borrowings	7.1.2014～8.5.2019	1.23%～1.32%	None	$ 961,954
Less: Current portion of long-term borrowings				(405,679)
				$ 556,275

Nature	Borrowing period	Range of interest rates	Collateral	September 30, 2016
Long-term bank borrowings				
Unsecured bank borrowings	7.1.2014～8.5.2019	1.23%～1.35%	None	$ 1,066,044
Less: Current portion of long-term borrowings				(412,235)
				$ 653,809

(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 insufficient 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 contributions to cover the deficit by next March. Information on the Company's aforementioned pension plan is as follows:

a. For the aforementioned pension plan, the Company recognised pension costs of $107, $90, $321 and $270 for the three-month periods and the nine-month periods ended September 30, 2017 and 2016, respectively.

b. Expected contributions to the defined benefit pension plan of the Company for 2017 amounts to $2,048.

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 the nine-month periods ended September 30, 2017 and 2016 were $18,225, $16,472, $53,648 and $49,942, 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,	
	2017	2016
Balance as at January 1	96,476	95,277
Stock dividends	965	953
Exercised employee stock bonuses	244	246
Balance as at September 30	97,685	96,476

B. On May 31, 2016, the Company's shareholders adopted a resolution to issue new shares of common stock through capitalization of unappropriated retained earnings of $9,528 and employees' bonus payable of $82,000. As approved by the Securities and Futures Bureau, Financial Supervisory Commission, the effective date of the capitalization was set on July 13, 2016. Of the amount of $82,000 employees' stock bonuses, 246 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 above-mentioned 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 $964,760 (96,476 thousand shares) with par value of $10 (in dollars) per share.

D. 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.

E. After the above-mentioned 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 recognised dividends distributed to owners in 2017 and 2016 amounting to $1,032,293 ($10.70 dollars per share) and $838,441 ($8.80 dollars per share) for cash dividends, respectively; and $9,648 ($0.10 dollars per share) and $9,528 ($0.10 dollars per share) for stock dividends, respectively.

(12) Operating revenue

	For the three-month periods ended September 30,			
	2017		2016	
Merchandise sales	$	3,422,553	$	3,169,331
License income		39,944		39,361
	$	3,462,497	$	3,208,692

	For the nine-month periods ended September 30,			
	2017		2016	
Merchandise sales	$	9,778,156	$	9,158,084
License income		101,812		106,711
	$	9,879,968	$	9,264,795

(13) Other income

	For the three-month periods ended September 30,			
	2017		2016	
Rental income	$	6,054	$	6,163
Interest income:				
Interest income from bank deposits		14		22
Other interest income		190		191
Other income		6,780		5,803
	$	13,038	$	12,179

	For the nine-month periods ended September 30,			
	2017		2016	
Rental income	$	18,789	$	17,608
Interest income:				
Interest income from bank deposits		489		657
Other interest income		732		653
Other income		18,495		17,153
	$	38,505	$	36,071

(14) Other gains and losses

	For the three-month periods ended September 30,			
	2017		2016	
(Loss) gain on disposal of property, plant and equipment	($	601)	$	105
Other losses	(	15)	(	214)
	($	616)	($	109)

	For the nine-month periods ended September 30,	
	2017	2016
(Loss) gain on disposal of property, plant and equipment	($ 31,605)	$ 9,088
Other losses	(124)	(838)
	($ 31,729)	$ 8,250

(15) Finance costs

	For the three-month periods ended September 30,	
	2017	2016
Interest expense:		
Bank borrowings	$ 3,480	$ 2,424
Less: capitalization of qualifying assets	(797)	(322)
	$ 2,683	$ 2,102

	For the nine-month periods ended September 30,	
	2017	2016
Interest expense:		
Bank borrowings	$ 9,022	$ 6,513
Less: capitalization of qualifying assets	(2,952)	(984)
	$ 6,070	$ 5,529

(16) Expenses by nature

	For the three-month periods ended September 30,			
	2017			2016
	Operating expenses	Operating costs	Total	Operating expenses
Employee benefit expense	$ 449,210	$ 30,196	$ 479,406	$ 417,590
Depreciation	$ 108,737	$ 4,343	$ 113,080	$ 97,696

	For the nine-month periods ended September 30,			
	2017			2016
	Operating expenses	Operating costs	Total	Operating expenses
Employee benefit expense	$ 1,310,258	$ 35,628	$1,345,886	$ 1,230,353
Depreciation	$ 322,642	$ 4,942	$ 327,584	$ 285,705

(17) Employee benefit expenses

	For the three-month periods ended September 30,			
	2017			2016
Full time employees	Operating expenses	Operating costs	Total	Operating expenses
Wages and salaries	$ 290,377	$ 9,924	$ 300,301	$ 284,045
Labor and health insurance expense	28,015	1,110	29,125	30,408
Pension costs	13,263	567	13,830	14,485
Other personnel expenses	13,926	7	13,933	13,969
	$ 345,581	$ 11,608	$ 357,189	$ 342,907

	For the three-month periods ended September 30,			
	2017			2016
Part time employees	Operating expenses	Operating costs	Total	Operating expenses
Wages and salaries	$ 88,702	$ -	$ 88,702	$ 67,356
Labor and health insurance expense	10,425	-	10,425	5,250
Pension costs	4,502	-	4,502	2,077
Other personnel expenses	-	18,588	18,588	-
	$ 103,629	$ 18,588	$ 122,217	$ 74,683

	For the nine-month periods ended September 30,			
	2017			2016
Full time employees	Operating expenses	Operating costs	Total	Operating expenses
Wages and salaries	$ 849,681	$ 9,924	$ 859,605	$ 857,293
Labor and health insurance expense	82,425	1,110	83,535	89,959
Pension costs	40,185	567	40,752	44,823
Other personnel expenses	42,282	7	42,289	44,488
	$ 1,014,573	$ 11,608	$ 1,026,181	$ 1,036,563

	For the nine-month periods ended September 30,			
	2017			2016
Part time employees	Operating expenses	Operating costs	Total	Operating expenses
Wages and salaries	$ 252,087	$ -	$ 252,087	$ 174,779
Labor and health insurance expense	30,381	-	30,381	13,622
Pension costs	13,217	-	13,217	5,389
Other personnel expenses	-	24,020	24,020	-
	$ 295,685	$ 24,020	$ 319,705	$ 193,790

A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, 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, 2017 and 2016, employees' compensation was accrued at $28,000, $22,000, $69,000 and $56,500, respectively; while directors' remuneration was accrued at $1,200 and $3,600 for both periods. The aforementioned amounts were recognised 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' meeting for employees' compensation and directors' remuneration for 2016 was $94,800, which was the same as the estimated amount recognised in the 2016 financial statements. The number of shares distributed as employees' compensation for the year ended December 31, 2016 was 244 thousand shares.

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. Components of income tax expense:

	For the three-month periods ended September 30,	
	2017	2016
Current income tax:		
Current tax on profits for the period	$ 89,414	$ 73,317
Total current tax	89,414	73,317
Deferred income tax:		
Origination and reversal of temporary differences	(1,025)	(1,502)
Total deferred income tax	(1,025)	(1,502)
Income tax expense	$ 88,389	$ 71,815

	For the nine-month periods ended September 30,	
	2017	2016
Current income tax:		
Current tax on profits for the period	$ 219,904	$ 186,455
Tax on undistributed surplus earnings	516	690
Prior year income tax over estimation	(40)	-
Total current tax	220,380	187,145
Deferred income tax:		
Origination and reversal of temporary differences	(4,073)	(6,910)
Total deferred income tax	(4,073)	(6,910)
Income tax expense	$ 216,307	$ 180,235

B. As of October 30, 2017, the Company's income tax returns through 2015 have been assessed by the Tax Authority, and there were no disputes existing between the Company and the Tax Authority.

C. Unappropriated retained earnings:

	September 30, 2017	December 31, 2016	September 30, 2016
Earnings generated after 1998	$ 1,069,163	$ 1,174,037	$ 885,108

D. As of September 30, 2017, December 31, 2016 and September 30, 2016, the balances of the imputation tax credit account were $37,549, $126,052 and $26,890, respectively. The dividends for 2016 and 2015 were approved at the shareholders' meeting on June 13, 2017 and May 31, 2016 with the dividend distribution date set on August 1, 2017 and July 13, 2016 by the Board of Directors, respectively. The creditable tax rate for the unappropriated retained earnings for 2016 and 2015 was 20.60% and 20.52%, respectively.

(19) Earnings per share

	For the three-month period ended September 30, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 430,979	97,685	$ 4.41
Diluted earnings per share			
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

	For the three-month period ended September 30, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 348,950	97,441	$ 3.58
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 348,950	97,441	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	130	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 348,950	97,571	$ 3.58

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

	For the nine-month period ended September 30, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders	$ 875,125	97,393	$ 8.99
Diluted earnings per share			
Profit attributable to ordinary shareholders	$ 875,125	97,393	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	177	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	$ 875,125	97,570	$ 8.97

The above-mentioned weighted average number of ordinary shares outstanding has been adjusted to unappropriated retained earnings as proportional increase in capital for the year ended December 31, 2016.

(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, 2017, December 31, 2016 and September 30, 2016, the amount of deposits paid in accordance with the lease contracts was $278,283, $249,790 and

$240,487, respectively and was classified as refundable deposits. The Company recognised rental expenses of $261,627, $227,082, $764,416 and $637,655 for these leases in profit or loss for the three-month periods and the nine-month periods ended September 30, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	September 30, 2017		December 31, 2016		September 30, 2016	
Within 1 year	$	1,052,046	$	916,755	$	886,114
Between 1 and 5 years		3,915,649		3,448,383		3,355,794
Over 5 years		4,053,088		3,834,420		3,727,161
	$	9,020,783	$	8,199,558	$	7,969,069

(21) Supplemental cash flow information

A. Investing activities with partial cash payments:

	For the nine-month periods ended September 30,			
	2017		2016	
Purchase of property, plant and equipment	$	769,202	$	606,423
Add: Beginning balance of payable on equipment (Other payables)		44,582		84,385
Less: Ending balance of payable on equipment (Other payables)	(	77,412)	(	52,489)
Capitalization of interest	(	2,952)	(	984)
Cash paid for acquisition of property, plant and equipment	$	733,420	$	637,335

B. Financing activities without cash payments:

	For the nine-month periods ended September 30,			
	2017		2016	
Accrued employees' bonus transferred to stock dividends to be distributed	$	90,000	$	82,000

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 transactions and balances with related parties

Rental expense

	Leased subject	Determination of rental	Payment method	For the three-month periods ended September 30, 2017	2016
Key management	Tainan office	Negotiation	Monthly payment	$ 750	$ 750

	Leased subject	Determination of rental	Payment method	For the nine-month periods ended September 30, 2017	2016
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, 2017	2016
Salaries and other short-term employee benefits	$ 5,694	$ 6,630

	For the nine-month periods ended September 30, 2017	2016
Salaries and other short-term employee benefits	$ 13,324	$ 14,231

8. PLEDGED ASSETS

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

Assets		September 30, 2017	December 31, 2016	September 30, 2016	Purpose of collateral
Demand deposits	(Note)	$ 24,865	$ 29,562	$ 40,000	Performance guarantee
Certificate of deposit	(Note)	5,250	5,250	5,250	Refundable deposits
		$ 30,115	$ 34,812	$ 45,250	

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

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Capital expenditures contracted for but not yet incurred

	September 30, 2017	December 31, 2016	September 30, 2016
Property, plant and equipment	$ 87,183	$ 224,377	$ 130,752

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

10. <u>SIGNIFICANT DISASTER LOSS</u>

None.

11. <u>SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE</u>

None.

12. <u>OTHERS</u>

(1) <u>Capital management</u>

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) <u>Financial instruments</u>

A. Fair value information of financial instruments

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. <u>Foreign exchange risk</u>

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. <u>Price risk</u>

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

III. Interest rate risk

For the nine-month periods ended September 30, 2017 and 2016, if interest rates on borrowings had been 10% higher/lower with all other variables held constant, post-tax profit for the nine-month periods ended September 30, 2017 and 2016 would have decreased/increased by $79 and $80, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

b. Credit risk

I. Credit risk refers to the risk of financial loss to the Company arising from default by the customers or counterparties of financial instruments on the contractual obligations. Credit risk arises mainly from cash and cash equivalents and deposits with banks and financial institutions, including outstanding receivables. For banks and financial institutions, only independently rated parties with distinguished rating are accepted.

II. For information of credit quality of the Company's financial assets, please refer to Note 6, Financial assets.

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 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.

September 30, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
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	-	-

December 31, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Notes payable	$ 614,262	$ -	$ -	$ -
Accounts payable	969,035	-	-	-
Other payables	569,960	-	-	-
Long-term borrowings (including current portion)	411,013	366,098	197,491	-
Guarantee deposits received	-	6,498	-	-

September 30, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Notes payable	$ 588,862	$ -	$ -	$ -
Accounts payable	1,020,918	-	-	-
Other payables	486,905	-	-	-
Long-term borrowings (including current portion)	417,672	387,801	274,631	-
Guarantee deposits received	-	6,466	-	-

(3) Fair value information

The Company had no fair value financial instruments as of September 30, 2017, December 31, 2016 and September 30, 2016.

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, 2017.)

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, 2017.)

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, 2017.)

As of September 30, 2017, 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,	
	2017	2016
	Retailing	Retailing
Segment revenue	$ 9,879,968	$ 9,264,795
Revenue from external customers (net)	9,879,968	9,264,795
Depreciation	327,584	285,705
Finance cost	6,070	5,529
Segment pre-tax profit	1,270,322	1,055,360
Segment assets	7,288,795	6,156,007
Segment liabilities	4,032,720	3,300,583

(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.