

POYA INTERNATIONAL CO., LTD.

FINANCIAL STATEMENTS AND REVIEW REPORT

OF INDEPENDENT ACCOUNTANTS

MARCH 31, 2015 AND 2014

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 March 31, 2015 and 2014, and the related statements of comprehensive income, of changes in equity and of cash flows for the three-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, "Review of 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.



PricewaterhouseCoopers, Taiwan

Republic of China

April 27, 2015

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
AS OF MARCH 31, 2015, DECEMBER 31, 2014 AND MARCH 31, 2014
(Expressed in thousands of New Taiwan dollars)
(The March 31, 2015 and 2014 amounts are reviewed, not audited)

Assets	Notes	March 31, 2015		December 31, 2014		March 31, 2014		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
Current assets								
Cash and cash equivalents	6(1)	\$ 1,067,764	22	\$ 771,751	16	\$ 788,429	20	
Notes receivable, net		6,650	-	8,338	-	5,523	-	
Accounts receivable, net	6(2)	199,177	4	433,248	9	130,657	3	
Other receivables		4,692	-	154,382	3	4,806	-	
Inventories	5(2) and							
	6(3)	1,823,858	38	1,765,613	36	1,368,783	36	
Prepayments		75,902	2	62,223	1	55,946	2	
Total current assets		3,178,043	66	3,195,555	65	2,354,144	61	
Non-current assets								
Property, plant and equipment	6(4)(20)	1,388,372	29	1,407,485	29	1,279,747	33	
Deferred income tax assets	6(17)	16,441	-	15,779	1	9,594	-	
Refundable deposits	6(19)	158,829	3	157,552	3	127,324	4	
Long-term prepaid rent		90,364	2	103,655	2	73,995	2	
Other non-current assets		9,960	-	10,961	-	11,580	-	
Total non-current assets		1,663,966	34	1,695,432	35	1,502,240	39	
Total assets		\$ 4,842,009	100	\$ 4,890,987	100	\$ 3,856,384	100	

(Continued)

POYA INTERNATIONAL CO., LTD.
BALANCE SHEETS
AS OF MARCH 31, 2015, DECEMBER 31, 2014 AND MARCH 31, 2014
(Expressed in thousands of New Taiwan dollars)
(The March 31, 2015 and 2014 amounts are reviewed, not audited)

Liabilities and Equity	Notes	March 31, 2015		December 31, 2014		March 31, 2014	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities							
Notes payable		\$ 351,844	7	\$ 444,820	9	\$ 290,880	8
Accounts payable		832,665	17	927,106	19	500,862	13
Other payables	6(5)(20)	417,711	9	506,503	10	306,211	8
Current income tax liabilities	6(17)	169,591	4	110,557	2	107,387	3
Receipts in advance		12,819	-	12,640	-	14,536	-
Long-term liabilities, current portion	6(6)	253,092	5	263,780	6	230,153	6
Other current liabilities		15,850	-	18,051	1	9,175	-
Total current liabilities		<u>2,053,572</u>	<u>42</u>	<u>2,283,457</u>	<u>47</u>	<u>1,459,204</u>	<u>38</u>
Non-current liabilities							
Long-term borrowings	6(6)	140,955	3	197,633	4	195,897	5
Deferred income tax liabilities	6(17)	2,574	-	2,574	-	-	-
Net defined benefit liabilities -non-current	5(2) and 6(7)	1,663	-	2,092	-	7,364	-
Guarantee deposits received		4,133	-	3,133	-	3,118	-
Total non-current liabilities		<u>149,325</u>	<u>3</u>	<u>205,432</u>	<u>4</u>	<u>206,379</u>	<u>5</u>
Total liabilities		<u>2,202,897</u>	<u>45</u>	<u>2,488,889</u>	<u>51</u>	<u>1,665,583</u>	<u>43</u>
Equity							
Share capital							
Common stock	6(8)(10)	941,131	20	941,131	19	929,073	24
Capital surplus	6(8)(9)	394,551	8	394,551	8	346,318	9
Retained earnings	6(8)(10)(17)						
Legal reserve		284,378	6	284,378	6	228,493	6
Unappropriated retained earnings		1,019,052	21	782,038	16	686,917	18
Total equity		<u>2,639,112</u>	<u>55</u>	<u>2,402,098</u>	<u>49</u>	<u>2,190,801</u>	<u>57</u>
Significant Contingent Liabilities and Unrecognized Contract Commitments	6(19) and 9						
Total liabilities and equity		<u>\$ 4,842,009</u>	<u>100</u>	<u>\$ 4,890,987</u>	<u>100</u>	<u>\$ 3,856,384</u>	<u>100</u>

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

POYA INTERNATIONAL CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars, except for basic and diluted earnings per share information)
(REVIEWED, BUT NOT AUDITED)

Items	Notes	For the three-month periods ended March 31			
		2015		2014	
		AMOUNT	%	AMOUNT	%
Operating revenue	6(11)	\$ 2,514,564	100	\$ 2,018,753	100
Operating costs	6(3)	(1,458,421)	(58)	(1,210,896)	(60)
Net operating margin		1,056,143	42	807,857	40
Operating expenses	6(15)(16)(19) and 7				
Selling expenses		(624,287)	(25)	(490,779)	(24)
General and administrative expenses		(140,854)	(5)	(118,668)	(6)
Total operating expenses		(765,141)	(30)	(609,447)	(30)
Operating profit		291,002	12	198,410	10
Non-operating income and expenses					
Other income	6(12)	8,947	-	8,758	-
Other gains and losses	6(13)	(2,908)	-	(1,209)	-
Finance costs	6(4)(14)(20)	(1,656)	-	(1,745)	-
Total non-operating income and expenses		4,383	-	5,804	-
Profit before income tax		295,385	12	204,214	10
Income tax expense	6(17)	(58,371)	(3)	(34,709)	(2)
Profit for the period		\$ 237,014	9	\$ 169,505	8
Total comprehensive income for the period		\$ 237,014	9	\$ 169,505	8
Basic earnings per share (in dollars)					
Net income	6(18)	\$ 2.52		\$ 1.81	
Diluted earnings per share (in dollars)					
Net income	6(18)	\$ 2.51		\$ 1.80	

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

POYA INTERNATIONAL CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, BUT NOT AUDITED)

	Share Capital Common stock	Capital Surplus Additional paid-in capital	Retained Earnings		Total equity
			Legal reserve	Unappropriated retained earnings	
<u>For the three-month period ended March 31, 2014</u>					
Balance at January 1, 2014	\$ 929,073	\$ 346,318	\$ 228,493	\$ 517,412	\$ 2,021,296
Net income for the three-month period ended March 31, 2014	-	-	-	169,505	169,505
Balance at March 31, 2014	<u>\$ 929,073</u>	<u>\$ 346,318</u>	<u>\$ 228,493</u>	<u>\$ 686,917</u>	<u>\$ 2,190,801</u>
<u>For the three-month period ended March 31, 2015</u>					
Balance at January 1, 2015	\$ 941,131	\$ 394,551	\$ 284,378	\$ 782,038	\$ 2,402,098
Net income for the three-month period ended March 31, 2015	-	-	-	237,014	237,014
Balance at March 31, 2015	<u>\$ 941,131</u>	<u>\$ 394,551</u>	<u>\$ 284,378</u>	<u>\$ 1,019,052</u>	<u>\$ 2,639,112</u>

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

POYA INTERNATIONAL CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, BUT NOT AUDITED)

		For the three-month periods ended March 31,	
	Notes	2015	2014
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax for the period		\$ 295,385	\$ 204,214
Adjustments to reconcile profit before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Depreciation	6(4)(15)	85,384	67,484
Interest income	6(12)	(186)	(135)
Interest expense	6(14)	1,763	1,957
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Notes receivable		1,688	1,776
Accounts receivable		234,071	157,506
Other receivables		149,690	2,633
Inventories		(58,245)	48,696
Prepayments		(13,679)	(16,646)
Net changes in liabilities relating to operating activities			
Notes payable		(92,976)	(23,093)
Accounts payable		(94,441)	(156,081)
Other payables		(17,040)	(18,678)
Receipts in advance		179	(141)
Other current liabilities		(2,201)	(1,607)
Accrued pension liabilities		(429)	(417)
Cash generated from operations		488,963	267,468
Interest received		186	135
Interest paid		(1,656)	(1,745)
Net cash provided by operating activities		487,493	265,858
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of property, plant and equipment	6(20)	(138,022)	(132,107)
Interest payments for acquisition of property, plant and equipment	6(4)(14)(20)	(107)	(212)
Increase in refundable deposits		(1,277)	(294)
Decrease in long-term prepaid rent		13,291	15,099
Decrease in other non-current assets		1,001	1,297
Net cash used in investing activities		(125,114)	(116,217)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from long-term borrowings		(67,366)	(61,703)
Increase in guarantee deposits received		1,000	-
Net cash used in financing activities		(66,366)	(61,703)
Increase in cash and cash equivalents		296,013	87,938
Cash and cash equivalents at beginning of period	6(1)	771,751	700,491
Cash and cash equivalents at end of period	6(1)	\$ 1,067,764	\$ 788,429

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

POYA INTERNATIONAL CO., LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE – MONTH PERIODS ENDED MARCH 31, 2015 AND 2014
(Expressed in thousands of New Taiwan dollars, except 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 authorized for issuance by the Board of Directors on April 27, 2015.

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”)

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taipei Exchange or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, ‘Financial instruments’) as endorsed by the FSC and Regulations Governing the Preparation of Financial Reports by Securities Issuers effective January 1, 2015 (collectively referred herein as the “2013 version of IFRS”) in preparing the financial statements. The impact of adopting the 2013 version of IFRS is listed below:

A. IAS 1, ‘Presentation of financial statements’

The amendment requires entities to separate items presented in other comprehensive income (OCI) classified by nature into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Company will adjust its presentation of the statement of comprehensive income.

B. IFRS 13, ‘Fair value measurement’

The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard sets out a framework for measuring fair value from market participants’

perspective, and requires disclosures about fair value measurements. For non-financial assets only, fair value is determined based on the highest and best use of the asset. Based on the Company's assessment, the adoption of the standard has no significant impact on its financial statements, and the Company will disclose additional information about fair value measurements accordingly.

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

None.

(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 2013 version of IFRS as endorsed by the FSC:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
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 19)	July 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Investment entities: applying the consolidated exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 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
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Improvements to IFRSs 2012-2014	January 1, 2016
IFRS 15, 'Revenue from contracts with customers'	January 1, 2017
IFRS 9, 'Financial instruments'	January 1, 2018

The Company is assessing the potential impact of the new standards, interpretations and amendments above. The impact will be disclosed when the assessment is complete.

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 IAS 34, ‘Interim Financial Reporting’ as endorsed by the FSC.

(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 in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) 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) Loans and receivables

Accounts receivable are loans and 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 subsequently stated at the lower of cost and net realizable value using the retail inventory method.
- B. License income: The concessionaire recognises the full amount collected from customers as revenue when the following criteria are met: (1) Concessionaire acts as a principal and provides goods or services to customers; (2) The Company earns a fixed amount or percentage of profit in the transaction; and (3) 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. 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; or
 - 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	30 years
Transportation equipment	5 years
Office equipment	3~5 years
Leasehold improvements	2~17 years
Other equipment	5 years

(10) 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 to sell 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 high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in such corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

II. Remeasurement arising on defined benefit plan is recognized in other comprehensive income in the period in which they arise, and presented in retained earnings.

III. Past service costs are recognized immediately in profit or loss.

IV. 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' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' 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. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the shareholders at their shareholders' meeting subsequently, the differences should be recognized based on the

accounting for changes in estimates. The Company calculates the number of shares of employees' stock bonus based on the fair value per share at the preceding day of the shareholders' meeting held in the year following the financial reporting year, after taking into account the effects of ex-rights and ex-dividends.

(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.

- F. A deferred income tax asset shall be recognised for the carry forward of unused tax credits resulting from purchase of equipment or techniques, research and development expenditures and share equity investments, to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised.
- G. 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 approved 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 should be 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 programmes 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

A. 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 March 31, 2015, the carrying amount of inventories was \$1,823,858.

B. Calculation of net defined benefit liabilities-non-current

- a. When calculating the present value of defined pension obligations, the Company must apply judgments and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and future salary growth rate. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.
- b. As of March 31, 2015, the carrying amount of net defined benefit liabilities-non-current was \$1,663. If the adopted discount rate used in the actuarial valuation had increased/decreased by 1%, the Company's net defined benefit liabilities-non-current would decrease/increase by \$6,891 and \$9,412, respectively.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Cash			
Cash on hand	\$ 26,725	\$ 25,722	\$ 21,740
Checking deposits and demand deposits	1,041,039	746,029	766,689
	<u>\$ 1,067,764</u>	<u>\$ 771,751</u>	<u>\$ 788,429</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. The Company has no cash and cash equivalents pledged to others as of March 31, 2015, December 31, 2014 and March 31, 2014.

(2) Accounts receivable, net

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Accounts receivable - sponsorship	\$ 190,178	\$ 422,754	\$ 124,049
Accounts receivable - customer	8,999	10,494	6,608
	<u>\$ 199,177</u>	<u>\$ 433,248</u>	<u>\$ 130,657</u>

- A. The Company has no significant past due but not impaired accounts receivable as of March 31, 2015, December 31, 2014 and March 31, 2014.
- B. As of March 31, 2015, December 31, 2014 and March 31, 2014, the Company's accounts receivable that were neither past due nor impaired were from the customers who have good credit quality.
- C. The Company did not hold any collateral as security as of March 31, 2015, December 31, 2014 and March 31, 2014.

(3) Inventories

March 31, 2015			
	Cost	Allowance for price decline of inventories	Carrying amount
Merchandise	<u>\$ 1,823,858</u>	<u>\$ -</u>	<u>\$ 1,823,858</u>
December 31, 2014			
	Cost	Allowance for price decline of inventories	Carrying amount
Merchandise	<u>\$ 1,765,613</u>	<u>\$ -</u>	<u>\$ 1,765,613</u>
March 31, 2014			
	Cost	Allowance for price decline of inventories	Carrying amount
Merchandise	<u>\$ 1,368,783</u>	<u>\$ -</u>	<u>\$ 1,368,783</u>

The cost of inventories recognized as expense for the period:

For the three-month periods ended March 31,		
	2015	2014
Cost of inventories sold	\$ 1,450,357	\$ 1,204,175
Loss on physical inventory	8,064	6,721
Cost of goods sold	<u>\$ 1,458,421</u>	<u>\$ 1,210,896</u>

(4) Property, plant and equipment

	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>At January 1, 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>\$ 9,773</u>	<u>\$ 386,897</u>	<u>\$ 801,967</u>	<u>\$ 130,535</u>	<u>\$ 78,313</u>	<u>\$ 1,407,485</u>
<u>For the three-month period ended March 31, 2015</u>						
At January 1, 2015	\$ 9,773	\$ 386,897	\$ 801,967	\$ 130,535	\$ 78,313	\$ 1,407,485
Additions	-	-	-	-	66,271	66,271
Transferred after acceptance inspection	1,220	27,795	78,502	18,361	125,878	-
Depreciation	(933)	(34,053)	(38,976)	(11,422)	-	(85,384)
Disposal-Cost	-	20,262	82,027	23,128	-	125,417
Accumulated depreciation	-	(20,262)	(82,027)	(23,128)	-	(125,417)
At March 31, 2015	<u>\$ 10,060</u>	<u>\$ 380,639</u>	<u>\$ 841,493</u>	<u>\$ 137,474</u>	<u>\$ 18,706</u>	<u>\$ 1,388,372</u>
<u>At March 31, 2015</u>						
Cost	\$ 20,354	\$ 700,466	\$ 1,418,550	\$ 278,477	\$ 18,706	\$ 2,436,553
Accumulated depreciation	(10,294)	(319,827)	(577,057)	(141,003)	-	(1,048,181)
	<u>\$ 10,060</u>	<u>\$ 380,639</u>	<u>\$ 841,493</u>	<u>\$ 137,474</u>	<u>\$ 18,706</u>	<u>\$ 1,388,372</u>

	Land	Buildings	Transportation equipment	Office equipment	Leasehold improvements	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>At January 1, 2014</u>								
Cost	\$ 168,160	\$ 20,000	\$ 14,590	\$ 582,130	\$ 1,152,227	\$ 242,770	\$ 81,849	\$ 2,261,726
Accumulated depreciation	-	(222)	(7,685)	(264,101)	(551,826)	(138,203)	-	(962,037)
	<u>\$ 168,160</u>	<u>\$ 19,778</u>	<u>\$ 6,905</u>	<u>\$ 318,029</u>	<u>\$ 600,401</u>	<u>\$ 104,567</u>	<u>\$ 81,849</u>	<u>\$ 1,299,689</u>
<u>For the three-month period ended March 31, 2014</u>								
At January 1, 2014	\$ 168,160	\$ 19,778	\$ 6,905	\$ 318,029	\$ 600,401	\$ 104,567	\$ 81,849	\$ 1,299,689
Additions	-	-	-	-	-	-	47,542	47,542
Transferred after acceptance inspection	-	-	1,864	40,810	53,509	9,953	106,136)	-
Depreciation	-	(167)	(675)	(27,579)	(30,177)	(8,886)	-	(67,484)
Disposal-Cost	-	-	-	(20,018)	(43,261)	(5,773)	-	(69,052)
Accumulated depreciation	-	-	-	20,018	43,261	5,773	-	69,052
At March 31, 2014	<u>\$ 168,160</u>	<u>\$ 19,611</u>	<u>\$ 8,094</u>	<u>\$ 331,260</u>	<u>\$ 623,733</u>	<u>\$ 105,634</u>	<u>\$ 23,255</u>	<u>\$ 1,279,747</u>
<u>At March 31, 2014</u>								
Cost	\$ 168,160	\$ 20,000	\$ 16,454	\$ 602,922	\$ 1,162,475	\$ 246,950	\$ 23,255	\$ 2,240,216
Accumulated depreciation	-	(389)	(8,360)	(271,662)	(538,742)	(141,316)	-	(960,469)
	<u>\$ 168,160</u>	<u>\$ 19,611</u>	<u>\$ 8,094</u>	<u>\$ 331,260</u>	<u>\$ 623,733</u>	<u>\$ 105,634</u>	<u>\$ 23,255</u>	<u>\$ 1,279,747</u>

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

	For the three-month periods ended March 31,	
	2015	2014
Amount capitalized	\$ 107	\$ 212
Interest rate	1.65%	1.71%

(5) Other payables

	March 31, 2015	December 31, 2014	March 31, 2014
Salaries payable	\$ 97,627	\$ 135,775	\$ 78,667
Equipment payable	18,532	90,390	29,276
Accrued employees' bonus, directors' and supervisors' remuneration	107,000	85,800	72,000
Rent payable	39,480	34,893	18,876
Others	155,072	159,645	107,392
	<u>\$ 417,711</u>	<u>\$ 506,503</u>	<u>\$ 306,211</u>

(6) Long-term borrowings

Nature	Borrowing period	Range of interest rates	Collateral	March 31, 2015
Long-term bank borrowings				
Unsecured bank borrowings	8.22.2012~ 8.18.2017	1.53%~1.70%	None	\$ 394,047
Less: current portion of long-term borrowings				(253,092)
				<u>\$ 140,955</u>

Nature	Borrowing period	Range of interest rates	Collateral	December 31, 2014
Long-term bank borrowings				
Unsecured bank borrowings	9.27.2011~ 8.18.2017	1.54%~1.70%	None	\$ 461,413
Less: current portion of long-term borrowings				(263,780)
				<u>\$ 197,633</u>

Nature	Borrowing period	Range of interest rates	Collateral	March 31, 2014
Long-term bank borrowings				
Unsecured bank borrowings	8.24.2011～ 11.25.2016	1.62%～1.80%	None	\$ 426,050
Less: current portion of long-term borrowings				(230,153)
				<u>\$ 195,897</u>

(7) 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.
- a. For the aforementioned pension plan, the Company recognized pension costs of \$109 and \$132 for the three-month periods ended March 31, 2015 and 2014, respectively
- b. Expected contributions to the defined benefit pension plan of the Company for the year 2016 amounts to \$2,150.
- 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 ended March 31, 2015 and 2014 were \$14,186 and \$10,739, respectively.

(8) Common stock

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

	For the three-month periods ended March 31,	
	2015	2014
Balance as at January 1 and March 31	<u>94,113</u>	<u>92,907</u>

- B. On June 10, 2014, the Company's shareholders adopted a resolution to issue new shares of common stock through capitalization of unappropriated retained earnings of \$9,291 and employees' bonus payable of \$51,000. As approved by the Securities and Futures Bureau, Financial Supervisory Commission, the effective date of the capitalization was set on August 1, 2014. Of the amount of \$51,000 employees' stock bonuses, 277 thousand shares was 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.
- 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 \$941,131 (94,113 thousand shares) with par value of \$10 (in dollars) per share.

(9) Capital surplus

Pursuant to the R.O.C. 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 R.O.C. 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.

(10) 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 before amendment, 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 and the unappropriated retained earnings from prior years can be distributed in accordance with a resolution by the Board of Directors and then approved at the shareholders' meeting. Of the amount to be distributed by the Company, employees' bonuses shall not be less than 0.1%; directors and supervisors' remuneration shall not exceed 6%. The remaining shall be appropriated as dividends 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).

On June 10, 2014, the Company's shareholders adopted a resolution to amend the Company's Articles of Incorporation. According to the amended 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 follows:

- a. Directors' remuneration shall not exceed 6% of the distributable net profit of this period.
 - b. Employees' bonuses shall not be less than 0.1% of the distributable net profit of this period.
 - c. 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. For the three-month periods ended March 31, 2015 and 2014, employees' bonus, directors' and supervisors' remuneration were accrued at \$21,200 and \$16,200, respectively, which were based on the after tax earnings of related periods, considering legal reserve calculated by the percentage prescribed under the Company's Articles of Incorporation. The actual amount approved at the shareholders' meeting for employees' bonus and directors' and supervisors' remuneration for 2013 was \$55,800, which was the same as the estimated amount recognized in the 2013 financial statements. The actual number of shares distributed as employees' bonus for the year ended December 31, 2013 was 277 thousand shares, which was calculated based on the market share price of \$184.30 per share. Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company as proposed by the Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

- E. The Company recognized dividends distributed to owners amounting to \$445,954 (\$4.80 dollars per share) for cash dividends; and \$9,291 (\$0.10 dollars per share) for stock dividends for the year ended December 31, 2013. On February 24, 2015, the Company's Board of Directors' during its meeting proposed that total dividend for the distribution of earnings for 2014 was \$696,437 with \$7.40 (in dollars) per share and \$9,411 with \$0.10 (in dollars) per share for cash and stock dividends, respectively. The financial statements do not reflect such dividends payable.

(11) Operating revenue

	For the three-month periods ended March 31,	
	2015	2014
Merchandise sales	\$ 2,479,831	\$ 1,993,409
License income	34,733	25,344
	<u>\$ 2,514,564</u>	<u>\$ 2,018,753</u>

(12) Other income

	For the three-month periods ended March 31,	
	2015	2014
Rental income	\$ 3,192	\$ 2,762
Interest income:		
Interest income from bank deposits	186	135
Other income	5,569	5,861
	<u>\$ 8,947</u>	<u>\$ 8,758</u>

(13) Other gains and losses

	For the three-month periods ended March 31,	
	2015	2014
Other losses	<u>(\$ 2,908)</u>	<u>(\$ 1,209)</u>

(14) Finance costs

	For the three-month periods ended March 31,	
	2015	2014
Interest expense:		
Bank borrowings	\$ 1,763	\$ 1,957
Less: capitalization of qualifying assets	(107)	(212)
	<u>\$ 1,656</u>	<u>\$ 1,745</u>

(15) Expenses by nature

	For the three-month periods ended March 31,	
	2015	2014
	Operating expense	Operating expense
Employee benefit expense	<u>\$ 354,204</u>	<u>\$ 282,737</u>
Depreciation	<u>\$ 85,384</u>	<u>\$ 67,484</u>

(16) Employee benefit expense

	For the three-month periods ended March 31,	
	2015	2014
	Operating expense	Operating expense
Wages and salaries	\$ 296,788	\$ 238,676
Labor and health insurance fees	29,674	22,239
Pension costs	14,295	10,871
Other personnel expenses	13,447	10,951
	<u>\$ 354,204</u>	<u>\$ 282,737</u>

As of March 31, 2015 and 2014, the Company had 3,683 and 2,856 employees, respectively.

(17) Income tax

A. Components of income tax expense:

	For the three-month periods ended March 31,	
	2015	2014
Current income tax:		
Current tax on profits for the period	\$ 59,033	\$ 34,788
Deferred income tax:		
Origination and reversal of temporary differences	(662)	(79)
Income tax expense	\$ 58,371	\$ 34,709

B. As of April 27, 2015, the Company's income tax returns through 2013 have been assessed by the Tax Authority, and there were no disputes existing between the Company and the Tax Authority.

C. Unappropriated retained earnings:

	March 31, 2015	December 31, 2014	March 31, 2014
Earnings generated in and after 1998	\$ 1,019,052	\$ 782,038	\$ 686,917

D. As of March 31, 2015, December 31, 2014 and March 31, 2014, the balances of the Company's imputation tax credit account were \$118,575, \$118,575 and \$45,959, respectively. As dividends were approved at the shareholders' meeting on June 10, 2014 with the dividend distribution date set on August 1, 2014 by the Board of Directors, the creditable tax rate for the unappropriated retained earnings for 2013 was 20.48%, and the creditable tax rate for 2014 is expected to be 19.92%. The creditable tax rate will be calculated based on the actual imputation tax credit account balance on the distribution date for the earnings of 2014; thus, the credit account may be subject to appropriate adjustments according to tax regulations.

(18) Earnings per share

<u>For the three-month period ended March 31, 2015</u>			
	<u>Amount after</u>	<u>Weighted average</u> <u>number of ordinary</u> <u>shares outstanding</u> <u>(shares in thousands)</u>	<u>Earnings per</u> <u>share</u> <u>(in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	<u>\$ 237,014</u>	<u>94,113</u>	<u>\$ 2.52</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 237,014	94,113	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	<u>-</u>	<u>412</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 237,014</u>	<u>94,525</u>	<u>\$ 2.51</u>

<u>For the three-month period ended March 31, 2014</u>			
	<u>Amount after</u>	<u>Weighted average</u> <u>number of ordinary</u> <u>shares outstanding</u> <u>(shares in thousands)</u>	<u>Earnings per</u> <u>share</u> <u>(in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	<u>\$ 169,505</u>	<u>93,836</u>	<u>\$ 1.81</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 169,505	93,836	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	<u>-</u>	<u>351</u>	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 169,505</u>	<u>94,187</u>	<u>\$ 1.80</u>

- A. As the Company may choose to distribute employees' bonus 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' bonus under the resolution at the shareholders' meeting. In addition, since the employees' stock bonus 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, 2014.

(19) Operating leases

The Company has lease contracts with the key management and non-related parties. The lease terms are between 3 and 16 years. As of March 31, 2015, the amount of deposits paid in accordance with the lease contracts was \$155,589 and was classified as refundable deposits. The Company recognized rental expenses of \$167,258 and \$125,348 for these leases in profit or loss for the three-month periods ended March 31, 2015 and 2014, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Within 1 year	\$ 644,077	\$ 608,267	\$ 497,204
Between 1 and 5 years	2,208,129	2,033,895	1,654,486
Over 5 years	2,194,509	1,986,235	1,614,944
	<u>\$ 5,046,715</u>	<u>\$ 4,628,397</u>	<u>\$ 3,766,634</u>

(20) Non-cash transactions

Investing activities with partial cash payments:

	<u>For the three-month periods ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Purchase of property, plant and equipment	\$ 66,271	\$ 47,542
Add: Beginning balance of payable on equipment (Other payables)	90,390	114,053
Less: Ending balance of payable on equipment (Other payables)	(18,532)	(29,276)
Capitalization of interest	(107)	(212)
Cash paid for acquisition of property, plant and equipment	<u>\$ 138,022</u>	<u>\$ 132,107</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

Rental expense

	<u>Leased subject</u>	<u>Determination of rental</u>	<u>Payment method</u>	<u>For the three-month periods ended March 31,</u>	
				<u>2015</u>	<u>2014</u>
Key management	Underground~6F., No. 74, Sec. 3, Minzu Rd., West Central Dist., Tainan City 700	Negotiation	Monthly payment	<u>\$ 750</u>	<u>\$ 750</u>

For details on operating lease agreements, please refer Note 6 (19).

(2) Key management compensation

	<u>For the three-month periods ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Salaries and other short-term employee benefits	<u>\$ 2,992</u>	<u>\$ 2,972</u>

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

Commitments

(1) Capital expenditures contracted for at the balance sheet date but not yet incurred is as follows:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>March 31, 2014</u>
Property, plant and equipment	<u>\$ 8,810</u>	<u>\$ 47,223</u>	<u>\$ 13,529</u>

(2) For details on operating lease agreements, please refer to Note 6.(19).

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, 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, refundable deposits, 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 Note12.(3).

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 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 three-month periods ended March 31, 2015 and 2014, if interest rates on borrowings had been 10% higher/lower with all other variables held constant, post-tax profit for the three-month periods ended March 31, 2015 and 2014 would have decreased/increased by \$20 and \$18, 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.

<u>March 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	\$ 351,844	\$ -	\$ -	\$ -
Accounts payable	832,665	-	-	-
Other payables	417,711	-	-	-
Long-term borrowings (including current portion)	257,255	127,280	15,994	-
Guarantee deposits received	-	4,133	-	-
<u>December 31, 2014</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	\$ 444,820	\$ -	\$ -	\$ -
Accounts payable	927,106	-	-	-
Other payables	506,503	-	-	-
Long-term borrowings (including current portion)	268,185	170,526	30,408	-
Guarantee deposits received	-	3,133	-	-
<u>March 31, 2014</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	\$ 290,880	\$ -	\$ -	\$ -
Accounts payable	500,862	-	-	-
Other payables	306,211	-	-	-
Long-term borrowings (including current portion)	234,089	144,594	54,653	-
Guarantee deposits received	-	3,118	-	-

(3) Fair value information

The Company had no fair value financial instruments as of March 31, 2015, December 31, 2014 and March 31, 2014.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transaction information

(According to the current regulatory requirements, the Company is only required to disclose the information for the three-month period ended March 31, 2015.)

- A. Loans to others: None.
- B. Endorsements/guarantee provided: None.
- C. Marketable securities held (excluding investments in subsidiaries, associates and jointly controlled entities): None.
- D. Marketable securities acquired and disposed of at costs or prices of at least \$300 million or 20% of the paid-in capital: None.
- E. Acquisition of individual real estate properties at costs of at least \$300 million or 20% of the paid-in capital: None.
- F. Disposal of individual real estate properties at prices of at least \$300 million or 20% of the paid-in capital: None.
- G. Total purchases from or sales to related parties of at least \$100 million or 20% of the paid-in capital: None.
- H. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: None.
- I. Derivative financial instruments undertaken during the three-month period ended March 31, 2015: None.
- J. Significant inter-company transactions during the three-month period ended March 31, 2015: None.

(2) Disclosure information of investee company

(Only information for the three-month period ended March 31, 2015 is required to be disclosed.)

None.

(3) Disclosure information on indirect investments in Mainland China

(Only information for the three-month period ended March 31, 2015 is required to be disclosed.)

As of March 31, 2015, 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) Segment information

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

	<u>For the three-month periods ended March 31,</u>	
	<u>2015</u>	<u>2015</u>
	<u>Retailing</u>	<u>Retailing</u>
Segment revenue		
Revenue from external customers (net)	\$ 2,514,564	\$ 2,018,753
Depreciation	85,384	67,484
Finance cost	1,656	1,745
Segment pre-tax profit	295,385	204,214
Segment assets	4,842,009	3,856,384
Segment liabilities	2,202,897	1,665,583

(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.