

POYA INTERNATIONAL CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF

INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2016 AND 2015

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

We have audited the accompanying balance sheets of Poya International Co., Ltd. as of December 31, 2016 and 2015, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the contract of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Completeness and accuracy of franchising retail sales revenue

Description

Please refer to Note 4(18) “Revenue recognition” for accounting policies on retail franchising.

In retail franchising, merchandise information such as name, cost, retail price, price changes and annual sales discount is first established. The point of sales system (henceforth POS) is used to run the

merchandise information automatically. Each store gathers sales transactions by the end of the day. The system will aggregate all the information of transactions then upload to ERP system for generating sales revenue journal entries. In addition, each store has to file cash report daily including cash, gift vouchers, credit cards, and electronic payment devices and reconcile with system data. Cash collections are deposited with the banks periodically.

Due to numerous transactions with small amount, retail franchising highly rely on POS and ERP system to generate reliable and accurate data. This will be effect company's completeness and accuracy of recognized sales revenue. Thus, franchising retail sales revenue a key audit matter.

How our audit addressed the matter

Our procedures relation to the above key audit matter included:

1. Checking randomly whether the merchandise information has been properly approved and attached with relevant evidence whenever merchandise information is created or changed;
2. Checking randomly whether the merchandise information has been transferred to POS system;
3. Checking randomly whether all the sales that were recorded in the POS are periodically transferred to ERP system and recorded in operating revenue journal entry automatically;
4. Reviewing the reasons and the relevant evidences for manual adjusting journal entries that are related to retail franchising sales revenue; and
5. Reviewing whether stores' cash deposits amounts recorded on the daily cash report are in accordance with bank remittance amounts.

Calculation cost to retail ratio of retail inventory method

Description

Please refer to accounting policies on inventory in Note 4(6) and Note 6(3) "Inventory" for related information on inventory and cost of sales.

Due to various kinds of merchandise, retail inventory method is used to estimate cost of inventory and cost of goods sold which are both calculated using the rate of cost of goods purchased to retail value of goods purchased (known as cost to retail ratio). The calculation of cost to retail ratio was launched automatically by ERP system and highly relies on the goods purchased both at cost and retail price. Thus, we identified the accuracy and reliability of calculation of cost to retail ratio of retail inventory method a key audit matter.

How our audit addressed the matter

Our procedures relation to the above key audit matter included:

1. Conducting interviews with management to obtain an understanding of the calculation of cost to retail ratio in the calculation system of retail inventory method and determining whether it has been consistently applied in the comparative periods of financial statements;
2. Checking randomly whether the merchandise information has been properly approved and attached with relevant evidence whenever merchandise information is created or changed;

3. Confirming whether the records of cost of inventory purchased and retail price of inventory purchased in POS are transferred to ERP periodically and completely and the records could not be changed manually; and
4. Checking the computation for the correctness of cost to retail ratio.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and also maintain the internal control for the preparation of financial statements to avoid material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and other related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report and disclose in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the transactions and events in a manner that achieves fair presentation.

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

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

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

PricewaterhouseCoopers, Taiwan

Republic of China

February 20, 2017

The accompanying financial statements are not intended to present the financial position and financial performance 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)

Assets	Notes	December 31, 2016		December 31, 2015	
		AMOUNT	%	AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	\$ 833,134	13	\$ 763,608	14
Notes receivable, net		10,419	-	7,239	-
Accounts receivable, net	6(2)	655,900	10	566,726	10
Other receivables	6(21)	3,482	-	2,356	-
Inventories	5(2) and 6(3)	2,314,815	36	2,067,638	36
Prepayments	6(4)	93,790	1	107,441	2
Other current financial assets	8	30,612	1	6,050	-
Total current assets		3,942,152	61	3,521,058	62
Non-current assets					
Property, plant and equipment	6(5)(21)	2,127,895	33	1,830,435	32
Deferred income tax assets	6(18)	28,330	-	18,180	-
Refundable deposits	6(20)	252,195	4	206,292	4
Other non-current financial assets	8	4,200	-	2,550	-
Long-term prepaid rent		98,293	2	80,806	2
Other non-current assets		10,765	-	10,406	-
Total non-current assets		2,521,678	39	2,148,669	38
Total assets		\$ 6,463,830	100	\$ 5,669,727	100

(Continued)

POYA INTERNATIONAL CO., LTD.
BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2016		December 31, 2015	
		AMOUNT	%	AMOUNT	%
Current liabilities					
Notes payable		\$ 614,262	10	\$ 562,291	10
Accounts payable		969,035	15	1,010,818	18
Other payables	6(6)(21)	569,960	9	538,814	10
Current income tax liabilities	6(18)	150,265	2	113,836	2
Receipts in advance		16,527	-	12,790	-
Long-term liabilities, current portion	6(7)	405,679	6	329,493	6
Other current liabilities		20,140	-	16,179	-
Total current liabilities		<u>2,745,868</u>	<u>42</u>	<u>2,584,221</u>	<u>46</u>
Non-current liabilities					
Long-term borrowings	6(7)	556,275	9	338,006	6
Deferred income tax liabilities	6(18)	3,160	-	2,865	-
Net defined benefit liabilities-non-current	6(8)	7,676	-	2,869	-
Guarantee deposits received		6,498	-	5,026	-
Total non-current liabilities		<u>573,609</u>	<u>9</u>	<u>348,766</u>	<u>6</u>
Total liabilities		<u>3,319,477</u>	<u>51</u>	<u>2,932,987</u>	<u>52</u>
Equity					
Share capital					
Common stock	6(9)(11)(17)	964,760	15	952,774	17
Capital surplus	6(9)(10)	552,861	9	473,319	8
Retained earnings	6(9)(11)(17)(18)				
Legal reserve		452,695	7	357,480	6
Unappropriated retained earnings		1,174,037	18	953,167	17
Total equity		<u>3,144,353</u>	<u>49</u>	<u>2,736,740</u>	<u>48</u>
Significant Contingent Liabilities and	6(20) and 9				
Unrecognized Contract Commitments					
Total liabilities and equity		\$ 6,463,830	100	\$ 5,669,727	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)

Items	Notes	Year ended December 31			
		2016		2015	
		AMOUNT	%	AMOUNT	%
Operating revenue	6(12)	\$ 12,423,746	100	\$ 10,687,825	100
Operating costs	6(3)	(7,316,193)	(59)	(6,310,255)	(59)
Net operating margin		5,107,553	41	4,377,570	41
Operating expenses	6(16)(17)(20) and 7				
Selling expenses		(3,107,195)	(25)	(2,708,757)	(25)
General and administrative expenses		(639,502)	(5)	(540,198)	(5)
Total operating expenses		(3,746,697)	(30)	(3,248,955)	(30)
Operating profit		1,360,856	11	1,128,615	11
Non-operating income and expenses					
Other income	6(13)	49,570	-	36,379	-
Other gains and losses	6(14)	8,013	-	(9,113)	-
Finance costs	6(5)(15)(21)	(8,271)	-	(6,966)	-
Total non-operating income and expenses		49,312	-	20,300	-
Profit before income tax		1,410,168	11	1,148,915	11
Income tax expense	6(18)	(240,684)	(2)	(196,770)	(2)
Net income for the year		\$ 1,169,484	9	\$ 952,145	9
Other comprehensive loss (Net)					
Components of other comprehensive loss that will not be reclassified to profit or loss					
Remeasurement of defined benefit obligations	6(8)	(\$ 6,542)	-	(\$ 2,490)	-
Income tax relating to the components of other comprehensive income that will not be reclassified to profit or loss	6(18)	1,112	-	423	-
Total other comprehensive loss for the year		(\$ 5,430)	-	(\$ 2,067)	-
Total comprehensive income for the year		\$ 1,164,054	9	\$ 950,078	9
Earnings per share (in dollars)					
Basic	6(19)	\$ 12.13		\$ 9.90	
Diluted	6(19)	\$ 12.09		\$ 9.87	

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

POYA INTERNATIONAL CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Notes	Common stock	Capital Surplus	Retained Earnings		Total equity
			Additional paid-in capital	Legal reserve	Unappropriated retained earnings	
2015						
Balance at January 1, 2015		\$ 941,131	\$ 394,551	\$ 284,378	\$ 782,038	\$ 2,402,098
Distribution of 2014 net income:						
Legal reserve		-	-	73,102	(73,102)	-
Cash dividends	6(11)	-	-	-	(696,436)	(696,436)
Stock dividends	6(9)(11)	9,411	-	-	(9,411)	-
Employees' stock bonuses	6(9)(21)	2,232	78,768	-	-	81,000
Net income for the year ended December 31, 2015		-	-	-	952,145	952,145
Other comprehensive loss for the year ended December 31, 2015		-	-	-	(2,067)	(2,067)
Balance at December 31, 2015		<u>\$ 952,774</u>	<u>\$ 473,319</u>	<u>\$ 357,480</u>	<u>\$ 953,167</u>	<u>\$ 2,736,740</u>
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)	-	-	-	(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 year ended December 31, 2016		-	-	-	1,169,484	1,169,484
Other comprehensive loss for the year ended December 31, 2016		-	-	-	(5,430)	(5,430)
Balance at December 31, 2016		<u>\$ 964,760</u>	<u>\$ 552,861</u>	<u>\$ 452,695</u>	<u>\$ 1,174,037</u>	<u>\$ 3,144,353</u>

(Note) The employees' bonus (remuneration) were \$81,000 and \$82,000, and the directors' remuneration were both \$4,800 in 2014 and 2015, respectively which had been deducted from statements of comprehensive income.

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)

	Notes	For the years ended December 31,	
		2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before income tax for the year		\$ 1,410,168	\$ 1,148,915
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(5)(16)	387,934	349,820
(Gain) loss on disposal of property, plant and equipment	6(14)	(9,089)	2,141
Interest income	6(13)	(2,337)	(2,534)
Interest expense	6(15)	8,271	6,966
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(3,180)	1,099
Accounts receivable		(89,174)	(133,478)
Other receivables		(1,126)	9,026
Inventories		(247,177)	(302,025)
Prepayments		13,651	(45,218)
Changes in operating liabilities			
Notes payable		51,971	117,471
Accounts payable		(41,783)	83,712
Other payables		152,949	119,316
Receipts in advance		3,737	150
Other current liabilities		3,961	(1,872)
Net defined benefit liabilities-non-current		(1,735)	(1,713)
Cash inflow generated from operations		1,637,041	1,351,776
Interest received		2,337	2,534
Interest paid		(8,271)	(6,966)
Income tax paid		(212,998)	(195,178)
Net cash provided by operating activities		1,418,109	1,152,166
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other current financial assets		(24,562)	(6,050)
Cash paid for acquisition of property, plant and equipment	6(21)	(972,666)	(780,728)
Interest paid for acquisition of property, plant and equipment	6(5)(15)(21)	(1,544)	(598)
Cash received from disposal of property, plant and equipment	6(21)	258,102	143,410
Increase in refundable deposits		(45,903)	(48,740)
Increase in other non-current financial assets		(1,650)	(2,550)
(Increase) decrease in long-term prepaid rent		(17,487)	22,849
(Increase) decrease in other non-current assets		(359)	555
Net cash flows used in investing activities		(806,069)	(671,852)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from long-term borrowings		911,841	550,000
Repayment of long-term borrowings		(617,386)	(343,914)
Increase in guarantee deposits received		1,472	1,893
Cash dividends paid	6(11)	(838,441)	(696,436)
Net cash flows used in financing activities		(542,514)	(488,457)
Net increase (decrease) in cash and cash equivalents		69,526	(8,143)
Cash and cash equivalents at beginning of year	6(1)	763,608	771,751
Cash and cash equivalents at end of year	6(1)	\$ 833,134	\$ 763,608

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

POYA INTERNATIONAL CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

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 authorised issuance by the Board of Directors on February 20, 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")

None.

- (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 FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board ("IASB")</u>
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by IASB</u>
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
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
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.

(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 endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by IASB</u>
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
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
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Transfers of investment property (amendments to IAS 40)	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 IAS 28, 'Investments in associates and joint ventures'	January 1, 2018
IFRS 16, 'Leases'	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

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. 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.

B. 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 amortised 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.

C. 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", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC

Interpretations 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 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.

(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) 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 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 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 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 amortised 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 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 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 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>
Buildings and structures	30~40 years
Transportation equipment	5 years
Office equipment	3~5 years
Leasehold improvements	2~20 years
Other equipment	5 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

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. 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 amortised 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 amortised 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 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.

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 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 stockholders 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.

(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. 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.
- B. 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.

(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 December 31, 2016, the carrying amount of inventories was \$2,314,815.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash:		
Cash on hand	\$ 36,401	\$ 31,179
Checking deposits and demand deposits	<u>796,733</u>	<u>732,429</u>
	<u>\$ 833,134</u>	<u>\$ 763,608</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 December 31, 2016 and 2015, 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>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable - sponsorship	\$ 623,767	\$ 554,084
Accounts receivable - customer	<u>32,133</u>	<u>12,642</u>
	<u>\$ 655,900</u>	<u>\$ 566,726</u>

- A. The Company has no significant past due but not impaired accounts receivable as of December 31, 2016 and 2015.
- 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, scales of business and profitability as of December 31, 2016 and 2015.
- C. The Company did not hold any collateral as security as of December 31, 2016 and 2015.

(3) Inventories

	<u>December 31, 2016</u>		
	<u>Cost</u>	<u>Allowance for price decline of inventories</u>	<u>Carrying amount</u>
Merchandise	<u>\$ 2,314,815</u>	<u>\$ -</u>	<u>\$ 2,314,815</u>

	<u>December 31, 2015</u>		
	<u>Cost</u>	<u>Allowance for price decline of inventories</u>	<u>Carrying amount</u>
Merchandise	<u>\$ 2,067,638</u>	<u>\$ -</u>	<u>\$ 2,067,638</u>

The cost of inventories recognized as expense for the year:

	<u>Years ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Cost of inventories sold	\$ 7,275,661	\$ 6,281,990
Loss on physical inventory	<u>40,532</u>	<u>28,265</u>
Cost of goods sold	<u>\$ 7,316,193</u>	<u>\$ 6,310,255</u>

(4) Prepayments

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Prepaid rent	\$ 64,811	\$ 83,619
Overpaid value-added tax	21,727	13,574
Prepayment for purchases	-	1,536
Other prepaid expenses	<u>7,252</u>	<u>8,712</u>
	<u>\$ 93,790</u>	<u>\$ 107,441</u>

(5) Property, plant and equipment

	Land	Buildings and structures	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>At January 1, 2016</u>								
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)
	<u>\$240,242</u>	<u>\$ 7,900</u>	<u>\$ 12,090</u>	<u>\$393,193</u>	<u>\$ 941,403</u>	<u>\$151,830</u>	<u>\$ 83,777</u>	<u>\$1,830,435</u>
<u>For the year ended December 31, 2016</u>								
At January 1	\$240,242	\$ 7,900	\$ 12,090	\$393,193	\$ 941,403	\$151,830	\$ 83,777	\$1,830,435
Additions	-	-	-	-	-	-	934,407	934,407
Transferred after acceptance inspection	-	-	1,674	182,777	506,624	94,041	785,116)	-
Depreciation	-	(84)	(3,661)	(157,640)	(178,703)	(47,846)	-	(387,934)
Disposal-Cost	(240,242)	(8,017)	(10,571)	(102,205)	(101,108)	(59,207)	-	(521,350)
Accumulated depreciation	-	201	9,616	102,205	101,108	59,207	-	272,337
At December 31	<u>\$ -</u>	<u>\$ -</u>	<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>
<u>At December 31, 2016</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>\$ -</u>	<u>\$ -</u>	<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>

	Land	Buildings and structures	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>At January 1, 2015</u>								
Cost	\$ -	\$ -	\$ 19,134	\$692,933	\$1,422,075	\$283,244	\$ 78,313	\$2,495,699
Accumulated depreciation	-	-	(9,361)	(306,036)	(620,108)	(152,709)	-	(1,088,214)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,773</u>	<u>\$386,897</u>	<u>\$ 801,967</u>	<u>\$130,535</u>	<u>\$ 78,313</u>	<u>\$1,407,485</u>
For the year ended								
<u>December 31, 2015</u>								
At January 1	\$ -	\$ -	\$ 9,773	\$386,897	\$ 801,967	\$130,535	\$ 78,313	\$1,407,485
Additions	240,242	8,017	-	-	-	-	527,062	775,321
Transferred after acceptance inspection	-	-	6,568	147,639	298,551	68,840	(521,598)	-
Depreciation	-	(117)	(4,041)	(140,168)	(158,146)	(47,348)	-	(349,820)
Disposal-Cost	-	-	(1,291)	(84,500)	(222,713)	(40,403)	-	(348,907)
Accumulated depreciation	-	-	1,081	83,325	221,744	40,206	-	346,356
At December 31	<u>\$240,242</u>	<u>\$ 7,900</u>	<u>\$ 12,090</u>	<u>\$393,193</u>	<u>\$ 941,403</u>	<u>\$151,830</u>	<u>\$ 83,777</u>	<u>\$1,830,435</u>
<u>At December 31, 2015</u>								
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)
	<u>\$240,242</u>	<u>\$ 7,900</u>	<u>\$ 12,090</u>	<u>\$393,193</u>	<u>\$ 941,403</u>	<u>\$151,830</u>	<u>\$ 83,777</u>	<u>\$1,830,435</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:

	Years ended December 31,	
	2016	2015
Amount capitalized	\$ 1,544	\$ 598
Interest rate range	0.91% ~ 1.46%	0.95% ~ 1.71%

- B. As of December 31, 2016 and 2015, no property, plant and equipment were pledged to others.

(6) Other payables

	December 31, 2016	December 31, 2015
Salaries and bonuses payable	\$ 197,518	\$ 171,649
Rent payable	99,586	57,931
Accrued employees' remuneration and directors' remuneration	94,800	86,800
Equipment payable	44,582	84,385
Labor and health insurance payable	31,144	31,209
Others	102,330	106,840
	<u>\$ 569,960</u>	<u>\$ 538,814</u>

(7) Long-term borrowings

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)
				<u>\$ 556,275</u>
Nature	Borrowing period	Range of interest rates	Collateral	December 31, 2015
Long-term bank borrowings				
Unsecured bank borrowings	8.20.2013~ 8.20.2018	1.32%~1.64%	None	\$ 667,499
Less: current portion of long-term borrowings				(329,493)
				<u>\$ 338,006</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. The amounts recognized in the balance sheet are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligation	(\$ 58,779)	(\$ 51,425)
Fair value of plan assets	<u>51,103</u>	<u>48,556</u>
Net defined benefit liability	<u>(\$ 7,676)</u>	<u>(\$ 2,869)</u>

b. Movements in net defined benefit liabilities are as follows:

	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>Year ended December 31, 2016</u>			
Balance at January 1	(\$ 51,425)	\$ 48,556	(\$ 2,869)
Current service cost	(310)	-	(310)
Interest (expense) revenue	(874)	825	(49)
	<u>(52,609)</u>	<u>49,381</u>	<u>(3,228)</u>
Remeasurements:			
Return on plan assets	-	(372)	(372)
Change in financial assumptions	-	-	-
Experience adjustments	(6,170)	-	(6,170)
	<u>(6,170)</u>	<u>(372)</u>	<u>(6,542)</u>
Pension fund contribution	-	2,094	2,094
Pension paid	-	-	-
Balance at December 31	<u>(\$ 58,779)</u>	<u>\$ 51,103</u>	<u>(\$ 7,676)</u>

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2015</u>			
Balance at January 1	(\$ 48,002)	\$ 45,910	(\$ 2,092)
Current service cost	(395)	-	(395)
Interest (expense) revenue	(960)	918	(42)
	(49,357)	46,828	(2,529)
Remeasurements:			
Return on plan assets	-	292	292
Change in financial assumptions	(2,491)	-	(2,491)
Experience adjustments	(291)	-	(291)
	(2,782)	292	(2,490)
Pension fund contribution	-	2,150	2,150
Pension paid	714	(714)	-
Balance at December 31	(\$ 51,425)	\$ 48,556	(\$ 2,869)

- c. The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.
- d. The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2016	2015
Discount rate	1.70%	1.70%
Future salary increases	2.50%	2.50%

Assumptions regarding future mortality experience are set based on the fifth experience life table of taiwan life insurance industry.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected as follows:

	Discount rate		Future salary increase	
	Increase	Decrease	Increase	Decrease
	0.25%	0.25%	0.25%	0.25%
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 2,258)	\$ 2,370	\$ 2,197	(\$ 2,108)
<u>December 31, 2015</u>				
Effect on present value of defined benefit obligation	(\$ 1,940)	\$ 2,373	\$ 2,180	(\$ 1,836)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- e. Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2017 amounts to \$2,048.
- f. As of December 31, 2016, the weighted average duration of the retirement plan is 17 years. The analysis for the due dates of paying pensions is as follows:

Within 1 year	\$ 533
2-5 years	3,604
Over 6 years	73,315
	<u>\$ 77,452</u>

- 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 years ended December 31, 2016 and 2015 were \$67,071 and \$61,185, respectively.

(9) Common stock

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

	Years ended December 31,	
	2016	2015
At January 1	95,277	94,113
Stock dividends	953	941
Exercised employee stock bonuses	246	223
At December 31	96,476	95,277

- B. On June 10, 2015, the Company's shareholders adopted a resolution to issue new shares of common stock through capitalization of unappropriated retained earnings of \$9,411 and employees' bonus payable of \$81,000. As approved by the Securities and Futures Bureau, Financial Supervisory Commission, the effective date of the capitalization was set on August 1, 2015. Of the amount of \$81,000 employees' stock bonuses, 223 thousand shares were calculated based on the fair value per share at the preceding day of the shareholders' 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 \$952,774 (95,277 thousand shares) with par value of \$10 (in dollars) per share.
- D. 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.
- E. 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 \$964,760 (96,476 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 2016 and 2015 amounting to \$838,441 (\$8.80 dollars per share) and \$696,436 (\$7.40 dollars per share) for cash dividends, respectively; and \$9,528 (\$0.10 dollars per share) and \$9,411 (\$0.10 dollars per share) for stock dividends, respectively. During its meeting on February 20, 2017, the Board of Directors' proposed for the distribution of dividends from 2016 earnings of \$1,032,293 (\$10.70 dollars per share) for cash dividends and \$9,648 (\$0.10 dollars per share) for stock dividends, respectively.

(12) Operating revenue

	Years ended December 31,	
	2016	2015
Merchandise sales	\$ 12, 127, 278	\$ 10, 359, 501
License income	296, 468	328, 324
	<u>\$ 12, 423, 746</u>	<u>\$ 10, 687, 825</u>

(13) Other income

	Years ended December 31,	
	2016	2015
Rental income	\$ 23,902	\$ 13,065
Interest income:		
Interest income from bank deposits	1,087	1,645
Other interest income	1,250	889
Other income	23,331	20,780
	<u>\$ 49,570</u>	<u>\$ 36,379</u>

(14) Other gains and losses

	Years ended December 31,	
	2016	2015
Gain (loss) on disposal of property, plant and equipment	\$ 9,089	(\$ 2,141)
Other losses	(1,076)	(6,972)
	<u>\$ 8,013</u>	<u>(\$ 9,113)</u>

(15) Finance costs

	Years ended December 31,	
	2016	2015
Interest expense:		
Bank borrowings	\$ 9,815	\$ 7,564
Less: capitalization of qualifying assets	(1,544)	(598)
	<u>\$ 8,271</u>	<u>\$ 6,966</u>

(16) Expenses by nature

	Years ended December 31,	
	2016	2015
	Operating expenses	Operating expenses
Employee benefit expense	<u>\$ 1,671,002</u>	<u>\$ 1,462,810</u>
Depreciation	<u>\$ 387,934</u>	<u>\$ 349,820</u>

(17) Employee benefit expenses

	Years ended December 31,	
	2016	2015
<u>Full time employees</u>	<u>Operating expenses</u>	<u>Operating expenses</u>
Wages and salaries	\$ 1, 159, 012	\$ 1, 026, 960
Labor and health insurance expense	118, 948	111, 498
Pension costs	59, 901	55, 655
Other personnel expenses	58, 918	57, 584
	<u>\$ 1, 396, 779</u>	<u>\$ 1, 251, 697</u>

	Years ended December 31,	
	2016	2015
<u>Part time employees</u>	<u>Operating expenses</u>	<u>Operating expenses</u>
Wages and salaries	247, 662	189, 776
Labor and health insurance expense	19, 032	15, 370
Pension costs	7, 529	5, 967
	<u>\$ 274, 223</u>	<u>\$ 211, 113</u>

- A. The number of full time employees were 3,295 and 3,169, while part time employees were 942 and 747 on average for the years ended December 31, 2016 and 2015, respectively.
- B. 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.
- C. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$90,000 and \$82,000, respectively; while directors' remuneration was both accrued at \$4,800 for both periods, respectively. 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 employees' compensation and directors' remuneration resolved by the Board of Directors were \$90,000 and \$4,800, respectively, and the employees' compensation will be distributed in the form of shares. The actual amount approved at the board of directors' meeting for employees' bonuses and directors' remuneration for 2015 was the same as the estimated amount recognized in the 2015 financial statements. The actual number of shares distributed as employees' compensation for the year ended December 31, 2015 was 246 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. Income tax expense:

a. Components of income tax expense:

	Years ended December 31,	
	2016	2015
Current income tax:		
Current tax on profits for the year	\$ 248,737	\$ 198,145
Tax on undistributed surplus earnings	690	-
Prior year income tax under estimate	-	312
Total current tax	249,427	198,457
Deferred income tax:		
Origination and reversal of temporary differences	(8,743)	(1,687)
Total deferred income tax	(8,743)	(1,687)
Income tax expense	\$ 240,684	\$ 196,770

b. The income tax relating to components of other comprehensive income is as follows:

	Years ended December 31,	
	2016	2015
Remeasurements of defined benefit plan	(\$ 1,112)	(\$ 423)

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2016	2015
Tax calculated based on profit before tax and statutory tax rate	\$ 239,728	\$ 195,316
Expenses disallowed by tax regulation	266	1,142
Tax on undistributed surplus earnings	690	-
Prior year income tax under estimate	-	312
Tax expense	\$ 240,684	\$ 196,770

- C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

Year ended December 31, 2016				
			Recognized in other comprehensive income	
	January 1	Recognized in profit or loss		December 31
Temporary differences:				
- Deferred tax assets:				
Unrealized expense	\$ 11,482	\$ 8,365	\$ -	\$ 19,847
Pension	3,947	-	1,112	5,059
Unearned revenue	2,751	673	-	3,424
	<u>18,180</u>	<u>9,038</u>	<u>1,112</u>	<u>28,330</u>
- Deferred tax liabilities:				
Pension	(2,865)	(295)	-	(3,160)
	<u>\$ 15,315</u>	<u>\$ 8,743</u>	<u>\$ 1,112</u>	<u>\$ 25,170</u>
Year ended December 31, 2015				
			Recognized in other comprehensive income	
	January 1	Recognized in profit or loss		December 31
Temporary differences:				
- Deferred tax assets:				
Unrealized expense	\$ 9,186	\$ 2,296	\$ -	\$ 11,482
Pension	3,524	-	423	3,947
Unearned revenue	3,069	(318)	-	2,751
	<u>15,779</u>	<u>1,978</u>	<u>423</u>	<u>18,180</u>
- Deferred tax liabilities:				
Pension	(2,574)	(291)	-	(2,865)
	<u>\$ 13,205</u>	<u>\$ 1,687</u>	<u>\$ 423</u>	<u>\$ 15,315</u>

- D. As of February 20, 2017, the Company's income tax returns through 2014 have been assessed by the Tax Authority, and there were no disputes existing between the Company and the Tax Authority.

- E. Unappropriated retained earnings:

	December 31, 2016	December 31, 2015
Earnings generated in and after 1998	<u>\$ 1,174,037</u>	<u>\$ 953,167</u>

F. As of December 31, 2016 and 2015, the balances of the imputation tax credit account were \$126,052 and \$106,595, respectively. As dividends for 2015 and 2014 were approved at the shareholders' meeting on May 31, 2016 and June 10, 2015 with the dividend distribution date set on July 13, 2016 and August 1, 2015 by the Board of Directors, respectively, the creditable tax rate for the unappropriated retained earnings for 2015 and 2014 was 20.52% and 20.66%, respectively. The creditable tax rate for 2016 is expected to be 20.60%. The creditable tax rate will be based on the actual imputation tax credit account on the distribution date for the 2016 earnings thus, the credit account may be subject to appropriate adjustments according to tax regulations.

(19) Earnings per share

	Year ended December 31, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	<u>\$ 1,169,484</u>	<u>96,441</u>	<u>\$ 12.13</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 1,169,484	96,441	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>—</u>	<u>285</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 1,169,484</u>	<u>96,726</u>	<u>\$ 12.09</u>

	Year ended December 31, 2015		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 952,145	96,131	\$ 9.90
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 952,145	96,131	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	—	383	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 952,145	96,514	\$ 9.87

- A. As the Company may choose to distribute employees' compensation in the form of shares, the calculation of diluted earnings per share is based on the assumption that the bonus would be issued in shares. When calculating the diluted EPS, those potential common shares that result in dilutive effect would be included in the calculation of the weighted-average outstanding common shares during the reporting period. When calculating the basic EPS, the weighted-average outstanding common shares during the reporting period is calculated based on the actual amount of shares distributed as employees' compensation under the resolution by the board of directors. In addition, since the employees' stock compensation is no longer regarded as a distribution of stock dividends, the Company did not adjust the effects on the basic and diluted earnings per share retroactively.
- B. The abovementioned 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, 2015.

(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 December 31, 2016 and 2015, the amount of deposits paid in accordance with the lease contracts was \$249,790 and \$203,793, respectively and was classified as refundable deposits. The Company recognized rental expenses of \$874,706 and \$688,887 for these leases in profit or loss for 2016 and 2015, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2016	December 31, 2015
Within 1 year	\$ 916,755	\$ 753,898
Between 1 and 5 years	3,448,383	2,796,102
Over 5 years	3,834,420	2,964,343
	<u>\$ 8,199,558</u>	<u>\$ 6,514,343</u>

(21) Supplemental cash flow information

A. Investing activities with partial cash payments:

	Years ended December 31,	
	2016	2015
a. Purchase of property, plant and equipment	\$ 934,407	\$ 775,321
Add: Beginning balance of payable on equipment (Other payables)	84,385	90,390
Less: Ending balance of payable on equipment (Other payables)	(44,582)	(84,385)
Capitalization of interest	(1,544)	(598)
Cash paid for acquisition of property, plant and equipment	<u>\$ 972,666</u>	<u>\$ 780,728</u>

	Years ended December 31,	
	2016	2015
b. Disposal of property, plant and equipment	\$ 258,102	\$ 410
Add: Beginning balance of receivable on land and buildings (Other receivables)	-	143,000
Cash received from disposal of property, plant and equipment	<u>\$ 258,102</u>	<u>\$ 143,410</u>

B. Financing activities without cash payments:

	Years ended December 31,	
	2016	2015
Accrued employees' compensation transferred to stock dividends to be distributed	<u>\$ 82,000</u>	<u>\$ 81,000</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

Rental expense

		Determination	Payment	Years ended December 31,	
	Leased subject	of rental	method	2016	2015
Key management	Tainan office	Negotiation	Monthly payment	\$ 3,000	\$ 3,000

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

(2) Key management compensation

	Years ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	\$ 17,600	\$ 18,242
Post-employment benefits	–	216
	<u>\$ 17,600</u>	<u>\$ 18,458</u>

8. PLEDGED ASSETS

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

Assets		December 31, 2016	December 31, 2015	Purpose of collateral
Demand deposits	(Note)	\$ 29,562	\$ 5,000	Performance guarantee
Certificate of deposit	(Note)	5,250	3,600	Refundable deposits
		<u>\$ 34,812</u>	<u>\$ 8,600</u>	

(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

	December 31, 2016	December 31, 2015
Property, plant and equipment	<u>\$ 224,377</u>	<u>\$ 62,077</u>

(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. 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 effect into account.

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. Interest rate risk

For the years ended December 31, 2016 and 2015, if interest rates on borrowings had been 10% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have decreased/increased by \$63

and \$28, 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.

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	-	-

<u>December 31, 2015</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>
Notes payable	\$ 562,291	\$ –	\$ –	\$ –
Accounts payable	1,010,818	–	–	–
Other payables	538,814	–	–	–
Long-term borrowings (including current portion)	334,633	212,668	130,611	–
Guarantee deposits received	–	5,026	–	–

(3) Fair value information

The Company had no fair value financial instruments as of years ended December 31, 2016 and 2015.

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 year ended December 31, 2016.)

- 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: Please refer to table 1.
- 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 year ended December 31, 2016.)

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 year ended December 31, 2016.)

As of December 31, 2016, 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) Measurement of segment information

The Board of Directors evaluates the performance of the operating segments based on a measure of EBIT. This measurement basis excludes the effects of non-recurring earnings and expenditures from the operating segments. The accounting policies of the operating segment are the same with Note 4 on the Financial Report.

(3) 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:

	Years ended December 31,	
	2016	2015
	Retailing	Retailing
Segment revenue	\$ 12,423,746	\$ 10,687,825
Revenue from external customers (net)	12,423,746	10,687,825
Depreciation	387,934	349,820
Finance cost	8,271	6,966
Segment pre-tax profit	1,410,168	1,148,915
Segment assets	6,463,830	5,669,727
Segment liabilities	3,319,477	2,932,987

- A. The segment income or loss reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income. A reconciliation of reportable segment income or loss to the income before tax is provided as follows:

	Years ended December 31,	
	2016	2015
Reportable segment income before tax	\$ 1,410,168	\$ 1,148,915
Other adjustments	–	–
Profit from continuing operations	<u>\$ 1,410,168</u>	<u>\$ 1,148,915</u>

- B. The amounts provided to the chief operating decision-maker with respect to total assets are measured in a manner consistent with that of the financial statements. A reconciliation of assets of reportable segment and total assets is as follows:

	Years ended December 31,	
	2016	2015
Asset of reportable segment	\$ 6,463,830	\$ 5,669,727
Unamortized items	–	–
Total assets	<u>\$ 6,463,830</u>	<u>\$ 5,669,727</u>

- C. The measurements of amount of liabilities provided to the chief operating decision-maker were in agreement with the Company's financial report. The reconciliation of segment liabilities and total liabilities is as follows:

	Years ended December 31,	
	2016	2015
Liabilities of reportable segment	\$ 3,319,477	\$ 2,932,987
Unamortized items	–	–
Total liabilities	<u>\$ 3,319,477</u>	<u>\$ 2,932,987</u>

(4) Information on product and service

Please refer to Note 6 (12) Operating revenue for related information.

(5) Geographical information

The Company's geographical information for the years ended December 31, 2016 and 2015 is as follows:

	Year ended December 31, 2016		Year ended December 31, 2015	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	<u>\$ 12,423,746</u>	<u>\$ 2,236,953</u>	<u>\$ 10,687,825</u>	<u>\$ 1,921,647</u>

(6) Major customer information

The Company's annual revenue from each customer for the years ended December 31, 2016 and 2015 did not reach more than 10% of the revenue on the statement of comprehensive income.

POYA INTERNATIONAL CO., LTD.

Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more

For the year ended December 31, 2016

Expressed in thousands of NTD

Table 1

Real estate disposed by	Real estate	Transaction date		Date of acquisition	Book value	Disposal amount	Status of collection of proceeds		Gain (loss) on disposal	Counterparty	Relationship with the seller	Reason for disposal	Basis or reference used in setting the price	Other commitments
		or date of the event					collection of							
POYA	Fengyuan Dist., Taichung City section of Bo'ai Land No. 666, 667, 743, 743 -1, 743-2, 743 -3, 743-4, 743 -5, 754 and No. 39, Fuuqian St., Fengyuan Dist., Taichung City 420, Taiwan (R.O.C.) Building No. 804	2016/5/31		2015/5/29	\$ 248,058	\$ 256,388	\$ 256,388	\$ 7,772	(Note)	President Property Corporation	Non-related party	For operation	Valuation Report	None

(Note) Amount is net of tax and related expenses.