

# **Pou Chen Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2016 and 2015 and  
Independent Auditors' Report**

## **DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

POU CHEN CORPORATION

By

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March 27, 2017

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Pou Chen Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of Pou Chen Corporation (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (refer to the Other Matter section of this report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The descriptions of the key audit matters of the consolidated financial statements for the year ended December 31, 2016 are as follow.

#### Write-down of Inventory

As of December 31, 2016, inventories of the Group amounted to \$45,605,153 thousand. For the related critical accounting judgments, key sources of estimation, and significant accounting policies, refer to Notes 4 and 5 of the consolidated financial statements.

The inventory of the Group is stated at the lower of cost or net realizable value. The valuation of net realizable value required consideration of the condition of the product market sales and quality status, which involved significant judgments and estimations made by management. As a result, the write-down of inventory is regarded as a key audit matter of the 2016 consolidated financial statements.

We obtained the inventory valuation sheets prepared by the management, selected samples of estimated selling prices and traced them to the recent sales records to assess the rationale of the net realizable value determined by the management. In addition, we selected samples from the inventory aging report prepared by the management to verify the correctness of its classification and the reasonableness of the amount of inventory write-downs.

#### Impairment of Goodwill and Intangible Assets

As of December 31, 2016, goodwill and intangible assets - brands of the Group amounted to \$9,103,660 thousand and \$1,890,592 thousand, respectively. For the related critical accounting judgments, key sources of estimation, and significant accounting policies, refer to Notes 4 and 5 of the consolidated financial statement.

The management evaluated the impairment of the assets above based on their recoverable amount. The recoverable amount is determined according to the forecast of the trading performance and future cash flows and the discount rate. As a result, the test of impairment involved significant judgments and estimations made by management. As a result, the impairment of goodwill and intangible assets is regarded as a key audit matter of the 2016 consolidated financial statements.

Our audit procedures in response to this key audit matter were to evaluate the reasonableness of the significant assumptions, evaluation model, and basic information of the impairment test used by management and to recalculate the impairment.

#### **Other Matter**

The Group's investments in Ruen Chen Investment Holding Co., Ltd. were accounted for by the equity method in the consolidated financial statements and were based on its financial statements, which were audited by other auditors. Our opinion, insofar as it relates to the Group's investments in Ruen Chen Investment Holding Co., Ltd., is based solely on the report of other auditors. As of December 31, 2016 and 2015, the carrying value of the investments was 3.03% (\$8,912,633 thousand) and 2.08% (\$5,846,585 thousand) of the total assets, respectively. For the years ended December 31, 2016 and 2015, the share of profit of the associate was 16.19% (\$4,255,105 thousand) and 18.25% (\$3,693,799 thousand) of the income before income tax, respectively.

We have also audited the parent company only financial statements of Pou Chen Corporation as of and for the years ended December 31, 2016 and 2015 on which we have issued an unqualified opinion and an unqualified modified opinion, respectively.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ker-Chang Wu and Hung-Bin Yu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 27, 2017

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

**POU CHEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015  
(In Thousands of New Taiwan Dollars)**

| ASSETS   | 2016                  |            | 2015                  |            |
|--|-----------------------|------------|-----------------------|------------|
|  | Amount                | %          | Amount                | %          |
| <b>CURRENT ASSETS</b>  |                       |            |                       |            |
| Cash and cash equivalents (Notes 4 and 6)  | \$ 35,635,653         | 12         | \$ 37,820,911         | 13         |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7)        | 1,110,141             | -          | 581,288               | -          |
| Available-for-sale financial assets - current (Notes 4 and 8)                          | 13,875,320            | 5          | 12,622,099            | 5          |
| Held-to-maturity financial assets - current (Notes 4 and 9)                            | 972,124               | -          | 49,567                | -          |
| Debt investments with no active market - current (Notes 4 and 10)                      | 793,924               | -          | 1,390,697             | 1          |
| Notes receivable (Notes 4 and 11)  | 22,743                | -          | 12,221                | -          |
| Notes receivable from related parties (Notes 4, 11 and 38)                             | 17                    | -          | 20                    | -          |
| Accounts receivable (Notes 4 and 11)   | 38,073,679            | 13         | 33,796,622            | 12         |
| Accounts receivable from related parties (Notes 4, 11 and 38)                          | 54,156                | -          | 78,106                | -          |
| Other receivables (Notes 4 and 11)   | 4,328,034             | 2          | 3,604,286             | 1          |
| Inventories - manufacturing and retailing (Notes 4 and 12)                             | 40,709,470            | 14         | 41,228,992            | 15         |
| Inventories - construction (Notes 4 and 12)  | 4,895,683             | 2          | 5,029,350             | 2          |
| Prepayments for leases (Note 4)  | 152,980               | -          | 158,911               | -          |
| Non-current assets held for sale (Notes 4 and 13)                                      | 1,386,879             | -          | -                     | -          |
| Other current assets (Notes 4 and 14)  | 9,309,768             | 3          | 9,290,217             | 3          |
| Total current assets   | <u>151,320,571</u>    | <u>51</u>  | <u>145,663,287</u>    | <u>52</u>  |
| <b>NON-CURRENT ASSETS</b>  |                       |            |                       |            |
| Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)    | 328,492               | -          | 654,795               | -          |
| Available-for-sale financial assets - non-current (Notes 4 and 8)                      | 908,711               | -          | 692,074               | -          |
| Held-to-maturity financial assets - non-current (Notes 4 and 9)                        | 5,191,289             | 2          | 1,401,726             | 1          |
| Financial assets measured at cost - non-current (Notes 4 and 15)                       | 592,550               | -          | 659,395               | -          |
| Debt investments with no active market - non-current (Notes 4, 10 and 39)              | 35,205                | -          | 32,771                | -          |
| Investments accounted for using equity method (Notes 4 and 17)                         | 39,108,525            | 13         | 37,437,669            | 13         |
| Property, plant and equipment (Notes 4 and 18)   | 71,464,806            | 25         | 69,778,999            | 25         |
| Investment properties (Notes 4, 19 and 39)   | 2,309,447             | 1          | 2,316,581             | 1          |
| Goodwill (Notes 4 and 20)  | 9,103,660             | 3          | 9,535,733             | 4          |
| Other intangible assets (Notes 4 and 21)   | 2,850,439             | 1          | 3,282,105             | 1          |
| Deferred tax assets (Notes 4 and 29)   | 861,151               | -          | 612,351               | -          |
| Long-term prepayments for leases (Note 4)  | 5,575,613             | 2          | 5,615,916             | 2          |
| Other non-current assets (Notes 4 and 14)  | 4,239,402             | 2          | 2,940,517             | 1          |
| Total non-current assets   | <u>142,569,290</u>    | <u>49</u>  | <u>134,960,632</u>    | <u>48</u>  |
| <b>TOTAL</b>   | <u>\$ 293,889,861</u> | <u>100</u> | <u>\$ 280,623,919</u> | <u>100</u> |
| <b>LIABILITIES AND EQUITY</b>  |                       |            |                       |            |
| <b>CURRENT LIABILITIES</b>   |                       |            |                       |            |
| Short-term borrowings (Note 22)  | \$ 24,031,120         | 8          | \$ 15,708,753         | 6          |
| Short-term bills payable (Note 22)   | 2,544,755             | 1          | 2,589,343             | 1          |
| Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)   | 915,676               | -          | 1,404,523             | -          |
| Notes payable (Notes 4 and 23)   | 19,526                | -          | 21,337                | -          |
| Notes payable to related parties (Notes 4, 23 and 38)                                  | 26,809                | -          | 15,080                | -          |
| Accounts payable (Notes 4 and 23)  | 13,189,428            | 4          | 15,430,256            | 5          |
| Accounts payable to related parties (Notes 4, 23 and 38)                               | 1,450,017             | 1          | 1,866,283             | 1          |
| Other payables (Note 24)   | 25,218,684            | 9          | 25,724,377            | 9          |
| Current tax liabilities (Notes 4 and 29)   | 1,574,657             | 1          | 2,354,742             | 1          |
| Liabilities directly associated with non-current assets held for sale (Notes 4 and 13) | 1,067,765             | -          | -                     | -          |
| Current portion of long-term borrowings (Note 22)                                      | -                     | -          | 21,159,324            | 7          |
| Other current liabilities  | 4,693,927             | 2          | 4,382,374             | 2          |
| Total current liabilities  | <u>74,732,364</u>     | <u>26</u>  | <u>90,656,392</u>     | <u>32</u>  |
| <b>NON-CURRENT LIABILITIES</b>   |                       |            |                       |            |
| Long-term borrowings (Note 22)   | 50,363,126            | 17         | 29,770,315            | 11         |
| Deferred tax liabilities (Notes 4 and 29)  | 1,774,228             | 1          | 1,822,808             | 1          |
| Long-term payables (Note 24)   | 159,330               | -          | 177,187               | -          |
| Net defined benefit liabilities (Notes 4 and 25)                                       | 3,810,791             | 1          | 3,355,127             | 1          |
| Other non-current liabilities  | 39,318                | -          | 38,423                | -          |
| Total non-current liabilities  | <u>56,146,793</u>     | <u>19</u>  | <u>35,163,860</u>     | <u>13</u>  |
| Total liabilities  | <u>130,879,157</u>    | <u>45</u>  | <u>125,820,252</u>    | <u>45</u>  |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 26)</b>                   |                       |            |                       |            |
| Share capital  |                       |            |                       |            |
| Common shares  | 29,467,872            | 10         | 29,467,872            | 10         |
| Capital surplus  | 4,540,163             | 2          | 4,631,708             | 2          |
| Retained earnings  |                       |            |                       |            |
| Legal reserve  | 11,213,184            | 4          | 10,260,048            | 4          |
| Special reserve  | 11,905,595            | 4          | 5,608,553             | 2          |
| Unappropriated earnings  | 32,214,698            | 11         | 31,207,526            | 11         |
| Total retained earnings  | 55,333,477            | 19         | 47,076,127            | 17         |
| Other equity   | (13,636,368)          | (5)        | (11,905,594)          | (4)        |
| Total equity attributable to owners of the Company                                     | <u>75,705,144</u>     | <u>26</u>  | <u>69,270,113</u>     | <u>25</u>  |
| <b>NON-CONTROLLING INTERESTS</b>   | <u>87,305,560</u>     | <u>29</u>  | <u>85,533,554</u>     | <u>30</u>  |
| Total equity   | <u>163,010,704</u>    | <u>55</u>  | <u>154,803,667</u>    | <u>55</u>  |
| <b>TOTAL</b>   | <u>\$ 293,889,861</u> | <u>100</u> | <u>\$ 280,623,919</u> | <u>100</u> |

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 27, 2017)

## POU CHEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|   | 2016               |            | 2015               |            |
|---|--------------------|------------|--------------------|------------|
|   | Amount             | %          | Amount             | %          |
| OPERATING REVENUE (Notes 4, 27 and 38)                                    | \$ 274,895,346     | 100        | \$ 269,081,173     | 100        |
| OPERATING COSTS (Notes 25, 28 and 38)                                     | <u>204,512,552</u> | <u>75</u>  | <u>204,575,755</u> | <u>76</u>  |
| GROSS PROFIT  | <u>70,382,794</u>  | <u>25</u>  | <u>64,505,418</u>  | <u>24</u>  |
| OPERATING EXPENSES (Notes 25 and 28)                                      |                    |            |                    |            |
| Selling and marketing expenses  | 27,004,453         | 10         | 24,784,935         | 9          |
| General and administrative expenses                                       | 19,066,493         | 7          | 21,358,105         | 8          |
| Research and development expenses   | <u>6,683,347</u>   | <u>2</u>   | <u>6,008,984</u>   | <u>3</u>   |
| Total operating expenses  | <u>52,754,293</u>  | <u>19</u>  | <u>52,152,024</u>  | <u>20</u>  |
| INCOME FROM OPERATIONS  | <u>17,628,501</u>  | <u>6</u>   | <u>12,353,394</u>  | <u>4</u>   |
| NON-OPERATING INCOME AND EXPENSES   |                    |            |                    |            |
| Other income (Note 28)  | 4,338,239          | 2          | 3,868,364          | 1          |
| Other gains and losses (Note 28)  | (642,987)          | -          | (1,346,843)        | -          |
| Finance costs (Note 28)   | (1,316,016)        | (1)        | (1,121,294)        | -          |
| Share of the profit of associates and joint ventures<br>(Notes 4 and 17)  | <u>6,272,065</u>   | <u>2</u>   | <u>6,486,653</u>   | <u>2</u>   |
| Total non-operating income and expenses                                   | <u>8,651,301</u>   | <u>3</u>   | <u>7,886,880</u>   | <u>3</u>   |
| INCOME BEFORE INCOME TAX  | 26,279,802         | 9          | 20,240,274         | 7          |
| INCOME TAX EXPENSE (Notes 4 and 29)                                       | <u>(3,277,883)</u> | <u>(1)</u> | <u>(3,638,808)</u> | <u>(1)</u> |
| NET INCOME FOR THE YEAR   | <u>23,001,919</u>  | <u>8</u>   | <u>16,601,466</u>  | <u>6</u>   |
| OTHER COMPREHENSIVE (LOSS) INCOME<br>(Note 3)                             |                    |            |                    |            |
| Items that will not be reclassified subsequently to<br>profit or loss:    |                    |            |                    |            |
| Actuarial loss arising from defined benefit plans<br>(Note 25)            | (441,804)          | -          | (216,694)          | -          |
| Share of the other comprehensive loss of<br>associates and joint ventures | (26,353)           | -          | (76,182)           | -          |

(Continued)



# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|  | 2016                 |            | 2015                 |            |
|--|----------------------|------------|----------------------|------------|
|  | Amount               | %          | Amount               | %          |
| Items that may be reclassified subsequently to profit or loss:         |                      |            |                      |            |
| Exchange differences on translating foreign operations                 | \$ (3,059,800)       | (1)        | \$ 390,145           | -          |
| Unrealized gain (loss) on available-for-sale financial assets          | 1,473,111            | -          | (1,650,970)          | (1)        |
| Share of the other comprehensive loss of associates and joint ventures | <u>(1,257,357)</u>   | <u>-</u>   | <u>(6,262,330)</u>   | <u>(2)</u> |
| Other comprehensive loss for the year, net of income tax               | <u>(3,312,203)</u>   | <u>(1)</u> | <u>(7,816,031)</u>   | <u>(3)</u> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                         | <u>\$ 19,689,716</u> | <u>7</u>   | <u>\$ 8,785,435</u>  | <u>3</u>   |
| <b>NET INCOME ATTRIBUTABLE TO:</b>                                     |                      |            |                      |            |
| Owners of the Company  | \$ 13,057,050        | 5          | \$ 9,531,358         | 3          |
| Non-controlling interests  | <u>9,944,869</u>     | <u>3</u>   | <u>7,070,108</u>     | <u>3</u>   |
|  | <u>\$ 23,001,919</u> | <u>8</u>   | <u>\$ 16,601,466</u> | <u>6</u>   |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>                     |                      |            |                      |            |
| Owners of the Company  | \$ 10,946,757        | 4          | \$ 2,941,441         | 1          |
| Non-controlling interests  | <u>8,742,959</u>     | <u>3</u>   | <u>5,843,994</u>     | <u>2</u>   |
|  | <u>\$ 19,689,716</u> | <u>7</u>   | <u>\$ 8,785,435</u>  | <u>3</u>   |
| <b>EARNINGS PER SHARE (Note 30)</b>                                    |                      |            |                      |            |
| Basic  | <u>\$ 4.43</u>       |            | <u>\$ 3.24</u>       |            |
| Diluted  | <u>\$ 4.29</u>       |            | <u>\$ 3.14</u>       |            |

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 27, 2017)

(Concluded)

**POU CHEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015  
(In Thousands of New Taiwan Dollars)**

|  | Equity Attributable to Owners of the Company |                 |                   |                 |                         | Other Equity  |  | Total         | Non-controlling Interests | Total Equity   |
|--|--|-----------------|-------------------|-----------------|-------------------------|---|--|---------------|---------------------------|----------------|
|  | Share Capital                                | Capital Surplus | Retained Earnings |                 | Unappropriated Earnings | Exchange Differences on Translation Foreign Operation | Unrealized Loss on Available-for-sale Financial Assets |               |                           |                |
|  |  |                 | Legal Reserve     | Special Reserve |                         |   |  |               |                           |                |
| BALANCE AT JANUARY 1, 2015   | \$ 29,441,372                                | \$ 4,627,549    | \$ 9,398,498      | \$ 9,180,047    | \$ 23,675,306           | \$ 3,345,749  | \$ (8,954,302)   | \$ 70,714,219 | \$ 81,411,376             | \$ 152,125,595 |
| Appropriation of 2014 earnings (Note 26)   |  |                 |                   |                 |                         |   |  |               |                           |                |
| Legal reserve  | -  | -               | 861,550           | -               | (861,550)               | -   | -  | -             | -                         | -              |
| Special reserve  | -  | -               | -                 | (3,571,494)     | 3,571,494               | -   | -  | -             | -                         | -              |
| Cash dividends   | -  | -               | -                 | -               | (4,416,206)             | -   | -  | (4,416,206)   | -                         | (4,416,206)    |
|  | -  | -               | 861,550           | (3,571,494)     | (1,706,262)             | -   | -  | (4,416,206)   | -                         | (4,416,206)    |
| Net income for the year ended December 31, 2015  | -  | -               | -                 | -               | 9,531,358               | -   | -  | 9,531,358     | 7,070,108                 | 16,601,466     |
| Other comprehensive (loss) income for the year ended December 31, 2015   | -  | -               | -                 | -               | (292,876)               | 1,675,137   | (7,972,178)  | (6,589,917)   | (1,226,114)               | (7,816,031)    |
| Total comprehensive income (loss) for the year ended December 31, 2015   | -  | -               | -                 | -               | 9,238,482               | 1,675,137   | (7,972,178)  | 2,941,441     | 5,843,994                 | 8,785,435      |
| Execution of employee share options (Notes 26 and 31)  | 26,500                                       | 21,200          | -                 | -               | -                       | -   | -  | 47,700        | -                         | 47,700         |
| Share of changes in net assets of associates or joint ventures (Notes 4 and 26)  | -  | 624             | -                 | -               | -                       | -   | -  | 624           | -                         | 624            |
| Excess of the consideration received over the carrying amount of the subsidiaries' net assets during actual disposal or acquisition (Notes 4 and 26) | -  | (18,814)        | -                 | -               | -                       | -   | -  | (18,814)      | -                         | (18,814)       |
| Share of changes in equities of subsidiaries (Notes 4 and 26)  | -  | 1,149           | -                 | -               | -                       | -   | -  | 1,149         | -                         | 1,149          |
| Change in non-controlling interests  | -  | -               | -                 | -               | -                       | -   | -  | -             | (1,721,816)               | (1,721,816)    |
| Change in equity for the year ended December 31, 2015  | 26,500                                       | 4,159           | 861,550           | (3,571,494)     | 7,532,220               | 1,675,137   | (7,972,178)  | (1,444,106)   | 4,122,178                 | 2,678,072      |
| BALANCE AT DECEMBER 31, 2015   | 29,467,872                                   | 4,631,708       | 10,260,048        | 5,608,553       | 31,207,526              | 5,020,886   | (16,926,480)   | 69,270,113    | 85,533,554                | 154,803,667    |
| Appropriation of 2015 earnings (Note 26)   |  |                 |                   |                 |                         |   |  |               |                           |                |
| Legal reserve  | -  | -               | 953,136           | -               | (953,136)               | -   | -  | -             | -                         | -              |
| Special reserve  | -  | -               | -                 | 6,297,042       | (6,297,042)             | -   | -  | -             | -                         | -              |
| Cash dividends   | -  | -               | -                 | -               | (4,420,181)             | -   | -  | (4,420,181)   | -                         | (4,420,181)    |
|  | -  | -               | 953,136           | 6,297,042       | (11,670,359)            | -   | -  | (4,420,181)   | -                         | (4,420,181)    |
| Net income for the year ended December 31, 2016  | -  | -               | -                 | -               | 13,057,050              | -   | -  | 13,057,050    | 9,944,869                 | 23,001,919     |
| Other comprehensive (loss) income for the year ended December 31, 2016   | -  | -               | -                 | -               | (379,519)               | (1,911,713)   | 180,939  | (2,110,293)   | (1,201,910)               | (3,312,203)    |
| Total comprehensive income for the year ended December 31, 2016  | -  | -               | -                 | -               | 12,677,531              | (1,911,713)   | 180,939  | 10,946,757    | 8,742,959                 | 19,689,716     |
| Excess of the consideration received over the carrying amount of the subsidiaries' net assets during actual disposal or acquisition (Notes 4 and 26) | -  | (93,840)        | -                 | -               | -                       | -   | -  | (93,840)      | -                         | (93,840)       |
| Share of changes in equities of subsidiaries (Notes 4 and 26)  | -  | 2,295           | -                 | -               | -                       | -   | -  | 2,295         | -                         | 2,295          |
| Change in non-controlling interests  | -  | -               | -                 | -               | -                       | -   | -  | -             | (6,970,953)               | (6,970,953)    |
| Change in equity for the year ended December 31, 2016  | -  | (91,545)        | 953,136           | 6,297,042       | 1,007,172               | (1,911,713)   | 180,939  | 6,435,031     | 1,772,006                 | 8,207,037      |
| BALANCE AT DECEMBER 31, 2016   | \$ 29,467,872                                | \$ 4,540,163    | \$ 11,213,184     | \$ 11,905,595   | \$ 32,214,698           | \$ 3,109,173  | \$ (16,745,541)  | \$ 75,705,144 | \$ 87,305,560             | \$ 163,010,704 |

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 27, 2017)

# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

|  | 2016              | 2015              |
|--|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                   |                   |
| Income before income tax for the year  | \$ 26,279,802     | \$ 20,240,274     |
| Adjustments for:   |                   |                   |
| Depreciation expenses  | 8,427,917         | 7,961,099         |
| Amortization expenses  | 365,488           | 390,664           |
| Recognized impairment losses on accounts receivable  | 65,832            | 210,589           |
| Net (gain) loss on fair value change of financial instruments at fair value through profit or loss | (781,268)         | 787,869           |
| Finance costs  | 1,316,016         | 1,121,294         |
| Interest income  | (530,490)         | (428,575)         |
| Dividends income   | (874,208)         | (758,064)         |
| Compensation cost of employee share options  | 58,890            | 69,173            |
| Share of profit of associates and joint ventures   | (6,272,065)       | (6,486,653)       |
| Net loss on disposal of property, plant and equipment  | 251,490           | 393,827           |
| Net gain on disposal of investments  | (31,530)          | (125,979)         |
| Net gain on disposal of subsidiaries, associates and joint ventures                                | (26,489)          | (159,898)         |
| Recognized of impairment loss  | 228,320           | 607,272           |
| Changes in operating assets and liabilities  |                   |                   |
| Financial instruments held for trading   | (289,872)         | (433,321)         |
| Notes receivable   | (10,522)          | 6,028             |
| Notes receivable from related parties  | 3                 | 33                |
| Accounts receivable  | (4,342,889)       | (2,775,683)       |
| Accounts receivable from related parties   | 23,950            | 111,394           |
| Other receivables  | (600,687)         | 538,138           |
| Inventories  | 653,189           | 182,368           |
| Other current assets   | (19,551)          | 96,658            |
| Other operating assets   | 186,924           | 222,347           |
| Notes payable  | (1,811)           | (16,965)          |
| Notes payable to related parties   | 11,729            | (21,435)          |
| Accounts payable   | (2,240,828)       | 2,051,231         |
| Accounts payable to related parties  | (416,266)         | 147,273           |
| Other payables   | (660,928)         | 3,150,578         |
| Other current liabilities  | 311,553           | (598,768)         |
| Net defined benefit liabilities  | 13,860            | (89,226)          |
| Other operating liabilities  | (17,857)          | (493,993)         |
| Cash generated from operations   | 21,077,702        | 25,899,549        |
| Interest paid  | (1,297,091)       | (1,108,547)       |
| Income tax paid  | (4,074,686)       | (2,746,823)       |
| Net cash generated from operating activities   | <u>15,705,925</u> | <u>22,044,179</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                   |                   |
| Acquisition of financial assets design at FVTPL  | -                 | (314,198)         |
| Proceeds on sale of financial assets design at FVTPL   | 379,743           | 18,990            |
| Acquisition of available-for-sale financial assets   | -                 | (935,745)         |

(Continued)

# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

|   | 2016                | 2015               |
|---|---------------------|--------------------|
| Proceeds on sale of available-for-sale financial assets                                       | \$ -                | \$ 209,223         |
| Acquisition of debt investments with no active market   | (766,383)           | (2,553,718)        |
| Proceeds on sale of debt investments with no active market                                    | 1,360,722           | 4,060,176          |
| Acquisition of held-to-maturity financial assets  | (5,024,724)         | (1,526,719)        |
| Proceeds on held-to-maturity financial assets   | 49,960              | 33,806             |
| Acquisition of financial assets measured at cost  | (12,191)            | (4,927)            |
| Proceed on sale of financial assets measured at cost  | 99,844              | 154,457            |
| Acquisition of associates and joint ventures  | (118,514)           | -                  |
| Proceeds from disposal of associates and joint ventures                                       | 12,467              | 2,145,587          |
| Net cash outflow on acquisition of subsidiaries   | -                   | (63,572)           |
| Net cash (outflow) inflow on disposal of subsidiaries   | (37,557)            | 88,007             |
| Acquisition of property, plant and equipment  | (13,569,790)        | (13,342,832)       |
| Proceeds from disposal of property, plant and equipment                                       | 1,760,564           | 494,540            |
| Increase in refundable deposits   | (201,540)           | -                  |
| Decrease in refundable deposits   | -                   | 21,158             |
| Acquisition of investment properties  | (57,094)            | (21,775)           |
| Increase in prepayments for equipment   | (1,284,269)         | (1,201,908)        |
| Acquisition of long-term prepayments for leases   | (59,313)            | (92,928)           |
| Proceeds from disposal of long-term prepayments for leases                                    | 75,693              | 115,940            |
| Interest received   | 402,892             | 512,097            |
| Dividends received  | 3,141,728           | 2,740,878          |
| Cash dividends from reduction of capital surplus from associates                              | <u>5,435</u>        | <u>-</u>           |
| Net cash used in investing activities   | <u>(13,842,327)</u> | <u>(9,463,463)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                     |                    |
| Proceeds from short-term borrowings   | 8,322,367           | -                  |
| Repayments of short-term borrowings   | -                   | (2,713,921)        |
| Proceeds from short-term bills payable  | -                   | 838,500            |
| Repayments of short-term bills payable  | (45,500)            | -                  |
| Proceeds from long-term borrowings  | -                   | 698,500            |
| Repayments of long-term borrowings  | (586,500)           | -                  |
| Increase in guarantee deposits  | 895                 | -                  |
| Decrease in guarantee deposits  | -                   | (2,315)            |
| Cash dividend   | (4,420,181)         | (4,416,206)        |
| Execution of employee share options   | -                   | 47,700             |
| Change in non-controlling interests   | <u>(6,970,953)</u>  | <u>(1,721,816)</u> |
| Net cash used in financing activities   | <u>(3,699,872)</u>  | <u>(7,269,558)</u> |
| <b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE<br/>OF CASH HELD IN FOREIGN CURRENCIES</b> |                     |                    |
|   | <u>(305,479)</u>    | <u>(2,284,974)</u> |

(Continued)

# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

|   | 2016                 | 2015                 |
|---|----------------------|----------------------|
| NET (DECREASE) INCREASE IN CASH AND CASH<br>EQUIVALENTS   | \$ (2,141,753)       | \$ 3,026,184         |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE<br>YEAR | <u>37,820,911</u>    | <u>34,794,727</u>    |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR          | <u>\$ 35,679,158</u> | <u>\$ 37,820,911</u> |

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets at December 31, 2016 and 2015:

|  | <u>December 31</u>   |                      |
|--|----------------------|----------------------|
|  | 2016                 | 2015                 |
| Cash and cash equivalents in consolidated balance sheets             | \$ 35,635,653        | \$ 37,820,911        |
| Cash and cash equivalents included in a disposal group held for sale | <u>43,505</u>        | <u>-</u>             |
| Cash and cash equivalents in consolidated statements of cash flow    | <u>\$ 35,679,158</u> | <u>\$ 37,820,911</u> |

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 27, 2017)

(Concluded)

# POU CHEN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Pou Chen Corporation (the “Company”) has main business activities which include the manufacturing and sale of various kinds of shoes and the import and export of related products and materials. The Company also invests significantly in the shoes and electronics industries to diversify its business operations. The Company invested in Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”) and other footwear-related companies through Wealthplus Holdings Limited (“Wealthplus”). Yue Yuen and Pou Sheng International (Holdings) Limited (“Pou Sheng”), a subsidiary of Yue Yuen, are listed on the Hong Kong Exchange and Clearing Limited.

In January 1990, the Company started to trade its stocks on the Taiwan Stock Exchange.

The consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) are presented in New Taiwan dollars, the functional currency of the Company.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 27, 2017.

### 3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDED AND INTERPRETATIONS

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (FSC) for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the IASB and endorsed by the FSC for application starting from 2017.

| <b>New, Amended or Revised Standards and Interpretations<br/>(the “New IFRSs”)</b>                       | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--|--|
| Annual Improvements to IFRSs 2010-2012 Cycle   | July 1, 2014 (Note 2)                                |
| Annual Improvements to IFRSs 2011-2013 Cycle   | July 1, 2014   |
| Annual Improvements to IFRSs 2012-2014 Cycle   | January 1, 2016 (Note 3)                             |
| Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities:<br>Applying the Consolidation Exception” | January 1, 2016                                      |
| Amendment to IFRS 11 “Accounting for Acquisitions of Interests in<br>Joint Operations”                   | January 1, 2016                                      |
| IFRS 14 “Regulatory Deferral Accounts”   | January 1, 2016                                      |
| Amendment to IAS 1 “Disclosure Initiative”   | January 1, 2016                                      |

(Continued)

| <b>New, Amended or Revised Standards and Interpretations<br/>(the “New IFRSs”)</b>                     | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--|--|
| Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization” | January 1, 2016                                      |
| Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”   | January 1, 2016                                      |
| Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”                                    | July 1, 2014   |
| Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”    | January 1, 2014                                      |
| Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”                     | January 1, 2014                                      |
| IFRIC 21 “Levies”  | January 1, 2014                                      |

(Concluded)

Note 1: Unless stated otherwise, the above New or amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group’s accounting policies, except for the following:

1) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within (Level 2/Level 3), the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards, including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments,” were amended in this annual improvement.

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period.

In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combination with acquisition date on or after January 1, 2017.

The amended IFRS 8 requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of no discounting is immaterial.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

### 3) Annual Improvements to IFRSs: 2011-2013 Cycle

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

### 4) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 “Property, Plant and Equipment” requires that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.



The amended IAS 38 “Intangible Assets” requires that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

- a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or
  - b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.
- 5) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Group or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Group has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Group’s respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

| <b>New IFRSs</b>   | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--|--|
| Annual Improvements to IFRSs 2014-2016 Cycle   | Note 2   |
| Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”     | January 1, 2018                                      |
| Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts” | January 1, 2018                                      |
| IFRS 9 “Financial Instruments”   | January 1, 2018                                      |

(Continued)

| <b>New IFRSs</b>   | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--|--|
| Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”                          | January 1, 2018                                      |
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by IASB                             |
| IFRS 15 “Revenue from Contracts with Customers”  | January 1, 2018                                      |
| Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”                                  | January 1, 2018                                      |
| IFRS 16 “Leases”   | January 1, 2019                                      |
| Amendment to IAS 7 “Disclosure Initiative”   | January 1, 2017                                      |
| Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”  | January 1, 2017                                      |
| Amendments to IAS 40 Transfers of Investment Property”   | January 1, 2018                                      |
| IFRIC 22 “Foreign Currency Transactions and Advance Consideration”   | January 1, 2018                                      |

(Concluded)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below:

- a) For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:
  - i. For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
  - ii. For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instrument is derecognized or reclassified the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

- b) Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

#### The impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, contract assets arising from IFRS 15 “Revenue from Contracts with Customers” and certain written loan commitments. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

#### Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required.

- 2) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulated that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the entity’s share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence or joint control in an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the entity’s share of the gain or loss is eliminated.

- 3) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

#### 4) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. In the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. In the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

#### 5) Annual Improvements to IFRSs 2014-2016 Cycle

The amendment to IFRS 12 clarified that when an entity’s interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12.

#### 6) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Group should transfer properties to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

The Group may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist at the date of initial application. The Group is also required to disclose the reclassified amounts, and such amounts should be included in the reconciliation of the carrying amount of investment property.

#### 7) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

Except for the above impact, as of the date the consolidated financial statements were issued, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

### b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

### c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and

- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

The Group engages in the construction business, which has an operating cycle of over one year; the normal operating cycle applies when considering the classification of the Group's construction-related assets and liabilities.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment.

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Foreign currencies

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation, which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates and joint ventures in other countries or currencies used are different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income, and attributed to the owners of the Company and non-controlling interests as appropriate.

On the disposal of a foreign operation (i.e. a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials, supplies, finished goods, work-in-process and merchandise, are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

Investments in real estate, and land and buildings for development are measured initially at cost or related development costs. Cost includes borrowing costs capitalized before the assets are ready for development.

h. Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as joint venture.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, the investment in associates or joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. The Group also recognizes the changes in the Group's share of equity of associates and joint ventures.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate and joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate and joint venture, at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the share of equity of associates and joint ventures. If the Group's ownership interest is reduced due to the additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that the associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for using equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate



and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a Group entity transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate and joint venture that are not related to the Group.

i. Property, plant and equipment

Property, plant and equipment are stated at cost, less recognized accumulated depreciation and accumulated impairment loss.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately.

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized

directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

1. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

2) Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the development phase of an internal project is recognized in accordance with the IAS 38 “Intangible Assets”. Subsequent to initial recognition, it is measured at cost less accumulated amortization and accumulated impairment loss.

3) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment loss.

4) Derecognition of intangible assets

Gains or losses from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

m. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

n. Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When a sale plan would result in loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale, regardless of whether the Group will retain a non-controlling interest in that subsidiary after the sale.

When the Group is committed to a sale plan involving the disposal of an investment, or a portion of an investment, in an associate or a joint venture, only the investment or the portion of the investment that will be disposed of is classified as held for sale when the classification criteria are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. If the Group ceases to have significant influence nor joint control over the investment after the disposal takes place, the Group accounts for any retained interest that has not been classified as held for sale in accordance with the accounting policies for financial instruments.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

o. Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

Financial assets are classified into financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 37.

b) Held-to-maturity financial assets

Commercial paper and foreign corporate bonds, which are above specific credit ratings and the Group has positive intent and ability to hold to maturity, are classified as held-to-maturity financial assets.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as "financial assets measured at cost". If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets.

d) Loans and receivables

Loans and receivables (including accounts receivable, cash and cash equivalent, debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

## 2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as trade receivables are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. The amount of the impairment loss recognized is 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.

For financial assets measured at amortized cost, 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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivable that are written off against the allowance account.

## 3) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

### Equity instruments

Equity instruments issued by a Group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### Financial liabilities

#### 1) Subsequent measurement

Except for financial liabilities at fair value through profit or loss, the financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as at fair value through profit or loss when the financial liability is held for trading and stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 37.

#### 2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

### Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risks and exchange rate risks, including forward exchange contracts, exchange rate options contracts, exchange rate swaps contracts, cross-currency swap contracts and interest rate swap contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

#### p. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale based on the seller's reliable estimate future returns and based on past experience and other relevant factors.

##### 1) Sale of goods

Sales of goods are recognized when goods are delivered and legal ownership has passed.

##### 2) Rendering of services

Service income is recognized when services are provided. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

q. Construction contracts

Revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as "amounts due from customers for contract work". For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as the "amounts due to customers for contract work".

r. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Lease incentives received under operating leases are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

s. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

### 3) Termination benefits

A liability for a termination benefit is recognized when the Group can no longer withdraw the offer of the termination benefit.

#### t. Share-based payment arrangements

The fair value at the grant date of the employee share options the Group granted to employee is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

#### u. Taxation

Income tax expense represents the sum of the current tax liabilities and deferred tax liabilities.

##### 1) Current tax

According to the Income Tax Law in the Republic of China ("ROC"), an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

##### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.



Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 3) Current and deferred tax for the year

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### a. Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and intangible assets have been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Useful lives of tangible assets

The Group reviews the estimated useful lives of assets at each balance sheet date. The impairment of equipment is assessed based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses.

d. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

## 6. CASH AND CASH EQUIVALENTS

|  | <u>December 31</u>   |                      |
|--|----------------------|----------------------|
|  | <b>2016</b>          | <b>2015</b>          |
| Cash on hand   | \$ 37,039            | \$ 37,340            |
| Checking accounts and demand deposits  | 21,881,193           | 27,468,867           |
| Cash equivalent (investments with original maturities of less than three months) |                      |                      |
| Time deposits  | 12,451,531           | 9,618,294            |
| Repurchase agreements collateralized by bonds                                    | <u>1,265,890</u>     | <u>696,410</u>       |
|  | <u>\$ 35,635,653</u> | <u>\$ 37,820,911</u> |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | <u>December 31</u> |             |
|--|--------------------|-------------|
|  | <b>2016</b>        | <b>2015</b> |
| <u>Financial assets designated as at FVTPL</u>           |                    |             |
| Structured deposit (a)                                   | \$ 328,492         | \$ 654,795  |
| <u>Financial assets held for trading</u>                 |                    |             |
| Derivative financial assets (not under hedge accounting) |                    |             |
| Forward exchange contracts (b)                           | 55,324             | 8,564       |
| Exchange rate option contracts (c)                       | -                  | 24,257      |

(Continued)

|   | <u>December 31</u>  |                                    |
|---|---------------------|------------------------------------|
|   | <u>2016</u>         | <u>2015</u>                        |
| Exchange rate swap contracts (d)                              | \$ 118,917          | \$ 36,129                          |
| Cross-currency swap contracts (e)                             | 12,998              | 52,336                             |
| Interest rate swap contracts (f)                              | 33,365              | -                                  |
| Non-derivative financial assets                               |                     |                                    |
| Domestic open-ended mutual funds                              | <u>889,537</u>      | <u>460,002</u>                     |
|   | <u>\$ 1,438,633</u> | <u>\$ 1,236,083</u>                |
| Current   | \$ 1,110,141        | \$ 581,288                         |
| Non-current   | <u>328,492</u>      | <u>654,795</u>                     |
|   | <u>\$ 1,438,633</u> | <u>\$ 1,236,083</u>                |
| <br><u>Financial liabilities held for trading</u>             |                     |                                    |
| Derivative financial liabilities (not under hedge accounting) |                     |                                    |
| Forward exchange contracts (b)                                | \$ -                | \$ 63,656                          |
| Exchange rate option contracts (c)                            | 768,646             | 1,263,044                          |
| Exchange rate swap contracts (d)                              | 129,784             | 33,702                             |
| Interest rate swap contracts (f)                              | <u>17,246</u>       | <u>44,121</u>                      |
|   | <u>\$ 915,676</u>   | <u>\$ 1,404,523</u>                |
| Current   | <u>\$ 915,676</u>   | <u>\$ 1,404,523</u><br>(Concluded) |

a. Structured deposits

- 1) Wealthplus entered into a five years USD structured time deposit contract with a bank in January 2013. The structured time deposit contract includes an embedded derivative instrument which is not closely related to the host contract, recorded under “financial assets at FVTPL - non-current”.
- 2) Wealthplus entered into a three years and six months RMB structured time deposit contract with a bank in March 2015. The structured time deposit contract includes an embedded derivative instrument which is not closely related to the host contract, recorded under “financial assets at FVTPL - non-current”. The RMB structured time deposit contract had been cancelled in December 2016.

- b. At the end of the reporting period, outstanding forward exchange contracts not under hedge accounting were as follows:

December 31, 2016

**Notional Amount**

USD 116,000,000

**Forward Exchange Rates**

Sell USD/buy IDR at 13,725 to 14,389

December 31, 2015

**Notional Amount**

USD 50,000,000  
 USD 10,018,961

**Forward Exchange Rates**

Sell USD/buy RMB at 6.1500 to 6.4465  
 Sell RMB/buy USD at 6.4343

The Group entered into forward exchange contracts for the years ended December 31, 2016 and 2015 to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

- c. At the end of the reporting period, outstanding exchange rate option contracts not under hedge accounting were as follows:

December 31, 2016

| <b>Notional Amount</b> | <b>Type</b> | <b>Buy/Sale</b> | <b>Premium<br/>Amount<br/>Received</b> | <b>Fair Value</b>   |
|------------------------|-------------|-----------------|--|---------------------|
| US\$ 8,000,000         | Put         | Sell            | \$ -                                   | \$ (11,394)         |
| US\$ 10,000,000        | Put         | Sell            | -                                      | (10,854)            |
| US\$ 20,000,000        | Put         | Sell            | -                                      | (25,885)            |
| US\$ 8,000,000         | Put         | Sell            | -                                      | (11,128)            |
| US\$ 24,000,000        | Put         | Sell            | -                                      | (37,784)            |
| US\$ 24,000,000        | Put         | Sell            | -                                      | (45,287)            |
| US\$ 12,000,000        | Put         | Sell            | -                                      | (22,791)            |
| US\$ 14,000,000        | Put         | Sell            | -                                      | (23,054)            |
| US\$ 28,000,000        | Put         | Sell            | -                                      | (46,155)            |
| US\$ 42,000,000        | Put         | Sell            | -                                      | (57,173)            |
| US\$ 48,000,000        | Put         | Sell            | -                                      | (55,242)            |
| US\$ 48,000,000        | Put         | Sell            | 15,480                                 | (48,207)            |
| US\$ 24,000,000        | Put         | Sell            | -                                      | (4,569)             |
| US\$ 24,000,000        | Put         | Sell            | -                                      | (2,170)             |
| US\$ 82,000,000        | Put         | Sell            | -                                      | (20,505)            |
| US\$ 92,000,000        | Put         | Sell            | -                                      | (23,436)            |
| US\$ 42,000,000        | Put         | Sell            | -                                      | (69,577)            |
| US\$ 28,000,000        | Put         | Sell            | -                                      | (45,731)            |
| US\$ 28,000,000        | Put         | Sell            | -                                      | (46,867)            |
| US\$ 42,000,000        | Put         | Sell            | -                                      | (74,054)            |
| US\$ 48,000,000        | Put         | Sell            | 13,438                                 | (79,328)            |
| US\$ 10,000,000        | Put         | Sell            | 2,240                                  | (2,170)             |
| US\$ 20,000,000        | Put         | Sell            | 5,505                                  | <u>(5,285)</u>      |
|                        |             |                 |  | <u>\$ (768,646)</u> |

December 31, 2015

| Notional Amount  | Type | Buy/Sale | Premium<br>Amount (Paid)<br>Received | Fair Value            |
|------------------|------|----------|--------------------------------------|-----------------------|
| US\$ 6,000,000   | Call | Buy      | \$ (3,523)                           | \$ 4,034              |
| US\$ 6,000,000   | Call | Buy      | (3,654)                              | 4,193                 |
| US\$ 12,000,000  | Call | Buy      | (7,503)                              | 8,473                 |
| US\$ 6,000,000   | Call | Buy      | (2,545)                              | 2,468                 |
| US\$ 6,000,000   | Call | Buy      | (2,577)                              | 2,480                 |
| US\$ 6,000,000   | Call | Buy      | (2,708)                              | 2,609                 |
| US\$ 8,000,000   | Put  | Sell     | -                                    | (12,337)              |
| US\$ 24,000,000  | Put  | Sell     | -                                    | (7,384)               |
| US\$ 48,000,000  | Put  | Sell     | -                                    | (32,534)              |
| US\$ 44,000,000  | Put  | Sell     | -                                    | (42,958)              |
| US\$ 20,000,000  | Put  | Sell     | -                                    | (18,967)              |
| US\$ 72,000,000  | Put  | Sell     | -                                    | (54,082)              |
| US\$ 14,000,000  | Put  | Sell     | -                                    | (10,755)              |
| US\$ 24,000,000  | Put  | Sell     | -                                    | (15,764)              |
| US\$ 22,000,000  | Put  | Sell     | -                                    | (21,904)              |
| US\$ 2,000,000   | Put  | Sell     | -                                    | (2,926)               |
| US\$ 2,000,000   | Put  | Sell     | -                                    | (3,242)               |
| US\$ 8,000,000   | Put  | Sell     | -                                    | (3,911)               |
| US\$ 14,000,000  | Put  | Sell     | -                                    | (7,584)               |
| US\$ 18,000,000  | Put  | Sell     | -                                    | (12,845)              |
| US\$ 24,000,000  | Put  | Sell     | -                                    | (1,537)               |
| US\$ 24,000,000  | Put  | Sell     | -                                    | (15,070)              |
| US\$ 40,000,000  | Put  | Sell     | -                                    | (36,932)              |
| US\$ 44,000,000  | Put  | Sell     | -                                    | (43,290)              |
| US\$ 24,000,000  | Put  | Sell     | -                                    | (14,595)              |
| US\$ 48,000,000  | Put  | Sell     | -                                    | (37,919)              |
| US\$ 40,000,000  | Put  | Sell     | -                                    | (35,775)              |
| US\$ 14,000,000  | Put  | Sell     | -                                    | (12,128)              |
| US\$ 18,000,000  | Put  | Sell     | -                                    | (18,554)              |
| US\$ 56,000,000  | Put  | Sell     | -                                    | (18,966)              |
| US\$ 18,000,000  | Put  | Sell     | -                                    | (16,650)              |
| US\$ 32,000,000  | Put  | Sell     | -                                    | (28,406)              |
| US\$ 48,000,000  | Put  | Sell     | -                                    | (23,869)              |
| US\$ 18,000,000  | Put  | Sell     | -                                    | (17,907)              |
| US\$ 48,000,000  | Put  | Sell     | -                                    | (23,426)              |
| US\$ 48,000,000  | Put  | Sell     | -                                    | (24,850)              |
| US\$ 2,000,000   | Put  | Sell     | 385                                  | (2,203)               |
| US\$ 264,000,000 | Put  | Sell     | -                                    | (29,865)              |
| US\$ 39,000,000  | Put  | Sell     | -                                    | (97,044)              |
| US\$ 114,000,000 | Put  | Sell     | -                                    | (89,356)              |
| US\$ 76,000,000  | Put  | Sell     | -                                    | (56,789)              |
| US\$ 76,000,000  | Put  | Sell     | -                                    | (58,614)              |
| US\$ 114,000,000 | Put  | Sell     | -                                    | (90,600)              |
| US\$ 120,000,000 | Put  | Sell     | 33,982                               | (90,068)              |
| US\$ 120,000,000 | Put  | Sell     | 29,905                               | (75,914)              |
| US\$ 126,000,000 | Put  | Sell     | -                                    | (52,358)              |
| US\$ 30,000,000  | Put  | Sell     | 2,357                                | <u>(3,166)</u>        |
|                  |      |          |                                      | <u>\$ (1,238,787)</u> |

The Group entered into exchange rate option contracts for the years ended December 31, 2016 and 2015 to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

- d. At the end of the reporting period, outstanding exchange rate swap contracts not under hedge accounting were as follows:

December 31, 2016

| <b>Notional Amount</b> | <b>Maturity Date</b> | <b>Rate</b> | <b>Fair Value</b>  |
|------------------------|----------------------|-------------|--------------------|
| US\$ 7,300,000         | 2017.01.09           | 31.820      | \$ 3,289           |
| US\$ 20,600,000        | 2017.01.09           | 31.820      | 10,350             |
| US\$ 23,400,000        | 2017.01.09           | 31.870      | 9,373              |
| US\$ 30,000,000        | 2017.01.09           | 31.859      | 13,902             |
| US\$ 48,000,000        | 2017.01.17           | 31.805      | 21,839             |
| US\$ 6,000,000         | 2017.01.17           | 31.805      | 2,730              |
| US\$ 30,000,000        | 2017.01.17           | 31.805      | 13,420             |
| US\$ 2,000,000         | 2017.01.17           | 31.805      | 895                |
| US\$ 21,300,000        | 2017.01.23           | 31.881      | 7,902              |
| US\$ 10,000,000        | 2017.01.23           | 31.881      | 3,739              |
| US\$ 18,000,000        | 2017.01.26           | 32.012      | 4,108              |
| US\$ 35,000,000        | 2017.02.06           | 32.017      | 5,940              |
| US\$ 35,000,000        | 2017.02.06           | 32.017      | 7,574              |
| US\$ 32,300,000        | 2017.02.06           | 32.017      | 6,989              |
| US\$ 26,000,000        | 2017.02.07           | 32.187      | 1,168              |
| US\$ 3,000,000         | 2017.02.07           | 32.187      | 135                |
| US\$ 32,200,000        | 2017.02.07           | 32.187      | 1,446              |
| US\$ 30,300,000        | 2017.02.07           | 32.187      | 2,932              |
| US\$ 25,000,000        | 2017.02.07           | 32.187      | 1,186              |
| US\$ 26,800,000        | 2017.02.07           | 32.187      | (55)               |
| US\$ 40,000,000        | 2017.02.07           | 32.187      | (549)              |
| RMB 45,000,000         | 2017.03.13           | 4.8513      | (14,802)           |
| RMB 123,900,000        | 2017.03.14           | 4.8500      | (39,930)           |
| RMB 53,000,000         | 2017.03.14           | 4.8500      | (17,081)           |
| RMB 50,000,000         | 2017.07.11           | 4.6993      | (13,493)           |
| RMB 30,000,000         | 2017.03.13           | 4.6150      | (2,673)            |
| RMB 91,000,000         | 2017.03.20           | 6.7800      | (20,720)           |
| RMB 40,000,000         | 2017.03.20           | 6.7799      | (8,991)            |
| RMB 50,208,000         | 2017.03.20           | 6.7800      | <u>(11,490)</u>    |
|                        |                      |             | <u>\$ (10,867)</u> |

December 31, 2015

| <b>Notional Amount</b> | <b>Maturity Date</b> | <b>Rate</b> | <b>Fair Value</b> |
|------------------------|----------------------|-------------|-------------------|
| US\$ 48,000,000        | 2016.01.07           | 32.8110     | \$ 6,349          |
| US\$ 11,600,000        | 2016.01.07           | 32.8110     | 1,534             |
| US\$ 8,600,000         | 2016.01.07           | 32.8110     | 1,138             |
| US\$ 26,000,000        | 2016.01.14           | 32.7860     | 4,066             |
| US\$ 30,000,000        | 2016.01.14           | 32.7860     | 4,691             |
| US\$ 30,000,000        | 2016.01.12           | 32.7622     | 4,643             |
| US\$ 30,000,000        | 2016.01.12           | 32.7272     | 9,934             |
| US\$ 2,000,000         | 2016.01.12           | 32.7272     | 662               |

(Continued)

| <b>Notional Amount</b> | <b>Maturity Date</b> | <b>Rate</b> | <b>Fair Value</b> |
|------------------------|----------------------|-------------|-------------------|
| RMB 50,000,000         | 2016.07.11           | 4.8257      | \$ 2,797          |
| RMB 123,900,000        | 2016.03.14           | 4.9590      | 93                |
| RMB 50,208,000         | 2016.01.19           | 6.5864      | 4                 |
| RMB 12,590,000         | 2016.06.22           | 6.7092      | 118               |
| RMB 12,560,000         | 2016.01.29           | 6.6055      | 100               |
| RMB 30,000,000         | 2016.03.11           | 4.9971      | (321)             |
| RMB 45,000,000         | 2016.03.11           | 4.9971      | (648)             |
| RMB 53,000,000         | 2016.03.14           | 4.9684      | (458)             |
| RMB 50,208,000         | 2016.03.17           | 6.6246      | (562)             |
| RMB 110,952,000        | 2016.03.24           | 6.6359      | (805)             |
| RMB 13,245,000         | 2016.03.24           | 6.6337      | (82)              |
| RMB 40,000,000         | 2016.01.19           | 6.4240      | (4,971)           |
| RMB 50,744,000         | 2016.03.24           | 6.6329      | (481)             |
| RMB 12,560,000         | 2016.04.11           | 6.4730      | (1,749)           |
| RMB 91,000,000         | 2016.01.19           | 6.4005      | (13,219)          |
| RMB 60,000,000         | 2016.02.17           | 6.4454      | (7,750)           |
| RMB 50,744,000         | 2016.03.24           | 6.6329      | (481)             |
| RMB 50,744,000         | 2016.03.24           | 6.6329      | (936)             |
| CHF 29,754,000         | 2016.01.11           | 0.9900      | <u>(1,239)</u>    |
|                        |                      |             | <u>\$ 2,427</u>   |
|                        |                      |             | (Concluded)       |

The Group entered into exchange rate swap contracts for the years ended December 31, 2016 and 2015 to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

- e. At the end of the reporting period, outstanding cross-currency swap contracts not under hedge accounting were as follows:

December 31, 2016

| <b>Notional Amount</b> | <b>Maturity Date</b> | <b>Rate</b>     | <b>Interest %</b> | <b>Fair Value</b> |
|------------------------|----------------------|-----------------|-------------------|-------------------|
| US\$ 10,000,000        | 2017.02.21           | US\$:NT\$31.920 | 0.76              | \$ 3,009          |
| US\$ 10,000,000        | 2017.03.10           | US\$:NT\$31.263 | 0.76              | <u>9,989</u>      |
|                        |                      |                 |                   | <u>\$ 12,998</u>  |

December 31, 2015

| <b>Notional Amount</b> | <b>Maturity Date</b> | <b>Rate</b>     | <b>Interest %</b> | <b>Fair Value</b> |
|------------------------|----------------------|-----------------|-------------------|-------------------|
| US\$ 20,000,000        | 2016.05.18           | US\$:NT\$30.560 | 1.05              | \$ 45,179         |
| US\$ 10,000,000        | 2016.03.16           | US\$:NT\$32.506 | 0.79              | 3,921             |
| US\$ 10,000,000        | 2016.05.27           | US\$:NT\$32.520 | 0.78              | <u>3,236</u>      |
|                        |                      |                 |                   | <u>\$ 52,336</u>  |

The Group entered into cross-currency swap contracts for the years ended December 31, 2016 and 2015 to manage exposures to exchange rate and interest rate fluctuations of foreign currency denominated assets and liabilities.

- f. At the end of the reporting period, outstanding interest rate swap contracts not under hedge accounting were as follows:

December 31, 2016

| <b>Notional Amount</b> | <b>Maturity Date</b> | <b>Pay Rate<br/>(Fixed Rate %)</b> | <b>Received Rate<br/>(Floating Rate %)</b> | <b>Fair Value</b>  |
|------------------------|----------------------|------------------------------------|--|--------------------|
| \$ 375,000             | 2018.06.01           | 1.340                              | 0.65922                                    | \$ (2,323)         |
| 675,000                | 2018.06.01           | 1.310                              | 0.65922                                    | (3,934)            |
| 450,000                | 2018.06.01           | 1.310                              | 0.65922                                    | (2,627)            |
| 375,000                | 2018.06.01           | 1.290                              | 0.65922                                    | (2,137)            |
| 375,000                | 2018.06.01           | 1.278                              | 0.65922                                    | (2,066)            |
| 225,000                | 2018.06.01           | 1.265                              | 0.65922                                    | (1,211)            |
| 375,000                | 2018.06.01           | 1.280                              | 0.65922                                    | (2,127)            |
| 150,000                | 2018.06.01           | 1.260                              | 0.65922                                    | (821)              |
| US\$ 60,000,000        | 2020.01.10           | 1.545                              | 0.93417                                    | 7,081              |
| US\$ 50,000,000        | 2021.03.14           | 1.500                              | 0.84000                                    | <u>26,284</u>      |
|                        |                      |                                    |  | <u>\$ (16,119)</u> |

December 31, 2015

| <b>Notional Amount</b> | <b>Maturity Date</b> | <b>Pay Rate<br/>(Fixed Rate %)</b> | <b>Received Rate<br/>(Floating Rate %)</b> | <b>Fair Value</b>  |
|------------------------|----------------------|------------------------------------|--|--------------------|
| \$ 437,500             | 2016.09.29           | 1.066                              | 0.80956                                    | \$ (766)           |
| 437,500                | 2016.09.29           | 1.066                              | 0.80956                                    | (770)              |
| 350,000                | 2016.09.29           | 1.180                              | 0.80956                                    | (862)              |
| 350,000                | 2016.09.29           | 1.183                              | 0.80956                                    | (864)              |
| 350,000                | 2016.09.29           | 1.183                              | 0.80956                                    | (866)              |
| 350,000                | 2016.09.29           | 1.183                              | 0.80956                                    | (761)              |
| 250,000                | 2016.09.29           | 0.967                              | 0.80956                                    | (287)              |
| 350,000                | 2016.09.29           | 0.990                              | 0.80956                                    | (452)              |
| 350,000                | 2016.09.29           | 0.990                              | 0.80956                                    | (475)              |
| 300,000                | 2016.09.29           | 0.990                              | 0.80956                                    | (385)              |
| 500,000                | 2018.06.01           | 1.340                              | 0.80767                                    | (5,126)            |
| 900,000                | 2018.06.01           | 1.310                              | 0.80767                                    | (8,638)            |
| 600,000                | 2018.06.01           | 1.310                              | 0.80767                                    | (5,810)            |
| 500,000                | 2018.06.01           | 1.290                              | 0.80767                                    | (4,672)            |
| 500,000                | 2018.06.01           | 1.278                              | 0.80767                                    | (4,521)            |
| 300,000                | 2018.06.01           | 1.265                              | 0.80767                                    | (2,645)            |
| 500,000                | 2018.06.01           | 1.280                              | 0.80767                                    | (4,493)            |
| 200,000                | 2018.06.01           | 1.260                              | 0.80767                                    | <u>(1,728)</u>     |
|                        |                      |                                    |  | <u>\$ (44,121)</u> |

The Group entered into interest rate swap contracts for the years ended December 31, 2016 and 2015 to manage exposures to interest rate fluctuations.



## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                             | <u>December 31</u>   |                      |
|-----------------------------|----------------------|----------------------|
|                             | <u>2016</u>          | <u>2015</u>          |
| <u>Domestic investments</u> |                      |                      |
| Listed shares               | \$ 14,264,621        | \$ 12,859,057        |
| <u>Foreign investments</u>  |                      |                      |
| Listed shares               | <u>519,410</u>       | <u>455,116</u>       |
|                             | <u>\$ 14,784,031</u> | <u>\$ 13,314,173</u> |
| Current                     | \$ 13,875,320        | \$ 12,622,099        |
| Non-current                 | <u>908,711</u>       | <u>692,074</u>       |
|                             | <u>\$ 14,784,031</u> | <u>\$ 13,314,173</u> |

## 9. HELD-TO-MATURITY FINANCIAL ASSETS

|                             | <u>December 31</u>  |                     |
|-----------------------------|---------------------|---------------------|
|                             | <u>2016</u>         | <u>2015</u>         |
| <u>Domestic investments</u> |                     |                     |
| Corporate bonds             | \$ 749,828          | \$ -                |
| <u>Foreign investments</u>  |                     |                     |
| Corporate bonds             | 1,918,939           | 967,708             |
| Commercial paper            | 2,518,046           | 483,585             |
| Structured product          | <u>976,600</u>      | <u>-</u>            |
|                             | <u>\$ 6,163,413</u> | <u>\$ 1,451,293</u> |
| Current                     | \$ 972,124          | \$ 49,567           |
| Non-current                 | <u>5,191,289</u>    | <u>1,401,726</u>    |
|                             | <u>\$ 6,163,413</u> | <u>\$ 1,451,293</u> |

## 10. DEBT INVESTMENTS WITH NO ACTIVE MARKET

|   | <u>December 31</u> |                     |
|---|--------------------|---------------------|
|   | <u>2016</u>        | <u>2015</u>         |
| Time deposits with original maturity more than three months | \$ 793,924         | \$ 1,360,761        |
| Others  | <u>35,205</u>      | <u>62,707</u>       |
|   | <u>\$ 829,129</u>  | <u>\$ 1,423,468</u> |
| Current   | \$ 793,924         | \$ 1,390,697        |
| Non-current   | <u>35,205</u>      | <u>32,771</u>       |
|   | <u>\$ 829,129</u>  | <u>\$ 1,423,468</u> |

Refer to Note 39 for information relating to debt investments with no active market pledged as security.

## 11. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

|   | <u>December 31</u>   |                      |
|---|----------------------|----------------------|
|   | <u>2016</u>          | <u>2015</u>          |
| <u>Notes receivable (included related parties)</u>    |                      |                      |
| Notes receivable - operating                          | \$ 22,514            | \$ 12,209            |
| Notes receivable - non-operating                      | 246                  | 32                   |
| Less: Allowance for doubtful accounts                 | <u>-</u>             | <u>-</u>             |
|   | <u>\$ 22,760</u>     | <u>\$ 12,241</u>     |
| <u>Accounts receivable (included related parties)</u> |                      |                      |
| Accounts receivable                                   | \$ 38,867,053        | \$ 34,859,882        |
| Less: Allowance for doubtful accounts                 | <u>(739,218)</u>     | <u>(985,154)</u>     |
|   | <u>\$ 38,127,835</u> | <u>\$ 33,874,728</u> |
| <u>Other receivables</u>                              |                      |                      |
| Tax refund receivables                                | \$ 1,632,482         | \$ 1,439,872         |
| Others  | 2,696,410            | 2,166,111            |
| Less: Allowance for doubtful accounts                 | <u>(858)</u>         | <u>(1,697)</u>       |
|   | <u>\$ 4,328,034</u>  | <u>\$ 3,604,286</u>  |

In determining the recoverability of accounts receivable, the Group considered any change in the credit quality of the accounts receivable since the date credit was initially granted to the end of the reporting period. Allowance for doubtful account was recognized based on past due amounts at the end of the reporting period and past default experience.

a. Notes receivable

The notes receivable balances at December 31, 2016 and 2015 were not past due.

b. Accounts receivable

- 1) The aging analysis tables of the accounts receivable as at December 31, 2016 and 2015 were as follows:

December 31, 2016

|                   | <b>Not Past Due<br/>and Not<br/>Impaired</b> | <b>Not Past Due<br/>but Impaired</b> | <b>Past Due but<br/>Not Impaired</b> | <b>Past Due and<br/>Impaired</b> | <b>Total</b>         |
|-------------------|--|--------------------------------------|--------------------------------------|----------------------------------|----------------------|
| Up to 30 days     | \$ 23,294,010                                | \$ -                                 | \$ -                                 | \$ -                             | \$ 23,294,010        |
| 31-90 days        | 13,537,407                                   | -                                    | 1,078,698                            | 4,889                            | 14,620,994           |
| More than 90 days | <u>-</u>                                     | <u>-</u>                             | <u>217,720</u>                       | <u>734,329</u>                   | <u>952,049</u>       |
|                   | <u>\$ 36,831,417</u>                         | <u>\$ -</u>                          | <u>\$ 1,296,418</u>                  | <u>\$ 739,218</u>                | <u>\$ 38,867,053</u> |

December 31, 2015

|                   | <b>Not Past Due<br/>and Not<br/>Impaired</b> | <b>Not Past Due<br/>but Impaired</b> | <b>Past Due but<br/>Not Impaired</b> | <b>Past Due and<br/>Impaired</b> | <b>Total</b>         |
|-------------------|--|--------------------------------------|--------------------------------------|----------------------------------|----------------------|
| Up to 30 days     | \$ 23,239,428                                | \$ -                                 | \$ -                                 | \$ -                             | \$ 23,239,428        |
| 31-90 days        | 8,706,109                                    | -                                    | 1,644,303                            | 25,792                           | 10,376,204           |
| More than 90 days | <u>-</u>                                     | <u>-</u>                             | <u>284,888</u>                       | <u>959,362</u>                   | <u>1,244,250</u>     |
|                   | <u>\$ 31,945,537</u>                         | <u>\$ -</u>                          | <u>\$ 1,929,191</u>                  | <u>\$ 985,154</u>                | <u>\$ 34,859,882</u> |

The above aging schedule was based on the invoice date.

2) Movements of the allowance for accounts receivable were as follows:

|   | <b>Individually<br/>Assessed for<br/>Impairment</b> | <b>Collectively<br/>Assessed for<br/>Impairment</b> | <b>Total</b>      |
|---|---|---|-------------------|
| Balance at January 1, 2016                                    | \$ 985,154  | \$ -  | \$ 985,154        |
| Add: Recognized impairment losses                             | 65,832  | -   | 65,832            |
| Less: Amounts written off during the<br>year as uncollectable | (269,703)   | -   | (269,703)         |
| Effects of exchange rate changes                              | <u>(42,065)</u>                                     | <u>-</u>  | <u>(42,065)</u>   |
| Balance at December 31, 2016                                  | <u>\$ 739,218</u>                                   | <u>\$ -</u>   | <u>\$ 739,218</u> |
| Balance at January 1, 2015                                    | \$ 882,515  | \$ -  | \$ 882,515        |
| Add: Recognized impairment losses                             | 210,589   | -   | 210,589           |
| Less: Amounts written off during the<br>year as uncollectable | (140,819)   | -   | (140,819)         |
| Effects of exchange rate changes                              | <u>32,869</u>                                       | <u>-</u>  | <u>32,869</u>     |
| Balance at December 31, 2015                                  | <u>\$ 985,154</u>                                   | <u>\$ -</u>   | <u>\$ 985,154</u> |

## 12. INVENTORIES

|   | <b>December 31</b>   |                      |
|---|----------------------|----------------------|
|   | <b>2016</b>          | <b>2015</b>          |
| Inventories - manufacturing and retailing | \$ 40,709,470        | \$ 41,228,992        |
| Inventories - construction                | <u>4,895,683</u>     | <u>5,029,350</u>     |
|   | <u>\$ 45,605,153</u> | <u>\$ 46,258,342</u> |

a. Inventories - manufacturing and retailing at the end of the reporting period consisted of the following:

|                                | <b>December 31</b>   |                      |
|--------------------------------|----------------------|----------------------|
|                                | <b>2016</b>          | <b>2015</b>          |
| Raw materials                  | \$ 7,728,453         | \$ 8,318,055         |
| Work in progress               | 4,462,189            | 4,932,133            |
| Finished goods and merchandise | <u>28,518,828</u>    | <u>27,978,804</u>    |
|                                | <u>\$ 40,709,470</u> | <u>\$ 41,228,992</u> |

The cost of manufacturing and retailing inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was \$204,274,366 thousand and \$204,231,444 thousand, respectively.

- b. Inventories - construction at the end of the reporting period consisted of the following:

|   | <u>December 31</u>  |                     |
|---|---------------------|---------------------|
|   | <u>2016</u>         | <u>2015</u>         |
| Land and buildings held for development | \$ 4,730,966        | \$ 4,821,623        |
| Land and buildings held for sale        | 53,825              | 87,927              |
| Land held for construction site         | <u>110,892</u>      | <u>119,800</u>      |
|   | <u>\$ 4,895,683</u> | <u>\$ 5,029,350</u> |

The cost of construction inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was \$238,186 thousand and \$344,311 thousand, respectively.

### 13. NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE

|  | <u>December 31</u>  |             |
|--|---------------------|-------------|
|  | <u>2016</u>         | <u>2015</u> |
| <u>Assets associated with non-current assets held for sale</u>               |                     |             |
| Cash and cash equivalents  | \$ 43,505           | \$ -        |
| Accounts receivable and other receivables                                    | 694,085             | -           |
| Inventories  | 488,007             | -           |
| Investments accounted for using equity method                                | 46,376              | -           |
| Property, plant and equipment  | 18,963              | -           |
| Other assets   | <u>95,943</u>       | <u>-</u>    |
|  | <u>\$ 1,386,879</u> | <u>\$ -</u> |
| <u>Liabilities directly associated with non-current assets held for sale</u> |                     |             |
| Accounts payable and other payables  | <u>\$ 1,067,765</u> | <u>\$ -</u> |

- a. Pou Sheng resolved to dispose its joint venture during 2016 and reclassified it to “non-current assets held for sale”. The carrying amount is \$46,376 thousand (US\$1,438 thousand) at December 31, 2016.
- b. Pou Sheng resolved to dispose its subsidiaries during 2016 and reclassified it to “non-current assets held for sale” and “liabilities directly associated with non-current assets held for sale”. The carrying amount is \$272,738 thousand (US\$8,457 thousand) at December 31, 2016.

#### 14. OTHER ASSETS

|                                  | <u>December 31</u>   |                      |
|----------------------------------|----------------------|----------------------|
|                                  | <u>2016</u>          | <u>2015</u>          |
| Prepayments                      | \$ 7,937,123         | \$ 7,556,075         |
| Refundable deposits              | 357,441              | 155,901              |
| Defined benefit assets (Note 25) | 43,754               | 124,351              |
| Prepayments for equipment        | 3,476,158            | 2,191,889            |
| Others                           | <u>1,734,694</u>     | <u>2,202,518</u>     |
|                                  | <u>\$ 13,549,170</u> | <u>\$ 12,230,734</u> |
| Current                          | \$ 9,309,768         | \$ 9,290,217         |
| Non-current                      | <u>4,239,402</u>     | <u>2,940,517</u>     |
|                                  | <u>\$ 13,549,170</u> | <u>\$ 12,230,734</u> |

#### 15. FINANCIAL ASSETS MEASURED AT COST

|   | <u>December 31</u> |                   |
|---|--------------------|-------------------|
|   | <u>2016</u>        | <u>2015</u>       |
| <u>Domestic investments</u>   |                    |                   |
| Unlisted shares   | \$ <u>73,221</u>   | \$ <u>63,225</u>  |
| <u>Foreign investments</u>  |                    |                   |
| Unlisted shares   | 196,825            | 204,195           |
| Mutual funds  | <u>322,504</u>     | <u>391,975</u>    |
|   | <u>519,329</u>     | <u>596,170</u>    |
|   | <u>\$ 592,550</u>  | <u>\$ 659,395</u> |
| <u>Classified according to financial asset measurement categories</u> |                    |                   |
| Available-for-sale financial assets                                   | <u>\$ 592,550</u>  | <u>\$ 659,395</u> |

The management believed that the fair value of the above investments held by the Group cannot be reliably measured due to the significant range of reasonable fair value estimates; therefore, they were measured at cost less impairment at the end of reporting period.

## 16. SUBSIDIARIES

### a. Subsidiaries included in the consolidated financial statements

| Name of Subsidiary                                 | Location of Incorporation | Main Business  | Proportion of Ownership |         |
|--|---------------------------|--|-------------------------|---------|
|  |                           |  | 2016                    | 2015    |
| Wealthplus Holdings Limited (“Wealthplus”)         | British Virgin Islands    | Investing in footwear, electronic and peripheral products            | 100.00%                 | 100.00% |
| Win Fortune Investments Limited                    | British Virgin Islands    | Investing activities   | 100.00%                 | 100.00% |
| Windsor Entertainment Co., Ltd.                    | ROC                       | Entertainment and resort operations                                  | 100.00%                 | 100.00% |
| Pou Shine Investments Co., Ltd.                    | ROC                       | Investing activities   | 100.00%                 | 100.00% |
| Pan Asia Insurance Services Co., Ltd.              | ROC                       | Agency of property and casualty insurance                            | 100.00%                 | 100.00% |
| Pro Arch International Development Enterprise Inc. | ROC                       | Design and manufacture of footwear products                          | 100.00%                 | 100.00% |
| Pou Yuen Technology Co., Ltd.                      | ROC                       | Rental of real estate  | 99.81%                  | 99.81%  |
| Barits Development Corporation                     | ROC                       | Import and export of shoe related materials and investing activities | 99.62%                  | 99.62%  |

The information of Wealthplus’s major subsidiaries is as follows:

| Name of Subsidiary                         | Location of Incorporation | Main Business   | Proportion of Ownership |         |
|--|---------------------------|---|-------------------------|---------|
|  |                           |   | 2016                    | 2015    |
| Yue Yuen Industrial (Holdings) Limited     | Bermuda                   | Manufacturing and sale of athletic and casual footwear and sports apparel | 48.93%                  | 48.93%  |
| Pou Sheng International (Holdings) Limited | Bermuda                   | Retailing of sporting goods and brand licensing business                  | 30.54%                  | 29.98%  |
| Crown Master Investments Limited           | British Virgin Islands    | Investment holding  | 100.00%                 | 100.00% |
| Tetor Ventures Ltd.                        | British Virgin Islands    | Investment holding  | 100.00%                 | 100.00% |
| Star Eagle Consultants Limited             | British Virgin Islands    | Agency of property and casualty insurance                                 | 100.00%                 | 100.00% |
| Pou Yu Biotechnology Co., Ltd.             | ROC                       | Manufacturing of medical appliance and sale of related equipment          | 69.44%                  | 69.44%  |

The Group holds less than 50% interests in Yue Yuen and Pou Sheng, companies listed on the Hong Kong Stock Exchange (HKEx). The management considered the Group’s absolute amount, relative size and dispersion of voting rights relative to the other shareholders and concluded that the Group has the practical ability to direct the relevant activities of Yue Yuen and Pou Sheng and therefore the Group has control over Yue Yuen and Pou Sheng.

Win Fortune Investments Limited (“Win Fortune”) invested in Yue Yuen (as at December 31, 2016 the ownership percentage was 1.05%). Investing is its primary operation activities.

The information of Pou Yuen Technology Co., Ltd.’s subsidiary is as follows:

| Name of Subsidiary               | Location of Incorporation | Main Business       | Proportion of Ownership |         |
|----------------------------------|---------------------------|---------------------|-------------------------|---------|
|                                  |                           |                     | 2016                    | 2015    |
| Vantage Capital Investments Ltd. | British Virgin Islands    | Investment holdings | 100.00%                 | 100.00% |

The information of Barits Development Corporation's subsidiaries is as follows:

| Name of Subsidiary              | Location of Incorporation | Main Business                  | Proportion of Ownership |         |
|---------------------------------|---------------------------|--------------------------------|-------------------------|---------|
|                                 |                           |                                | December 31             |         |
|                                 |                           |                                | 2016                    | 2015    |
| Song Ming Investments Co., Ltd. | ROC                       | Investing activities           | 100.00%                 | 100.00% |
| Pou Chin Development Co., Ltd.  | ROC                       | Agency of land demarcation     | 100.00%                 | 100.00% |
| Yu Hong Development Co., Ltd.   | ROC                       | Development of real estate     | 100.00%                 | 100.00% |
| Wang Yi Construction Co., Ltd.  | ROC                       | Construction                   | 89.75%                  | 89.75%  |
| Pou Yii Development Co., Ltd.   | ROC                       | Rental and sale of real estate | 75.00%                  | 75.00%  |

b. Details of subsidiaries that have material non-controlling interests

| Name of Subsidiary                         | Proportion of Ownership and Voting Rights Held by Non-controlling Interests |        |
|--|---|--------|
|  | 2016  | 2015   |
| Yue Yuen Industrial (Holdings) Limited     | 50.02%  | 50.02% |
| Pou Sheng International (Holdings) Limited | 37.59%  | 38.73% |

| Name of Subsidiary                         | Profit Allocated to Non-controlling Interests For the Year Ended December 31 |              | Accumulated Non-controlling Interests December 31 |               |
|--|--|--------------|---|---------------|
|  | 2016   | 2015         | 2016  | 2015          |
| Yue Yuen Industrial (Holdings) Limited     | \$ 8,600,772   | \$ 6,194,439 | \$ 75,958,104                                     | \$ 73,367,403 |
| Pou Sheng International (Holdings) Limited | 1,041,992  | 794,242      | 10,319,355  | 10,913,098    |

Pou Sheng is a subsidiary of Yue Yuen, and the summarized financial information in respect of Yue Yuen and its subsidiaries (included Pou Sheng) is set out below:

|  | December 31           |                       |
|--|-----------------------|-----------------------|
|  | 2016                  | 2015                  |
| Current assets                                       | \$ 128,035,423        | \$ 122,350,497        |
| Non-current assets                                   | 116,290,696           | 114,683,568           |
| Current liabilities                                  | (54,720,629)          | (64,764,194)          |
| Non-current liabilities                              | (26,317,677)          | (13,358,495)          |
| Equity   | <u>\$ 163,287,813</u> | <u>\$ 158,911,376</u> |
| Equity attributable to:                              |                       |                       |
| Owners of the Company                                | \$ 76,290,824         | \$ 73,709,116         |
| Non-controlling interests of Yue Yuen                | 75,958,104            | 73,367,403            |
| Non-controlling interests of Yue Yuen's subsidiaries | <u>11,038,885</u>     | <u>11,834,857</u>     |
|  | <u>\$ 163,287,813</u> | <u>\$ 158,911,376</u> |

|  | <b>For the Year Ended December 31</b> |                       |
|--|---------------------------------------|-----------------------|
|  | <b>2016</b>                           | <b>2015</b>           |
| Operating revenue                                    | <u>\$ 273,572,133</u>                 | <u>\$ 267,624,358</u> |
| Net income   | \$ 18,547,628                         | \$ 13,271,626         |
| Other comprehensive loss                             | <u>(1,704,608)</u>                    | <u>(1,788,976)</u>    |
| Total comprehensive income                           | <u>\$ 16,843,020</u>                  | <u>\$ 11,482,650</u>  |
| Net income attributable to:                          |                                       |                       |
| Owners of the Company                                | \$ 8,603,813                          | \$ 6,201,875          |
| Non-controlling interests of Yue Yuen                | 8,600,772                             | 6,194,439             |
| Non-controlling interests of Yue Yuen's subsidiaries | <u>1,343,043</u>                      | <u>875,312</u>        |
|  | <u>\$ 18,547,628</u>                  | <u>\$ 13,271,626</u>  |
| Total comprehensive income attributable to:          |                                       |                       |
| Owners of the Company                                | \$ 8,071,718                          | \$ 5,613,054          |
| Non-controlling interests of Yue Yuen                | 8,068,264                             | 5,605,159             |
| Non-controlling interests of Yue Yuen's subsidiaries | <u>703,038</u>                        | <u>264,437</u>        |
|  | <u>\$ 16,843,020</u>                  | <u>\$ 11,482,650</u>  |
| Net cash (outflow) inflow from:                      |                                       |                       |
| Operating activities                                 | \$ 17,033,451                         | \$ 25,626,297         |
| Investing activities                                 | (10,887,537)                          | (9,271,490)           |
| Financing activities                                 | <u>(6,183,921)</u>                    | <u>(14,787,159)</u>   |
| Net cash (outflow) inflow                            | <u>\$ (38,007)</u>                    | <u>\$ 1,567,648</u>   |
| Dividends paid to:                                   |                                       |                       |
| Non-controlling interests of Yue Yuen                | <u>\$ 4,097,523</u>                   | <u>\$ 4,000,861</u>   |
| Non-controlling interests of Yue Yuen's subsidiaries | <u>\$ 450,760</u>                     | <u>\$ 449,632</u>     |

## 17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

|                               | <b>December 31</b>   |                      |
|-------------------------------|----------------------|----------------------|
|                               | <b>2016</b>          | <b>2015</b>          |
| Investments in associates     | \$ 27,252,593        | \$ 24,250,119        |
| Investments in joint ventures | <u>11,855,932</u>    | <u>13,187,550</u>    |
|                               | <u>\$ 39,108,525</u> | <u>\$ 37,437,669</u> |

### a. Investments in associates

|   | <b>December 31</b>   |                      |
|---|----------------------|----------------------|
|   | <b>2016</b>          | <b>2015</b>          |
| Material associate                            |                      |                      |
| Ruen Chen Investment Holding Co., Ltd.        | \$ 8,912,633         | \$ 5,846,585         |
| Associates that are not individually material | <u>18,339,960</u>    | <u>18,403,534</u>    |
|   | <u>\$ 27,252,593</u> | <u>\$ 24,250,119</u> |



1) Material associate

| Name of Associate                      | Proportion of Ownership and<br>Voting Rights |      |
|--|--|------|
|  | December 31                                  |      |
|  | 2016   | 2015 |
| Ruen Chen Investment Holding Co., Ltd. | 20%  | 20%  |

The summarized financial information below represents amounts shown in the material associate's financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Ruen Chen Investment Holding Co., Ltd.

|  | December 31                    |                        |
|--|--------------------------------|------------------------|
|  | 2016                           | 2015                   |
| Assets   | \$ 3,644,010,238               | \$ 3,192,737,851       |
| Liabilities                                      | (3,587,128,559)                | (3,152,391,615)        |
| Non-controlling interests                        | <u>(12,021,953)</u>            | <u>(10,816,750)</u>    |
| Owners of Ruen Chen Investment Holding Co., Ltd. | <u>\$ 44,859,726</u>           | <u>\$ 29,529,486</u>   |
| Proportion of the Group                          | 20%                            | 20%                    |
| Equity attributable to the Group                 | \$ 8,971,945                   | \$ 5,905,897           |
| Other adjustments                                | <u>(59,312)</u>                | <u>(59,312)</u>        |
| Carrying amount                                  | <u>\$ 8,912,633</u>            | <u>\$ 5,846,585</u>    |
|  | For the Year Ended December 31 |                        |
|  | 2016                           | 2015                   |
| Operating revenue                                | <u>\$ 657,143,807</u>          | <u>\$ 567,236,107</u>  |
| Net income                                       | \$ 23,499,027                  | \$ 20,343,103          |
| Other comprehensive loss                         | <u>(6,963,584)</u>             | <u>(35,214,398)</u>    |
| Total comprehensive income (loss)                | <u>\$ 16,535,443</u>           | <u>\$ (14,871,295)</u> |

2) Associates that are not individually material

| Name of Associate                           | Proportion of Ownership and<br>Voting Rights |        |
|---|--|--------|
|   | December 31                                  |        |
|   | 2016   | 2015   |
| Luen Thai Holdings Ltd.                     | 9.74%  | 9.74%  |
| Eagle Nice (International) Holdings Limited | 38.42%                                       | 38.42% |
| Evermore Chemical Industry Co., Ltd.        | 29.05%                                       | 29.05% |
| San Fang Chemical Industry Co., Ltd.        | 44.72%                                       | 44.72% |
| Elitegroup Computer Systems Co., Ltd.       | 19.50%                                       | 19.50% |

(Continued)

| Name of Associate   | Proportion of Ownership and<br>Voting Rights |        |
|---|--|--------|
|   | December 31                                  |        |
|   | 2016   | 2015   |
| Ace Top Group Limited   | 40.00%                                       | 40.00% |
| Bigfoot Limited   | 48.76%                                       | 48.76% |
| Enthroned Group Limited   | 48.76%                                       | 48.76% |
| Faith Year Investments Ltd.   | 30.00%                                       | 30.00% |
| Full Pearl International Ltd.   | 40.04%                                       | 40.04% |
| Haicheng Information Technology Co., Ltd.                                   | 50.00%                                       | 50.00% |
| Hengqin New District of Zhuhai City Baolee Property<br>Management Co., Ltd. | 40.00%                                       | 40.00% |
| Just Lucky Investments Limited  | 38.30%                                       | 38.30% |
| Kleine Developments Ltd.  | -  | 33.33% |
| Natural Options Limited   | 38.30%                                       | 38.30% |
| Oftenrich Holdings Limited  | 45.00%                                       | 45.00% |
| Original Designs Developments Limited                                       | 49.47%                                       | 49.47% |
| Pine Wood Industries Limited  | 37.00%                                       | 37.00% |
| Pou Ming Paper Products Manufacturing Co., Ltd.                             | 20.00%                                       | 20.00% |
| Prosperlink Limited   | 38.00%                                       | 38.00% |
| Prosperous Industrial (Holdings) Ltd.                                       | 30.00%                                       | 30.00% |
| Rise Bloom International Limited  | 38.00%                                       | 38.00% |
| Silver Island Trading Ltd.  | 50.00%                                       | 50.00% |
| Supplyline Logistics Ltd.   | 49.00%                                       | 49.00% |
| Tien Pou International Ltd.   | 40.00%                                       | -      |
| Venture Well Holdings Ltd.  | 31.55%                                       | 31.55% |
| Zhejiang Baohong Sports Goods Company Limited                               | -  | 49.00% |
| Zhuhai Pouluk Properties Management Co., Ltd.                               | 40.00%                                       | 40.00% |
| Nan Pao Resins Chemical Co., Ltd.   | 20.09%                                       | 21.32% |
| Techview International Technology Inc.                                      | 50.00%                                       | 50.00% |

(Concluded)

- a) The summarized financial information below represents amounts shown in the financial statements of associates that are not individually material which were prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

|                            | For the Year Ended December 31 |                     |
|----------------------------|--------------------------------|---------------------|
|                            | 2016                           | 2015                |
| The Group's share of:      |                                |                     |
| Net income                 | \$ 1,664,297                   | \$ 1,819,281        |
| Other comprehensive loss   | <u>(124,318)</u>               | <u>(32,127)</u>     |
| Total comprehensive income | <u>\$ 1,539,979</u>            | <u>\$ 1,787,154</u> |

- b) The Group is able to exercise significant influence over Luen Thai Holdings Ltd. because it has the power to appoint the management team of Luen Thai Holdings Ltd. since September 2007.
- c) The Group holds less than 20% interest of Elitegroup Computer Systems Co., Ltd. but the Group has the power to appoint three out of the nine directors of Elitegroup Computer Systems Co., Ltd.; therefore, the Group is able to exercise significant influence over Elitegroup Computer Systems Co., Ltd.
- d) Fair values (Level 1) of investments in associates that are not individually material with

available published price quotation are summarized as follows:

| Name of Associate                           | December 31  |              |
|---|--------------|--------------|
|   | 2016         | 2015         |
| Luen Thai Holdings Ltd.                     | \$ 1,028,561 | \$ 469,388   |
| Eagle Nice (International) Holdings Limited | \$ 1,748,611 | \$ 2,228,232 |
| Evermore Chemical Industry Co., Ltd.        | \$ 356,400   | \$ 342,738   |
| San Fang Chemical Industry Co., Ltd.        | \$ 6,287,101 | \$ 6,677,886 |
| Elitegroup Computer Systems Co., Ltd.       | \$ 1,695,802 | \$ 2,201,282 |

b. Investments in joint ventures

|   | December 31          |                      |
|---|----------------------|----------------------|
|   | 2016                 | 2015                 |
| Joint ventures that are not individually material | \$ 11,842,023        | \$ 12,915,886        |
| Long-term receivable                              |                      |                      |
| Joint ventures that are not individually material | <u>13,909</u>        | <u>271,664</u>       |
|   | <u>\$ 11,855,932</u> | <u>\$ 13,187,550</u> |

- 1) At the end of the reporting period, the proportion of ownership and voting rights in joint ventures that are not individually material held by the Group were as follows:

| Name of Joint Ventures                        | Proportion of Ownership and Voting Rights |        |
|---|---|--------|
|   | December 31                               |        |
|   | 2016                                      | 2015   |
| Artesol Limited                               | 50.00%                                    | 50.00% |
| Beijing Baojing Kangtai Trading Co., Ltd.     | 50.00%                                    | 50.00% |
| Best Focus Holdings Ltd.                      | 50.00%                                    | 50.00% |
| Blessland Enterprises Limited                 | 50.00%                                    | 50.00% |
| Cohen Enterprises Inc.                        | 50.00%                                    | 50.00% |
| Din Tsun Holding Co., Ltd.                    | 50.00%                                    | 50.00% |
| Great Skill Industrial Limited                | 50.00%                                    | 50.00% |
| Guiyang Baoshang Sports Goods Company Limited | 50.00%                                    | 50.00% |
| Hangzhou Baohong Sports Goods Company Limited | 50.00%                                    | 50.00% |
| Hefei Tengrei Sports Goods Company Limited    | -   | 50.00% |
| Hua Jian Industrial Holding Co., Limited      | 50.00%                                    | 50.00% |
| Jilin Lingpao Sports Goods Company Limited    | 50.00%                                    | 50.00% |
| Jilin Xinfangwei Sports Goods Company Limited | 50.00%                                    | 50.00% |
| Jumbo Power Enterprises Limited               | 50.00%                                    | 50.00% |
| Ka Yuen Rubber Factory Limited                | 50.00%                                    | 50.00% |
| Poulik Properties Management Co., Ltd.        | 30.00%                                    | 30.00% |
| Texas Clothing Holdings Corp.                 | 49.99%                                    | 49.99% |
| Twinways Investments Limited                  | 50.00%                                    | 50.00% |
| Willpower Industries Limited                  | 44.84%                                    | 44.84% |
| Zhong Ao Multiplex Management Limited         | 46.82%                                    | 46.82% |

- 2) The summarized financial information below represents amounts shown in the financial statements of joint ventures that are not individually material which were prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes:

|                                | <u>For the Year Ended December 31</u> |                       |
|--------------------------------|---------------------------------------|-----------------------|
|                                | 2016                                  | 2015                  |
| The Group's share of:          |                                       |                       |
| Net income                     | \$ 352,662                            | \$ 973,573            |
| Other comprehensive loss       | <u>(179,233)</u>                      | <u>(354,441)</u>      |
| <br>Total comprehensive income | <br><u>\$ 173,429</u>                 | <br><u>\$ 619,132</u> |

## 18. PROPERTY, PLANT AND EQUIPMENT

|  | Land                | Buildings and<br>Improvements | Machinery and<br>Equipment | Transportation<br>Equipment | Office Equipment      | Other Equipment     | Construction in<br>Progress | Total                  |
|--|---------------------|-------------------------------|----------------------------|-----------------------------|-----------------------|---------------------|-----------------------------|------------------------|
| <u>Cost</u>                                      |                     |                               |                            |                             |                       |                     |                             |                        |
| Balance at January 1, 2015                       | \$ 2,279,431        | \$ 66,182,397                 | \$ 39,843,588              | \$ 1,323,503                | \$ 6,856,518          | \$ 174,665          | \$ 2,813,700                | \$ 119,473,802         |
| Additions  | -                   | 3,558,953                     | 5,565,587                  | 146,484                     | 911,674               | 14,356              | 3,400,334                   | 13,597,388             |
| Acquisitions through business combinations       | -                   | 5,092                         | -                          | 586                         | 8,826                 | -                   | -                           | 14,504                 |
| Disposal   | -                   | (1,099,274)                   | (2,171,283)                | (187,315)                   | (517,083)             | (11,111)            | (11,489)                    | (3,997,555)            |
| Reclassification - other                         | (31,821)            | 3,455,847                     | 38,746                     | 2,600                       | 7,218                 | 10,964              | (3,436,462)                 | 47,092                 |
| Effects of exchange rate changes                 | -                   | 1,866,750                     | 1,452,021                  | 35,199                      | 149,353               | (43)                | 102,287                     | 3,605,567              |
| Balance at December 31, 2015                     | <u>\$ 2,247,610</u> | <u>\$ 73,969,765</u>          | <u>\$ 44,728,659</u>       | <u>\$ 1,321,057</u>         | <u>\$ 7,416,506</u>   | <u>\$ 188,831</u>   | <u>\$ 2,868,370</u>         | <u>\$ 132,740,798</u>  |
| <u>Accumulated depreciation and impairment</u>   |                     |                               |                            |                             |                       |                     |                             |                        |
| Balance at January 1, 2015                       | \$ (5,241)          | \$ (25,309,092)               | \$ (24,745,175)            | \$ (905,077)                | \$ (4,795,812)        | \$ (155,854)        | \$ (57,097)                 | \$ (55,973,348)        |
| Depreciation expenses                            | -                   | (3,230,899)                   | (3,857,183)                | (122,156)                   | (713,331)             | (8,552)             | -                           | (7,932,121)            |
| Recognized impairment losses                     | -                   | (260,868)                     | -                          | -                           | -                     | -                   | -                           | (260,868)              |
| Disposal   | -                   | 794,859                       | 1,696,605                  | 153,593                     | 453,333               | 10,798              | -                           | 3,109,188              |
| Reclassification - other                         | -                   | 20,845                        | 4,684                      | -                           | 1,079                 | (4,670)             | -                           | 21,938                 |
| Effects of exchange rate changes                 | -                   | (714,046)                     | (1,029,896)                | (28,474)                    | (154,216)             | 44                  | -                           | (1,926,588)            |
| Balance at December 31, 2015                     | <u>\$ (5,241)</u>   | <u>\$ (28,699,201)</u>        | <u>\$ (27,930,965)</u>     | <u>\$ (902,114)</u>         | <u>\$ (5,208,947)</u> | <u>\$ (158,234)</u> | <u>\$ (57,097)</u>          | <u>\$ (62,961,799)</u> |
| Carrying amounts at January 1, 2015              | <u>\$ 2,274,190</u> | <u>\$ 40,873,305</u>          | <u>\$ 15,098,413</u>       | <u>\$ 418,426</u>           | <u>\$ 2,060,706</u>   | <u>\$ 18,811</u>    | <u>\$ 2,756,603</u>         | <u>\$ 63,500,454</u>   |
| Carrying amounts at December 31, 2015            | <u>\$ 2,242,369</u> | <u>\$ 45,270,564</u>          | <u>\$ 16,797,694</u>       | <u>\$ 418,943</u>           | <u>\$ 2,207,559</u>   | <u>\$ 30,597</u>    | <u>\$ 2,811,273</u>         | <u>\$ 69,778,999</u>   |
| <u>Cost</u>                                      |                     |                               |                            |                             |                       |                     |                             |                        |
| Balance at January 1, 2016                       | \$ 2,247,610        | \$ 73,969,765                 | \$ 44,728,659              | \$ 1,321,057                | \$ 7,416,506          | \$ 188,831          | \$ 2,868,370                | \$ 132,740,798         |
| Additions  | 18                  | 3,675,281                     | 5,721,177                  | 128,455                     | 1,020,836             | 13,281              | 3,158,371                   | 13,717,419             |
| Disposal   | -                   | (3,110,042)                   | (3,938,808)                | (108,213)                   | (810,088)             | (6,513)             | (20,930)                    | (7,994,594)            |
| Disposal of subsidiaries                         | -                   | (97,177)                      | (235,339)                  | (10,163)                    | (25,317)              | -                   | -                           | (367,996)              |
| Reclassification - other                         | 128,103             | 2,977,775                     | (1,345,850)                | 2,380                       | (64,930)              | 3,919               | (1,946,708)                 | (245,311)              |
| Reclassified as non-current assets held for sale | -                   | (238,005)                     | -                          | (3,999)                     | (64,210)              | -                   | -                           | (306,214)              |
| Effects of exchange rate changes                 | -                   | (1,653,570)                   | (779,681)                  | (26,599)                    | (178,572)             | (60)                | (49,016)                    | (2,687,498)            |
| Balance at December 31, 2016                     | <u>\$ 2,375,731</u> | <u>\$ 75,524,027</u>          | <u>\$ 44,150,158</u>       | <u>\$ 1,302,918</u>         | <u>\$ 7,794,225</u>   | <u>\$ 199,458</u>   | <u>\$ 4,010,087</u>         | <u>\$ 134,856,604</u>  |
| <u>Accumulated depreciation and impairment</u>   |                     |                               |                            |                             |                       |                     |                             |                        |
| Balance at January 1, 2016                       | \$ (5,241)          | \$ (28,699,201)               | \$ (27,930,965)            | \$ (902,114)                | \$ (5,208,947)        | \$ (158,234)        | \$ (57,097)                 | \$ (62,961,799)        |
| Depreciation expenses                            | -                   | (3,610,504)                   | (3,990,212)                | (124,786)                   | (660,938)             | (10,545)            | -                           | (8,396,985)            |
| Recognized impairment losses                     | -                   | (8,333)                       | -                          | (413)                       | (3,145)               | -                   | -                           | (11,891)               |
| Disposal   | -                   | 2,102,928                     | 3,092,166                  | 99,703                      | 681,534               | 6,209               | -                           | 5,982,540              |
| Disposal of subsidiaries                         | -                   | 22,883                        | 152,505                    | 6,647                       | 17,028                | -                   | -                           | 199,063                |
| Reclassification - other                         | -                   | (1,041,403)                   | 1,201,958                  | -                           | 4,805                 | -                   | -                           | 165,360                |
| Reclassified as non-current assets held for sale | -                   | 224,621                       | -                          | 3,354                       | 59,276                | -                   | -                           | 287,251                |
| Effects of exchange rate changes                 | -                   | 713,015                       | 493,218                    | 19,463                      | 118,911               | 56                  | -                           | 1,344,663              |
| Balance at December 31, 2016                     | <u>\$ (5,241)</u>   | <u>\$ (30,795,994)</u>        | <u>\$ (26,981,330)</u>     | <u>\$ (898,146)</u>         | <u>\$ (4,991,476)</u> | <u>\$ (162,514)</u> | <u>\$ (57,097)</u>          | <u>\$ (63,391,798)</u> |
| Carrying amounts at January 1, 2016              | <u>\$ 2,242,369</u> | <u>\$ 45,270,564</u>          | <u>\$ 16,797,694</u>       | <u>\$ 418,943</u>           | <u>\$ 2,207,559</u>   | <u>\$ 30,597</u>    | <u>\$ 2,811,273</u>         | <u>\$ 69,778,999</u>   |
| Carrying amounts at December 31, 2016            | <u>\$ 2,370,490</u> | <u>\$ 45,228,033</u>          | <u>\$ 17,168,828</u>       | <u>\$ 404,722</u>           | <u>\$ 2,302,749</u>   | <u>\$ 36,944</u>    | <u>\$ 3,952,990</u>         | <u>\$ 71,464,806</u>   |

- a. The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

| <u>Items</u>               | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| Buildings and improvements |                              |
| Main buildings             | 55 years                     |
| Elevators                  | 15 years                     |
| Machinery and equipment    | 5-12 years                   |
| Transportation equipment   | 5 years                      |
| Office equipment           | 3-7 years                    |
| Other equipment            | 3-10 years                   |

- b. The Group has land located in Changhwa County with carrying value of \$56,102 thousand. Due to certain restrictions under the land regulations, the ownership for these three parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property.

## 19. INVESTMENT PROPERTIES

|  | <b>2016</b>         | <b>2015</b>         |
|--|---------------------|---------------------|
| <u>Cost</u>                                    |                     |                     |
| Balance at January 1                           | \$ 2,885,925        | \$ 2,759,979        |
| Additions                                      | 57,094              | 21,775              |
| Reclassification                               | (27,921)            | 54,432              |
| Effects of exchange rate changes               | <u>(28,774)</u>     | <u>49,739</u>       |
| Balance at December 31                         | <u>\$ 2,886,324</u> | <u>\$ 2,885,925</u> |
| <u>Accumulated depreciation and impairment</u> |                     |                     |
| Balance at January 1                           | \$ (569,344)        | \$ (505,670)        |
| Depreciation expenses                          | (30,932)            | (28,978)            |
| Reclassification                               | 13,658              | (17,194)            |
| Effects of exchange rate changes               | <u>9,741</u>        | <u>(17,502)</u>     |
| Balance at December 31                         | <u>\$ (576,877)</u> | <u>\$ (569,344)</u> |
| Carrying amounts at January 1                  | <u>\$ 2,316,581</u> | <u>\$ 2,254,309</u> |
| Carrying amounts at December 31                | <u>\$ 2,309,447</u> | <u>\$ 2,316,581</u> |

- a. The investment properties are depreciated by the straight-line method over 30-55 years.
- b. The fair values of the Group's investment properties as of December 31, 2016 and 2015 were \$3,498,353 thousand and \$3,297,811 thousand, respectively.
- c. Refer to Note 39 for the carrying amount of investments properties pledged by the Group to secure borrowings.

## 20. GOODWILL

|  | 2016                | 2015                |
|--|---------------------|---------------------|
| <u>Cost</u>                                |                     |                     |
| Balance at January 1                       | \$ 9,535,733        | \$ 9,136,165        |
| Acquisitions through business combinations | -                   | 47,710              |
| Deregistration of subsidiaries             | -                   | (710)               |
| Effects of exchange rate changes           | <u>(363,896)</u>    | <u>352,568</u>      |
| Balance at December 31                     | <u>\$ 9,171,837</u> | <u>\$ 9,535,733</u> |
| <u>Accumulated impairment</u>              |                     |                     |
| Balance at January 1                       | \$ -                | \$ -                |
| Recognized impairment losses               | (67,021)            | -                   |
| Effects of exchange rate changes           | <u>(1,156)</u>      | <u>-</u>            |
| Balance at December 31                     | <u>\$ (68,177)</u>  | <u>\$ -</u>         |
| Carrying amounts at January 1              | <u>\$ 9,535,733</u> | <u>\$ 9,136,165</u> |
| Carrying amounts at December 31            | <u>\$ 9,103,660</u> | <u>\$ 9,535,733</u> |

The carrying value of goodwill allocated to four cash-generating units was as follows:

|  | <u>December 31</u>  |                     |
|--|---------------------|---------------------|
|  | 2016                | 2015                |
| <u>Goodwill</u>  |                     |                     |
| Manufacturing and marking of footwear materials            | \$ 5,922,713        | \$ 6,028,311        |
| Manufacturing and marking of sports apparel                | 184,599             | 187,890             |
| Retailing business - retail sales and footwear and apparel | 2,503,632           | 2,813,037           |
| Others   | <u>492,716</u>      | <u>506,495</u>      |
|  | <u>\$ 9,103,660</u> | <u>\$ 9,535,733</u> |

The Group has evaluated the recoverable amount of these cash-generating units for the years ended December 31, 2016 and 2015, and the recoverable amount of these cash-generating units was determined based on the value in use. The value in use was calculated based on used cash flow forecasts of the financial budgets approved by the management covering a five-year period. The growth rates were based on the forecasts of the relevant industries.

The discount rates and growth rates used in the value calculations for these cash-generating units were as follows:

|  | <u>December 31</u> |             |               |             |
|--|--------------------|-------------|---------------|-------------|
|  | 2016               |             | 2015          |             |
|  | Discount Rate      | Growth Rate | Discount Rate | Growth Rate |
| Manufacturing and marking of footwear materials            | 13%-14%            | 2%          | 14%           | 2%          |
| Manufacturing and marking of sports apparel                | 13%-14%            | 2%          | 14%           | 2%          |
| Retailing business - retail sales and footwear and apparel | 13%-14%            | 3%          | 14%           | 3%          |

Other key assumptions for calculating the evaluated value in use included a sales budget, gross margins and other related cash inflow and outflow patterns. The evaluated amount was based on these cash-generating units' historical performance and the management's expectation of the market development.

## 21. OTHER INTANGIBLE ASSETS

|  | Patents         | Trademarks     | Customer Relationships | Brand Names         | Licensing Agreements | Non-compete Agreements | Total                 |
|--|-----------------|----------------|------------------------|---------------------|----------------------|------------------------|-----------------------|
| <u>Cost</u>                                    |                 |                |                        |                     |                      |                        |                       |
| Balance at January 1, 2015                     | \$ 748          | \$ 295         | \$ 271,906             | \$ 2,379,573        | \$ 507,066           | \$ 2,265,000           | \$ 5,424,588          |
| Disposals                                      | (40)            | (114)          | -                      | -                   | -                    | -                      | (154)                 |
| Effects of exchange rate changes               | -               | (1)            | (5,334)                | (46,799)            | (9,503)              | (44,553)               | (106,190)             |
| Balance at December 31, 2015                   | <u>\$ 708</u>   | <u>\$ 180</u>  | <u>\$ 266,572</u>      | <u>\$ 2,332,774</u> | <u>\$ 497,563</u>    | <u>\$ 2,220,447</u>    | <u>\$ 5,318,244</u>   |
| <u>Accumulated amortization and impairment</u> |                 |                |                        |                     |                      |                        |                       |
| Balance at January 1, 2015                     | \$ (169)        | \$ (139)       | \$ (156,858)           | \$ (303,270)        | \$ (113,498)         | \$ (1,260,651)         | \$ (1,834,585)        |
| Amortization expenses                          | (38)            | (41)           | (31,192)               | -                   | (50,739)             | (158,095)              | (240,105)             |
| Disposals                                      | 40              | 114            | -                      | -                   | -                    | -                      | 154                   |
| Effects of exchange rate changes               | (1)             | 1              | 3,409                  | 5,974               | 2,737                | 26,277                 | 38,397                |
| Balance at December 31, 2015                   | <u>\$ (168)</u> | <u>\$ (65)</u> | <u>\$ (184,641)</u>    | <u>\$ (297,296)</u> | <u>\$ (161,500)</u>  | <u>\$ (1,392,469)</u>  | <u>\$ (2,036,139)</u> |
| Carrying amounts at January 1, 2015            | <u>\$ 579</u>   | <u>\$ 156</u>  | <u>\$ 115,048</u>      | <u>\$ 2,076,303</u> | <u>\$ 393,568</u>    | <u>\$ 1,004,349</u>    | <u>\$ 3,590,003</u>   |
| Carrying amounts at December 31, 2015          | <u>\$ 540</u>   | <u>\$ 115</u>  | <u>\$ 81,931</u>       | <u>\$ 2,035,478</u> | <u>\$ 336,063</u>    | <u>\$ 827,978</u>      | <u>\$ 3,282,105</u>   |
| <u>Cost</u>                                    |                 |                |                        |                     |                      |                        |                       |
| Balance at January 1, 2016                     | \$ 708          | \$ 180         | \$ 266,572             | \$ 2,332,774        | \$ 497,563           | \$ 2,220,447           | \$ 5,318,244          |
| Effects of exchange rate changes               | -               | (46)           | (18,989)               | (166,058)           | (33,421)             | (157,995)              | (376,509)             |
| Balance at December 31, 2016                   | <u>\$ 708</u>   | <u>\$ 134</u>  | <u>\$ 247,583</u>      | <u>\$ 2,166,716</u> | <u>\$ 464,142</u>    | <u>\$ 2,062,452</u>    | <u>\$ 4,941,735</u>   |
| <u>Accumulated amortization and impairment</u> |                 |                |                        |                     |                      |                        |                       |
| Balance at January 1, 2016                     | \$ (168)        | \$ (65)        | \$ (184,641)           | \$ (297,296)        | \$ (161,500)         | \$ (1,392,469)         | \$ (2,036,139)        |
| Amortization expenses                          | (39)            | (13)           | (30,009)               | -                   | (48,951)             | (130,108)              | (209,120)             |
| Effects of exchange rate changes               | -               | 46             | 14,507                 | 21,172              | 13,242               | 104,996                | 153,963               |
| Balance at December 31, 2016                   | <u>\$ (207)</u> | <u>\$ (32)</u> | <u>\$ (200,143)</u>    | <u>\$ (276,124)</u> | <u>\$ (197,209)</u>  | <u>\$ (1,417,581)</u>  | <u>\$ (2,091,296)</u> |
| Carrying amounts at January 1, 2016            | <u>\$ 540</u>   | <u>\$ 115</u>  | <u>\$ 81,931</u>       | <u>\$ 2,035,478</u> | <u>\$ 336,063</u>    | <u>\$ 827,978</u>      | <u>\$ 3,282,105</u>   |
| Carrying amounts at December 31, 2016          | <u>\$ 501</u>   | <u>\$ 102</u>  | <u>\$ 47,440</u>       | <u>\$ 1,890,592</u> | <u>\$ 266,933</u>    | <u>\$ 644,871</u>      | <u>\$ 2,850,439</u>   |

The above items of other intangible assets are amortized on a straight-line basis over the estimated useful life of the asset:

| <u>Items</u>           | <u>Estimated Useful Life</u> |
|------------------------|------------------------------|
| Patents                | 15-20 years                  |
| Trademarks             | 10 years                     |
| Customer relationships | 8 years                      |
| Licensing agreements   | 10 years                     |
| Non-compete agreements | 5-20 years                   |

The brand names are considered by the management of the Group as having indefinite useful life because they are expected to contribute to net cash inflows to the Group indefinitely.

## 22. BORROWINGS

### a. Short-term borrowings

|                             | <u>December 31</u>   |                      |
|-----------------------------|----------------------|----------------------|
|                             | 2016                 | 2015                 |
| <u>Unsecured borrowings</u> |                      |                      |
| Credit borrowings           | \$ <u>24,031,120</u> | \$ <u>15,708,753</u> |

The range of effective interest rate on bank borrowings was 0.80%-11.90% and 0.89%-5.88% per annum as of December 31, 2016 and 2015, respectively.

### b. Short-term bills payable

#### December 31, 2016

|   | <b>Annual<br/>Interest Rate</b> | <b>Amount</b>       |
|---|---------------------------------|---------------------|
| Commercial papers                           | 0.45%-0.77%                     | \$ 2,546,000        |
| Less: Unamortized discount on bills payable |                                 | <u>(1,245)</u>      |
|   |                                 | <u>\$ 2,544,755</u> |

#### December 31, 2015

|   | <b>Annual<br/>Interest Rate</b> | <b>Amount</b>       |
|---|---------------------------------|---------------------|
| Commercial papers                           | 0.5%-1.06%                      | \$ 2,591,500        |
| Less: Unamortized discount on bills payable |                                 | <u>(2,157)</u>      |
|   |                                 | <u>\$ 2,589,343</u> |

### c. Long-term borrowings

|  | <u>December 31</u>   |                      |
|--|----------------------|----------------------|
|  | 2016                 | 2015                 |
| <u>Secured borrowings</u>                    |                      |                      |
| Bank loans                                   | \$ 488,000           | \$ 488,000           |
| <u>Unsecured borrowings</u>                  |                      |                      |
| Bank loans                                   | <u>49,895,000</u>    | <u>50,481,500</u>    |
|  | 50,383,000           | 50,969,500           |
| Less: Long-term expenses for syndicated loan | (19,874)             | (39,861)             |
| Less: Current portion                        | <u>-</u>             | <u>(21,159,324)</u>  |
|  | <u>\$ 50,363,126</u> | <u>\$ 29,770,315</u> |



Maturity date and range of annual interest rate:

|   | <b>December 31</b>        |                           |
|---|---------------------------|---------------------------|
|   | <b>2016</b>               | <b>2015</b>               |
| <u>Maturity date</u>                    |                           |                           |
| Long-term borrowings                    | 2018.07.12-<br>2021.12.21 | 2018.06.03-<br>2020.09.30 |
| Current portion of long-term borrowings | -                         | 2016.04.16-<br>2016.09.29 |
| <u>Range of interest rate</u>           | 1.09%-2.27%               | 0.86%-2.36%               |

Refer to Note 39 for the collateral pledged by the Group in accordance with the loan contract.

### 23. NOTES PAYABLE AND ACCOUNTS PAYABLE

|   | <b>December 31</b>   |                      |
|---|----------------------|----------------------|
|   | <b>2016</b>          | <b>2015</b>          |
| <u>Notes payable (included related parties)</u> |                      |                      |
| Operating                                       | \$ 45,661            | \$ 36,057            |
| Non-operating                                   | <u>674</u>           | <u>360</u>           |
|   | <u>\$ 46,335</u>     | <u>\$ 36,417</u>     |
| Accounts payable (included related parties)     | <u>\$ 14,639,445</u> | <u>\$ 17,296,539</u> |

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

### 24. OTHER PAYABLES

|  | <b>December 31</b>   |                      |
|--|----------------------|----------------------|
|  | <b>2016</b>          | <b>2015</b>          |
| Payables for salaries                                  | \$ 13,211,352        | \$ 13,405,470        |
| Payables for purchase of property, plant and equipment | 1,782,976            | 1,635,347            |
| Compensation due to directors and supervisors          | 219,828              | 206,212              |
| Employee compensation payables                         | 645,013              | 603,896              |
| Interest payables                                      | 104,566              | 96,960               |
| Payables for acquisition of subsidiary and business    | 352,783              | 382,083              |
| Payables for annual leave                              | 1,413,211            | 1,292,742            |
| Others   | <u>7,648,285</u>     | <u>8,278,854</u>     |
|  | <u>\$ 25,378,014</u> | <u>\$ 25,901,564</u> |
| Current  | \$ 25,218,684        | \$ 25,724,377        |
| Non-current  | <u>159,330</u>       | <u>177,187</u>       |
|  | <u>\$ 25,378,014</u> | <u>\$ 25,901,564</u> |

## 25. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Based on the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

### b. Defined benefit plans - overseas subsidiaries

The employees of the Group’s subsidiaries in Indonesia are members of a state-managed retirement benefit plan operated by the government of Indonesia. The subsidiaries are required to contribute amounts calculated at a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The net amounts in respect of the defined benefit liability were \$2,021,623 thousand and \$1,512,674 thousand as of December 31, 2016 and 2015, respectively. Movements in the net defined benefit liability were as follows:

|  | <b>Present Value<br/>of Defined<br/>Benefit<br/>Obligation</b> |
|--|--|
| Balance at January 1, 2016                                     | \$ 1,512,674   |
| Current service cost   | 222,562  |
| Past service gain  | (13,743)   |
| Net interest expense   | 137,597  |
| Recognized in profit or loss                                   | 346,416  |
| Remeasurement  |  |
| Actuarial loss arising from changes in demographic assumptions | 6,127  |
| Actuarial loss arising from changes in financial assumptions   | 105,748  |
| Actuarial loss arising from experience adjustments             | 133,838  |
| Effect of exchange rate changes of remeasurement               | (19,447)   |
| Recognized in other comprehensive loss                         | 226,266  |
| Benefits paid  | (88,780)   |
| Effect of exchange rate changes on foreign plans               | 25,047   |
| Balance at December 31, 2016                                   | \$ 2,021,623   |

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

|                                  | <b>December 31,<br/>2016</b> |
|----------------------------------|------------------------------|
| Discount rate                    | 8.50-8.75%                   |
| Expected rate of salary increase | 5-10%                        |

If possible reasonable changes will occur in each of the significant actuarial assumptions, and other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

|                                  | <b>December 31,<br/>2016</b> |
|----------------------------------|------------------------------|
| Discount rate                    |                              |
| 0.25% increase                   | \$ (50,947)                  |
| 0.25% decrease                   | <u>\$ 59,568</u>             |
| Expected rate of salary increase |                              |
| 0.25% increase                   | <u>\$ 64,012</u>             |
| 0.25% decrease                   | <u>\$ (55,350)</u>           |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

c. Defined benefit plans - domestic subsidiaries

The defined benefit plan adopted by the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated based on the years of service and average monthly salaries of the 6 months before retirement. The Group contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans under the Labor Standards Law were as follows:

|  | <b>December 31</b>  |                     |
|--|---------------------|---------------------|
|  | <b>2016</b>         | <b>2015</b>         |
| Defined benefit liability              | \$ 1,789,168        | \$ 1,842,453        |
| Less: Defined benefit assets (Note 14) | <u>(43,754)</u>     | <u>(124,351)</u>    |
|  | <u>\$ 1,745,414</u> | <u>\$ 1,718,102</u> |

The net amounts included in the consolidated balance sheets in respect of the Group's defined benefit liability and fair value of plan assets were as follows:

|   | <b>December 31</b>  |                     |
|---|---------------------|---------------------|
|   | <b>2016</b>         | <b>2015</b>         |
| Present value of defined benefit obligation | \$ 2,107,020        | \$ 1,887,881        |
| Fair value of plan assets                   | <u>(361,606)</u>    | <u>(169,779)</u>    |
| Net defined benefit liability               | <u>\$ 1,745,414</u> | <u>\$ 1,718,102</u> |

Movements in net defined benefit liability (asset) were as follows:

|   | <b>Present Value<br/>of Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>Plan Assets</b> | <b>Net Defined<br/>Benefit<br/>Liability</b> |
|---|--|--------------------------------------|--|
| Balance at January 1, 2015  | \$ 1,745,499   | \$ (154,449)                         | \$ 1,591,050                                 |
| Current service cost  | 20,631   | -                                    | 20,631                                       |
| Net interest expense (income)   | 28,450   | (852)                                | 27,598                                       |
| Recognized in profit or loss  | <u>49,081</u>  | <u>(852)</u>                         | <u>48,229</u>                                |
| Remeasurement   |  |                                      |  |
| Return on plan assets (excluding amounts<br>included in net interest) | -  | (1,479)                              | (1,479)                                      |
| Actuarial loss arising from changes in<br>demographic assumptions     | 72,628   | -                                    | 72,628                                       |
| Actuarial loss arising from changes in<br>financial assumptions       | 60,173   | -                                    | 60,173                                       |
| Actuarial loss arising from experience<br>adjustments                 | <u>85,372</u>  | <u>-</u>                             | <u>85,372</u>                                |
| Recognized in other comprehensive income<br>(loss)                    | <u>218,173</u>   | <u>(1,479)</u>                       | <u>216,694</u>                               |
| Contributions from the employer                                       | -  | (137,871)                            | (137,871)                                    |
| Benefits paid   | <u>(124,872)</u>   | <u>124,872</u>                       | <u>-</u>                                     |
| Balance at December 31, 2015  | <u>\$ 1,887,881</u>  | <u>\$ (169,779)</u>                  | <u>\$ 1,718,102</u>                          |
| Balance at January 1, 2016  | \$ 1,887,881   | \$ (169,779)                         | \$ 1,718,102                                 |
| Current service cost  | 27,650   | -                                    | 27,650                                       |
| Past service cost   | 18,416   | -                                    | 18,416                                       |
| Net interest expense  | 24,860   | 284                                  | 25,144                                       |
| Recognized in profit or loss  | <u>70,926</u>  | <u>284</u>                           | <u>71,210</u>                                |
| Remeasurement   |  |                                      |  |
| Return on plan assets (excluding amounts<br>included in net interest) | -  | (2,132)                              | (2,132)                                      |
| Actuarial loss arising from changes in<br>demographic assumptions     | 78,613   | -                                    | 78,613                                       |
| Actuarial loss arising from changes in<br>financial assumptions       | 48,315   | -                                    | 48,315                                       |
| Actuarial loss arising from experience<br>adjustments                 | <u>147,309</u>   | <u>-</u>                             | <u>147,309</u>                               |
| Recognized in other comprehensive income<br>(loss)                    | <u>274,237</u>   | <u>(2,132)</u>                       | <u>272,105</u>                               |
| Contributions from the employer                                       | -  | (388,645)                            | (388,645)                                    |
| Benefits paid   | <u>(126,024)</u>   | <u>198,666</u>                       | <u>72,642</u>                                |
| Balance at December 31, 2016  | <u>\$ 2,107,020</u>  | <u>\$ (361,606)</u>                  | <u>\$ 1,745,414</u>                          |

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plan is as follows:

|                                     | <b>For the Year Ended December 31</b> |                  |
|-------------------------------------|---------------------------------------|------------------|
|                                     | <b>2016</b>                           | <b>2015</b>      |
| Operating costs                     | \$ 148                                | \$ 154           |
| Selling and marketing expenses      | 62                                    | 41               |
| General and administrative expenses | 53,872                                | 36,929           |
| Research and development expenses   | <u>17,128</u>                         | <u>11,105</u>    |
|                                     | <u>\$ 71,210</u>                      | <u>\$ 48,229</u> |

Through the defined benefit plan under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

|                                  | <b>December 31</b> |             |
|----------------------------------|--------------------|-------------|
|                                  | <b>2016</b>        | <b>2015</b> |
| Discount rate                    | 1.125%             | 1.375%      |
| Expected rate of salary increase | 2.00%              | 2.00%       |

If possible reasonable changes will occur in each of the significant actuarial assumptions, and other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

|                                  | <b>December 31</b> |                    |
|----------------------------------|--------------------|--------------------|
|                                  | <b>2016</b>        | <b>2015</b>        |
| Discount rate                    |                    |                    |
| 0.25% increase                   | <u>\$ (52,270)</u> | <u>\$ (43,788)</u> |
| 0.25% decrease                   | <u>\$ 54,296</u>   | <u>\$ 45,412</u>   |
| Expected rate of salary increase |                    |                    |
| 0.25% increase                   | <u>\$ 52,531</u>   | <u>\$ 43,812</u>   |
| 0.25% decrease                   | <u>\$ (50,834)</u> | <u>\$ (42,460)</u> |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

|  | <u>December 31</u> |                   |
|--|--------------------|-------------------|
|  | <u>2016</u>        | <u>2015</u>       |
| The expected contributions to the plan for the next year | \$ <u>554,666</u>  | \$ <u>388,956</u> |
| The average duration of the defined benefit obligation   | 10.1 years         | 9.5 years         |

## 26. EQUITY

### a. Share capital

|   | <u>December 31</u>   |                      |
|---|----------------------|----------------------|
|   | <u>2016</u>          | <u>2015</u>          |
| Number of shares authorized (in thousands)            | <u>4,500,000</u>     | <u>4,500,000</u>     |
| Shares authorized                                     | \$ <u>45,000,000</u> | \$ <u>45,000,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>2,946,787</u>     | <u>2,946,787</u>     |
| Shares issued   | \$ <u>29,467,872</u> | \$ <u>29,467,872</u> |

The Company's employee share options were exercised for 2,650 thousand common shares (amounted to \$26,500 thousand) during the year ended December 31, 2015.

### b. Capital surplus

|   | <u>December 31</u>  |                     |
|---|---------------------|---------------------|
|   | <u>2016</u>         | <u>2015</u>         |
| <u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>  |                     |                     |
| Recognized from issuance of common shares   | \$ 848,603          | \$ 848,603          |
| Recognized from conversion of bonds   | 1,447,492           | 1,447,492           |
| Recognized from treasury share transactions   | 1,824,608           | 1,824,608           |
| Recognized from the excess of the consideration received over the carrying amount of the subsidiaries' net assets during actual disposal or acquisition | 390,919             | 484,759             |
| <u>May be used to offset a deficit only (2)</u>   |                     |                     |
| Recognized from share of changes in equities of subsidiaries  | 23,232              | 20,937              |
| <u>May not be used for any purpose</u>  |                     |                     |
| Recognized from share of changes in net assets of associates and joint ventures   | <u>5,309</u>        | <u>5,309</u>        |
|   | <u>\$ 4,540,163</u> | <u>\$ 4,631,708</u> |

- Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).
- Such capital surplus are recognized from share of changes in equities of subsidiaries that resulted from equity transactions, or from share of changes in capital surplus of subsidiaries accounted by using equity method when there was no actual disposal or acquisition of subsidiaries.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The amendments to the Company's Articles of Incorporation (the "Articles") on earnings distribution policy were approved in the shareholders' meeting on June 15, 2016, particularly the amendment to the policy on distribution of employees' compensation.

Under the dividend policy of the amended Articles, the Company should make appropriations from the annual net profits in the following order:

- 1) For paying taxes.
- 2) For offsetting deficits.
- 3) For legal reserve at 10% of the remaining profits, and for special reserve to be appropriated and distributed according to regulations or upon request by the FSC.
- 4) The total of any remaining profits after the appropriations mentioned above plus any accumulated unappropriated earnings from prior years may be partially retained and then distributed the remainder as proposed according to stock ownership proportion.

For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, refer to Employee benefit expense in Note 28f.

In accordance with the Articles, profits may be distributed after taking into consideration the future development plan, financial condition, business and operational status, and so on. The distribution of profits shall be proposed by the board of directors, and submitted to the shareholders' meeting for approval. The ratio of distribution shall be not less than 30% of the net income for each fiscal year, and a portion for cash dividend shall be not less than 30% of total distribution. If there are material changes in the operating environment, the Company can adjust the ratio and amounts of distribution of profits.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2015 and 2014 had been approved in the shareholders' meetings on June 15, 2016 and June 12, 2015, respectively, were as follows:

|                            | <b>Appropriation of Earnings</b> |                          | <b>Dividends Per Share<br/>(NT\$)</b> |                          |
|----------------------------|----------------------------------|--------------------------|---------------------------------------|--------------------------|
|                            | <b>For<br/>Year 2015</b>         | <b>For<br/>Year 2014</b> | <b>For<br/>Year 2015</b>              | <b>For<br/>Year 2014</b> |
| Legal reserve              | \$ 953,136                       | \$ 861,550               | \$ -                                  | \$ -                     |
| (Reversal) special reserve | 6,297,042                        | (3,571,494)              | -                                     | -                        |
| Cash dividends             | 4,420,181                        | 4,416,206                | 1.50                                  | 1.50                     |

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on June 15, 2017.

d. Other equity item

1) Exchange differences on translation foreign operations

|  | <b><u>For the Year Ended December 31</u></b> |                     |
|--|--|---------------------|
|  | <b>2016</b>                                  | <b>2015</b>         |
| Balance at January 1   | \$ 5,020,886                                 | \$ 3,345,749        |
| Exchange differences arising on translation of foreign operations                                | (1,818,089)                                  | 1,685,213           |
| Share of exchange differences of associates and joint ventures accounted for using equity method | <u>(93,624)</u>                              | <u>(10,076)</u>     |
| Balance at December 31   | <u>\$ 3,109,173</u>                          | <u>\$ 5,020,886</u> |

2) Unrealized loss on available-for-sale financial assets

|   | <b><u>For the Year Ended December 31</u></b> |                        |
|---|--|------------------------|
|   | <b>2016</b>                                  | <b>2015</b>            |
| Balance at January 1  | \$ (16,926,480)                              | \$ (8,954,302)         |
| Unrealized gain (loss) on available-for-sale financial assets   | 1,344,672                                    | (1,719,924)            |
| Unrealized loss on available-for-sale financial assets of associates and joint ventures accounted for using equity method | <u>(1,163,733)</u>                           | <u>(6,252,254)</u>     |
| Balance at December 31  | <u>\$ (16,745,541)</u>                       | <u>\$ (16,926,480)</u> |

e. Non-controlling interests

|   | <b><u>For the Year Ended December 31</u></b> |                      |
|---|--|----------------------|
|   | <b>2016</b>                                  | <b>2015</b>          |
| Balance at January 1  | \$ 85,533,554                                | \$ 81,411,376        |
| Share of non-controlling interests                                |  |                      |
| Net income  | 9,944,869                                    | 7,070,108            |
| Exchange differences arising on translation of foreign operations | (1,241,711)                                  | (1,295,068)          |
| Unrealized gain on available-for-sale financial assets            | 128,439                                      | 68,954               |
| Actuarial loss arising from defined benefit plans                 | (88,638)                                     | -                    |
| Change in non-controlling interests                               | <u>(6,970,953)</u>                           | <u>(1,721,816)</u>   |
| Balance at December 31  | <u>\$ 87,305,560</u>                         | <u>\$ 85,533,554</u> |



## 27. REVENUE

|  | <b>For the Year Ended December 31</b> |                       |
|--|---------------------------------------|-----------------------|
|  | <b>2016</b>                           | <b>2015</b>           |
| Sales revenue                          | \$ 274,277,613                        | \$ 268,476,016        |
| Revenue from the rendering of services | 82,307                                | 88,957                |
| Rental income                          | 32,227                                | 31,407                |
| Revenue from entertainment and resort  | <u>503,199</u>                        | <u>484,793</u>        |
|  | <u>\$ 274,895,346</u>                 | <u>\$ 269,081,173</u> |

## 28. NET PROFIT FROM CONTINUING OPERATIONS

Net profit from continuing operations consisted of the following:

### a. Other income

|   | <b>For the Year Ended December 31</b> |                     |
|---|---------------------------------------|---------------------|
|   | <b>2016</b>                           | <b>2015</b>         |
| Rental income                                 |                                       |                     |
| Rental income from operating lease            |                                       |                     |
| Investment properties                         | \$ 33,419                             | \$ 36,710           |
| Others  | <u>279,714</u>                        | <u>294,309</u>      |
|   | <u>313,133</u>                        | <u>331,019</u>      |
| Interest income                               |                                       |                     |
| Cash in bank                                  | 286,722                               | 339,675             |
| Repurchase agreements collateralized by bonds | 14,054                                | 10,055              |
| Held-to-maturity financial assets             | 180,552                               | 20,058              |
| Debt investments with no active market        | 46,826                                | 55,814              |
| Others  | <u>2,336</u>                          | <u>2,973</u>        |
|   | <u>530,490</u>                        | <u>428,575</u>      |
| Dividend income                               | 874,208                               | 758,064             |
| Others  | <u>2,620,408</u>                      | <u>2,350,706</u>    |
|   | <u>\$ 4,338,239</u>                   | <u>\$ 3,868,364</u> |

### b. Other gains and losses

|   | <b>For the Year Ended December 31</b> |                       |
|---|---------------------------------------|-----------------------|
|   | <b>2016</b>                           | <b>2015</b>           |
| Net loss on disposal of property, plant and equipment                   | \$ (251,490)                          | \$ (393,827)          |
| Net foreign exchange (loss) gain  | (839,582)                             | 303,809               |
| Net gain on disposal of subsidiaries, associates and joint ventures     | 26,489                                | 159,898               |
| Net gain on disposal of available-for-sale financial assets             | -                                     | 78,039                |
| Net gain on disposal of financial assets measured at cost               | 31,530                                | 47,940                |
| Net gain arising on financial assets designated as at FVTPL             | 741,655                               | 217,571               |
| Net gain (loss) arising on financial liabilities designated as at FVTPL | 39,613                                | (1,005,440)           |
| Recognized of impairment loss   | (228,320)                             | (607,272)             |
| Others  | <u>(162,882)</u>                      | <u>(147,561)</u>      |
|   | <u>\$ (642,987)</u>                   | <u>\$ (1,346,843)</u> |

c. Finance costs

|                                      | <b>For the Year Ended December 31</b> |                     |
|--------------------------------------|---------------------------------------|---------------------|
|                                      | <b>2016</b>                           | <b>2015</b>         |
| Interest on bank borrowings          | \$ 1,256,080                          | \$ 1,070,213        |
| Interest on short-term bills payable | 21,372                                | 18,116              |
| Other interest expense               | <u>38,564</u>                         | <u>32,965</u>       |
|                                      | <u>\$ 1,316,016</u>                   | <u>\$ 1,121,294</u> |

d. Depreciation and amortization

|   | <b>For the Year Ended December 31</b> |                     |
|---|---------------------------------------|---------------------|
|   | <b>2016</b>                           | <b>2015</b>         |
| Property, plant and equipment               | \$ 8,396,985                          | \$ 7,932,121        |
| Investment properties                       | 30,932                                | 28,978              |
| Other intangible assets                     | 209,120                               | 240,105             |
| Prepayments for lease                       | <u>156,368</u>                        | <u>150,559</u>      |
|   | <u>\$ 8,793,405</u>                   | <u>\$ 8,351,763</u> |
| <br>An analysis of depreciation by function |                                       |                     |
| Operating costs                             | \$ 5,488,170                          | \$ 5,145,287        |
| Operating expenses                          | 2,930,358                             | 2,808,804           |
| Non-operating expenses                      | <u>9,389</u>                          | <u>7,008</u>        |
|   | <u>\$ 8,427,917</u>                   | <u>\$ 7,961,099</u> |
| <br>An analysis of amortization by function |                                       |                     |
| Operating costs                             | \$ 1,256                              | \$ 1,235            |
| Operating expenses                          | <u>364,232</u>                        | <u>389,429</u>      |
|   | <u>\$ 365,488</u>                     | <u>\$ 390,664</u>   |

e. Direct operating expenses from investment properties

|   | <b>For the Year Ended December 31</b> |                  |
|---|---------------------------------------|------------------|
|   | <b>2016</b>                           | <b>2015</b>      |
| Direct operating expenses from investment properties that generated rental income | <u>\$ 43,473</u>                      | <u>\$ 43,233</u> |

f. Employee benefits expense

|  | <b>For the Year Ended December 31</b> |                      |
|--|---------------------------------------|----------------------|
|  | <b>2016</b>                           | <b>2015</b>          |
| Post-employment benefits                             |                                       |                      |
| Defined contribution plans                           | \$ 8,019,377                          | \$ 8,489,932         |
| Defined benefit plans                                | <u>417,626</u>                        | <u>318,209</u>       |
|  | 8,437,003                             | 8,808,141            |
| Share-based payments                                 |                                       |                      |
| Equity-settled                                       | 58,890                                | 69,173               |
| Termination benefits                                 | 11,606                                | 20,094               |
| Other employee benefits                              | <u>62,603,706</u>                     | <u>61,111,749</u>    |
|  | <u>\$ 71,111,205</u>                  | <u>\$ 70,009,157</u> |
| <br>   |                                       |                      |
| An analysis of employee benefits expense by function |                                       |                      |
| Operating costs                                      | \$ 51,036,446                         | \$ 49,333,908        |
| Operating expenses                                   | <u>20,074,759</u>                     | <u>20,675,249</u>    |
|  | <u>\$ 71,111,205</u>                  | <u>\$ 70,009,157</u> |

As of December 31, 2016 and 2015, there were 358,977 and 415,296 employees, respectively, in the Group. The Group accounts for employee benefits expense based on the number of employees.

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the shareholders held their meeting and resolved amendments to the Company's Articles; the amendments stipulate that the Company shall distribute employees' compensation and remuneration of directors and supervisors at rates of 1%-5% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. In the case of an accumulated loss, the Company shall allocate an amount to recover such loss before appropriating any employees' compensation and remuneration of directors and supervisors.

The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which were approved by the Company's board of directors on March 27, 2017 and March 24, 2016, respectively, were as follows:

Accrual rate

|   | <b>For the Year Ended December 31</b> |             |
|---|---------------------------------------|-------------|
|   | <b>2016</b>                           | <b>2015</b> |
| Employees' compensation                   | 1.8%                                  | 1.8%        |
| Remuneration of directors and supervisors | 0.9%                                  | 0.9%        |

Amount

|   | <b>For the Year Ended December 31</b> |               |             |               |
|---|---------------------------------------|---------------|-------------|---------------|
|   | <b>2016</b>                           |               | <b>2015</b> |               |
|   | <b>Cash</b>                           | <b>Shares</b> | <b>Cash</b> | <b>Shares</b> |
| Employees' compensation                   | \$ 255,108                            | \$ -          | \$ 203,472  | \$ -          |
| Remuneration of directors and supervisors | 127,554                               | -             | 101,736     | -             |

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration to of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 2) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 were approved in the shareholders' meeting on June 12, 2015 and were as follows:

|   | <b>For the Year Ended<br/>December 31, 2014</b> |               |
|---|---|---------------|
|   | <b>Cash</b>                                     | <b>Shares</b> |
| Bonus to employees                        | \$ 334,667                                      | \$ -          |
| Remuneration of directors and supervisors | 169,882   | -             |

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meeting on June 12, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration of directors and supervisors resolved in the shareholders' meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 29. INCOME TAXES

### a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

|   | <b>For the Year Ended December 31</b> |                     |
|---|---------------------------------------|---------------------|
|   | <b>2016</b>                           | <b>2015</b>         |
| Current tax                                     |                                       |                     |
| In respect of the current year                  | \$ 3,250,101                          | \$ 2,910,456        |
| Income tax on unappropriated earnings           | -                                     | 671,954             |
|   | <u>3,250,101</u>                      | <u>3,582,410</u>    |
| Deferred tax                                    | 26,729                                | (1,136)             |
| Adjustments for prior years                     | <u>1,053</u>                          | <u>57,534</u>       |
| Income tax expense recognized in profit or loss | <u>\$ 3,277,883</u>                   | <u>\$ 3,638,808</u> |

A reconciliation of accounting profit and income tax expense recognized in profit or loss was as follows:

|   | <b>For the Year Ended December 31</b> |                     |
|---|---------------------------------------|---------------------|
|   | <b>2016</b>                           | <b>2015</b>         |
| Income before income tax                                    | \$ 26,279,802                         | \$ 20,240,274       |
| Income tax expense calculated at the statutory rate         | 4,467,566                             | 3,440,846           |
| Tax effect of adjusting items                               |                                       |                     |
| Tax-exempt income   | (1,343,351)                           | (1,058,789)         |
| Others  | 125,886                               | 526,925             |
| Additional income tax under the alternative minimum tax act | -                                     | 1,474               |
| Income tax on unappropriated earnings                       | -                                     | 671,954             |
| Current tax   | 3,250,101                             | 3,582,410           |
| Deferred tax  | 26,729                                | (1,136)             |
| Adjustments for prior years' income tax                     | 1,053                                 | 57,534              |
| Income tax expense recognized in profit or loss             | <u>\$ 3,277,883</u>                   | <u>\$ 3,638,808</u> |

The applicable tax rate used by the Company is the corporate tax rate of 17%.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Deferred tax assets and liabilities

The details of deferred tax assets and liabilities were as follows:

|   | <b>December 31</b>  |                     |
|---|---------------------|---------------------|
|   | <b>2016</b>         | <b>2015</b>         |
| <u>Deferred tax assets</u>                  |                     |                     |
| Temporary differences                       |                     |                     |
| Unrealized pension expense                  | \$ 47,929           | \$ 103,245          |
| Others                                      | <u>813,222</u>      | <u>509,106</u>      |
|   | <u>\$ 861,151</u>   | <u>\$ 612,351</u>   |
| <u>Deferred tax liabilities</u>             |                     |                     |
| Temporary differences                       |                     |                     |
| Investment income from foreign subsidiaries | \$ 712,725          | \$ 641,729          |
| Others                                      | <u>1,061,503</u>    | <u>1,181,079</u>    |
|   | <u>\$ 1,774,228</u> | <u>\$ 1,822,808</u> |

c. Integrated income tax

|  | <u>December 31</u>                           |                      |
|--|--|----------------------|
|  | <b>2016</b>                                  | <b>2015</b>          |
| Unappropriated earnings                      |  |                      |
| Generated before January 1, 1998             | \$ 221,425                                   | \$ 221,425           |
| Generated on and after January 1, 1998       | <u>31,993,273</u>                            | <u>30,986,101</u>    |
|  | <u>\$ 32,214,698</u>                         | <u>\$ 31,207,526</u> |
| Imputation credit account                    | <u>\$ 2,562,413</u>                          | <u>\$ 2,518,881</u>  |
|  | <b><u>For the Year Ended December 31</u></b> |                      |
|  | <b>2016 (Expected)</b>                       | <b>2015</b>          |
| Creditable ratio for distribution of earning | 9.92%  | 12.58%               |

d. Income tax assessments

The tax returns of the Company through 2013 have been assessed by the tax authorities.

### 30. EARNINGS PER SHARE

The basic earnings per share and diluted earnings per share for the years ended December 31, 2016 and 2015 were as follows:

|  | <u>For the Year Ended December 31</u> |                     |
|--|---------------------------------------|---------------------|
|  | <b>2016</b>                           | <b>2015</b>         |
| <u>Net income (in thousand dollars)</u>  |                                       |                     |
| Earnings used in the computation of earnings per share   | <u>\$ 13,057,050</u>                  | <u>\$ 9,531,358</u> |
| <u>Weighted average number of shares outstanding (in thousand shares)</u>                      |                                       |                     |
| Weighted average number of common shares in the computation of basic earnings per share        | 2,946,787                             | 2,945,021           |
| Effect of potentially dilutive common shares:  |                                       |                     |
| Employee share options   | 85,463                                | 88,469              |
| Bonus to employee  | <u>8,502</u>                          | <u>6,269</u>        |
| Weighted average number of common shares used in the computation of diluted earnings per share | <u>3,040,752</u>                      | <u>3,039,759</u>    |
| <u>Earnings per share (in dollars)</u>   |                                       |                     |
| Basic earnings per share   | <u>\$4.43</u>                         | <u>\$3.24</u>       |
| Diluted earnings per share   | <u>\$4.29</u>                         | <u>\$3.14</u>       |

Since the Company offered to settle the bonuses paid to employees by cash or shares, the Company assumed the entire amount of the bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

### 31. SHARE-BASED PAYMENT ARRANGEMENTS

a. Information about Pou Chen's employee share options

As at November 6, 2007, the Company has issued 125,500,000 units of employee share options to the employees with an exercise price of \$29.80 dollars per share. Each of the aforementioned individual employee share options is granted the right to purchase one newly issued common share. If the Company resolved to increase additional share capital through stock dividends or issue of new shares, the exercise price will be retroactively restated. Additionally, the share of employee share options granted but not exercised will also be adjusted. After the aforementioned adjustment, the exercise price and issued units of employee share options were \$17.4 and 145,790,178 units, respectively, as of December 31, 2016.

Information about employee share options for the years ended December 31, 2016 and 2015 was as follows:

|                                       | <b>For the Year Ended December 31</b>                          |  |  |  |
|---------------------------------------|--|--|--|--|
|                                       | <b>2016</b>  |  | <b>2015</b>  |  |
|                                       | <b>Number of<br/>Shares<br/>Purchasable<br/>(In Thousands)</b> | <b>Weighted-<br/>average<br/>Exercise Price<br/>(NT\$)</b> | <b>Number of<br/>Shares<br/>Purchasable<br/>(In Thousands)</b> | <b>Weighted-<br/>average<br/>Exercise Price<br/>(NT\$)</b> |
| <b>Employee Share Options</b>         |  |  |  |  |
| Balance at January 1                  | 145,791  | \$ 18.00   | 148,441  | \$ 18.70   |
| Options exercised                     | <u>-</u>   | -  | <u>(2,650)</u>   | 18.00  |
| Balance at December 31                | <u>145,791</u>   | 17.40  | <u>145,791</u>   | 18.00  |
| Exercisable options at<br>December 31 | <u>145,791</u>   | 17.40  | <u>145,791</u>   | 18.00  |

Information about outstanding employee share options as of December 31, 2016 and 2015 was as follows:

|   | <b>December 31</b> |             |
|---|--------------------|-------------|
|   | <b>2016</b>        | <b>2015</b> |
| Exercise price (NT\$)                               | \$17.40            | \$18.00     |
| Weighted-average remaining contractual life (years) | 0.85               | 1.85        |

b. Information about Yue Yuen's employee share options

On January 28, 2014, the board of directors of Yue Yuen adopted a share award scheme. Under the share award scheme, a trustee which is independent of Yue Yuen purchased Yue Yuen shares from the secondary market, and the shares will vest to the selected participants through a trust agreement. The awarded shares shall not exceed 2% of the issued share capital of Yue Yuen as at the date of grant (January 28, 2014) during the valid period (from January 28, 2014 to January 28, 2024). The maximum number of shares which may be awarded to all participants under the scheme shall not exceed 1% of the issued share capital of Yue Yuen.

Information about the granted Yue Yuen's employee share options during the years ended December 31, 2016 and 2015 was as follows:

|                        | <b>Number of Shares<br/>(In Thousands)</b> |              |
|------------------------|--|--------------|
|                        | <b>2016</b>                                | <b>2015</b>  |
| Balance at January 1   | 1,440                                      | 1,485        |
| Options granted        | 1,120                                      | -            |
| Options cancelled      | (67)                                       | (45)         |
| Options exercised      | <u>(1,373)</u>                             | <u>-</u>     |
| Balance at December 31 | <u>1,120</u>                               | <u>1,440</u> |

Yue Yuen adopted the Black-Scholes option pricing model and the estimated fair value of the share options amounted to \$119,067 thousand (US\$3,692 thousand) on the grant date, and the factors were as follows:

|                         | <b>Granted on<br/>March 29, 2016</b> | <b>Granted on<br/>October 3, 2016</b> |
|-------------------------|--------------------------------------|---------------------------------------|
| Grant date share price  | HK\$26.45                            | HK\$31.75                             |
| Risk free rates         | 0.64%                                | 0.46%                                 |
| Expected volatility     | 28.47%                               | 28.57%                                |
| Vesting period          | 2 years                              | 2 years                               |
| Expected dividend yield | 4.43%                                | 4.20%                                 |

Yue Yuen recognized \$23,842 thousand and \$55,996 thousand compensation cost for the years ended December 31, 2016 and 2015, respectively.

c. Information about Pou Sheng's employee share options

1) Pou Sheng's share option scheme (the "Pou Sheng Scheme") was adopted on May 14, 2008, and will be expire on May 13, 2018. Under the Pou Sheng Scheme, the board of directors of Pou Sheng may grant options to eligible persons, including directors and employees of Pou Sheng and its subsidiaries, to subscribe for shares in Pou Sheng. The details of the plan under the scheme were as follows:

- a) Without prior approval from Pou Sheng's shareholders, the number of shares that may be granted under the following limits:
  - i. The total number of shares in respect of which options may be granted under the Pou Sheng Scheme is not permitted to exceed 10% of the shares of Pou Sheng in issue at any point in time;
  - ii. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any twelve-month period is not permitted to exceed 1% of the shares of Pou Sheng in issue at any point in time; and
  - iii. Options in excess of 0.1% of Pou Sheng's share capital or with a value in excess of HK\$5 million (US\$0.6 million) may not be granted to substantial shareholders or independent non-executive directors.



b) Exercise price:

The exercise price is to be determined by the directors of Pou Sheng and will not be less than the highest of:

- i. The closing price of Pou Sheng's shares on the date of grant;
  - ii. The average closing price of Pou Sheng's shares for the five business days immediately preceding the date of grant; and
  - iii. The nominal value of Pou Sheng's share.
- c) Pou Sheng was granted 11,663 thousand share options on November 14, 2016. The exercise price of these options is HK\$2.494. Information about exercise duration and exercise proportion of the Pou Sheng Scheme was as follows:

| <u>Exercise Period</u> | <u>Proportion of Exercise Quantity</u> |
|------------------------|--|
| 2017.9.1-2019.9.1      | 10%                                    |
| 2018.9.1-2020.9.1      | 10%                                    |
| 2019.9.1-2021.9.1      | 10%                                    |
| 2020.9.1-2022.9.1      | 20%                                    |
| 2021.9.1-2023.9.1      | 50%                                    |

Information about the Pou Sheng Scheme for the years ended December 31, 2016 and 2015 was as follows:

|                                    | <u>For the Year Ended December 31</u>              |   |  |   |
|------------------------------------|--|---|--|---|
|                                    | <u>2016</u>  |   | <u>2015</u>  |   |
| <b>Employee Share Options</b>      | <b>Number of Shares Purchasable (In Thousands)</b> | <b>Weighted-average Exercise Price (HK\$)</b> | <b>Number of Shares Purchasable (In Thousands)</b> | <b>Weighted-average Exercise Price (HK\$)</b> |
| Balance at January 1               | 54,612   | \$ 1.39                                       | 55,012   | \$ 1.39                                       |
| Options granted                    | 11,663   | 2.494   | -  | -   |
| Options cancelled                  | (100)  | 1.62  | -  | -   |
| Options exercised                  | <u>(11,626)</u>                                    | 1.34  | <u>(400)</u>                                       | 1.45  |
| Balance at December 31             | <u>54,549</u>                                      | 1.63  | <u>54,612</u>                                      | 1.39  |
| Exercisable options at December 31 | <u>42,886</u>                                      | 1.40  | <u>54,237</u>                                      | 1.39  |

Pou Sheng adopted the binomial option pricing model, and the estimated fair value of the share options amounted to \$46,311 thousand (US\$1,436 thousand) on the grant date, and the factors were as follows:

|                         | <b>Granted on<br/>November 16,<br/>2016</b> |
|-------------------------|---|
| Exercise price          | HK\$2.494                                   |
| Grant date share price  | HK\$2.41                                    |
| Risk free rates         | 0.99-1.18%                                  |
| Expected volatility     | 50-55%                                      |
| Vesting period          | 2.8-6.8 years                               |
| Expected dividend yield | 2.00%                                       |

Information about outstanding employee share options as of December 31, 2016 and 2015, was as follows:

|   | <b>December 31</b> |               |
|---|--------------------|---------------|
|   | <b>2016</b>        | <b>2015</b>   |
| Range of exercise price (HK\$)                      | \$1.05-\$2.494     | \$1.05-\$1.62 |
| Weighted-average remaining contractual life (years) | 2.47               | 2.68          |

The Group recognized \$2,249 thousand and \$506 thousand in compensation costs for the years ended December 31, 2016 and 2015, respectively.

- 2) On May 9, 2014, the board of directors of Pou Sheng adopted a share award scheme. Under the share award scheme, a trustee which is independent of Pou Sheng purchased Pou Sheng shares from the secondary market, and the shares will vest to the selected participants through a trust agreement. The awarded shares shall not exceed 2% of the issued share capital of Pou Sheng as at the date of grant (May 9, 2014) during the valid period (from May 9, 2014 to May 9, 2024). The maximum number of shares which may be awarded to all participants under the scheme shall not exceed 1% of the issued share capital of Pou Sheng.

Information about the granted employee share options during the years ended December 31, 2016 and 2015 was as follows:

|                        | <b>Number of Shares<br/>(In Thousands)</b> |                |
|------------------------|--|----------------|
|                        | <b>2016</b>                                | <b>2015</b>    |
| Balance at January 1   | 27,738                                     | 11,500         |
| Options granted        | 20,927                                     | 19,170         |
| Options cancelled      | <u>(3,535)</u>                             | <u>(2,932)</u> |
| Balance at December 31 | <u>45,130</u>                              | <u>27,738</u>  |

Pou Sheng adopted the Black-Scholes option pricing model and the estimated fair value of the share options amounted to \$124,324 thousand (US\$3,855 thousand) and \$47,005 thousand (US\$1,432 thousand) on the grant date, respectively, and the factors were as follows:

|                         | Granted on<br>November 14,<br>2016 | Granted on<br>November 12,<br>2016 | Granted on<br>August 13, 2016 | Granted on<br>May 13, 2016 | Granted on<br>March 24, 2016 | Granted on<br>August 14, 2015 | Granted on<br>March 21, 2015 |
|-------------------------|------------------------------------|------------------------------------|-------------------------------|----------------------------|------------------------------|-------------------------------|------------------------------|
| Grant date share price  | HK\$2.41                           | HK\$2.55                           | HK\$2.40                      | HK\$2.07                   | HK\$1.61                     | HK\$1.14                      | HK\$0.55                     |
| Risk free rates         | 0.50-1.07%                         | 0.84%                              | 0.48%                         | 0.60%                      | 0.85%                        | 0.79%                         | 0.73%                        |
| Expected volatility     | 51-57%                             | 55%                                | 55%                           | 57%                        | 54%                          | 52%                           | 50%                          |
| Vesting period          | 0.8-4.8 years                      | 2.8 years                          | 3 years                       | 2.3 years                  | 3 years                      | 3 years                       | 3 years                      |
| Expected dividend yield | 2.0%                               | 2.0%                               | 2.0%                          | -                          | -                            | -                             | -                            |

Pou Sheng recognized \$32,799 thousand and \$12,671 thousand compensation cost for the years ended December 31, 2016 and 2015, respectively.

### 32. BUSINESS COMBINATIONS

The Group acquired sports marketing and agency businesses from independent third parties during the year ended December 31, 2015 which were as follows:

a. Considerations transferred

|                           |                  |
|---------------------------|------------------|
| Cash and cash equivalents | <u>\$ 80,020</u> |
|---------------------------|------------------|

b. Assets acquired and liabilities assumed at the date of acquisition

Assets

|                                   |           |
|-----------------------------------|-----------|
| Cash and cash equivalents         | \$ 16,448 |
| Receivables and other receivables | 50,610    |
| Inventories                       | 15,307    |
| Property, plant and equipment     | 14,504    |

Liabilities

|                             |                 |
|-----------------------------|-----------------|
| Bank borrowings             | (7,499)         |
| Payables and other payables | <u>(57,060)</u> |

\$ 32,310

The amount of goodwill arising from the acquisition was \$47,710 thousand (US\$1,546 thousand).

c. Net cash outflow on acquisition of subsidiaries

|  |                 |
|--|-----------------|
| Consideration paid in cash                       | \$ 80,020       |
| Less: Cash and cash equivalent balances acquired | <u>(16,448)</u> |

\$ 63,572

### 33. DISPOSAL OF SUBSIDIARIES

- a. The Group disposed of subsidiaries during the year ended December 31, 2016, the assets and liabilities on the date of disposal were as follows:

#### Assets

|                                   |            |
|-----------------------------------|------------|
| Cash and cash equivalents         | \$ 140,900 |
| Receivables and other receivables | 297,370    |
| Inventories                       | 111,972    |
| Property, plant and equipment     | 168,933    |

#### Liabilities

|                             |                   |
|-----------------------------|-------------------|
| Payables and other payables | (349,612)         |
| Tax payable                 | <u>(4,163)</u>    |
|                             | <u>\$ 365,400</u> |

- 1) Gain on disposal of subsidiaries

|   |                  |
|---|------------------|
| Consideration received in cash and cash equivalents                     | \$ 106,571       |
| Consideration received in investments accounted for using equity method | 262,664          |
| Net value of net assets disposed of                                     | <u>(365,400)</u> |
| Gain on disposal  | <u>\$ 3,835</u>  |

- 2) Net cash outflow on disposal of subsidiaries

|   |                    |
|---|--------------------|
| Consideration received in cash and cash equivalents | \$ 106,571         |
| Less: Accounts receivable of disposal consideration | (3,228)            |
| Less: Cash and cash equivalents balance disposed of | <u>(140,900)</u>   |
|   | <u>\$ (37,557)</u> |

- b. The Group disposed of subsidiaries during the year ended December 31, 2015, the assets and liabilities on the date of disposal were as follows:

#### Assets

|                                   |           |
|-----------------------------------|-----------|
| Cash and cash equivalents         | \$ 58,325 |
| Receivables and other receivables | 258,144   |
| Inventories                       | 104,615   |
| Other current assets              | 21,941    |
| Property, plant and equipment     | 107,300   |
| Goodwill                          | 710       |

#### Liabilities

|                             |                   |
|-----------------------------|-------------------|
| Bank borrowings             | (9,320)           |
| Payables and other payables | <u>(225,124)</u>  |
|                             | <u>\$ 316,591</u> |

|   |                   |
|---|-------------------|
| 1) Gain on disposal of subsidiaries                 |                   |
| Net assets disposed of                              | \$ 316,591        |
| Less: Non-controlling interests                     | <u>(175,933)</u>  |
| Net value of net assets disposed of                 | <u>\$ 140,658</u> |
| Consideration received in cash and cash equivalents | \$ 146,332        |
| Net value of net assets disposed of                 | <u>(140,658)</u>  |
| Gain on disposal                                    | <u>\$ 5,674</u>   |
| 2) Net cash inflow on disposal of subsidiaries      |                   |
| Consideration received in cash and cash equivalents | \$ 146,332        |
| Less: Cash and cash equivalents balance disposed of | <u>(58,325)</u>   |
|   | <u>\$ 88,007</u>  |

### 34. NON-CASH TRANSACTIONS

For the year ended December 31, 2016, the Group entered into non-cash investing activities which refer to the investments accounted for using equity method received as consideration in the disposal of subsidiaries, refer to Note 33.

### 35. OPERATING LEASES ARRANGEMENTS

#### a. The Group as lessee

The future minimum lease payments of non-cancellable operating leases commitments were as follows:

|  | <u>December 31</u>  |                     |
|--|---------------------|---------------------|
|  | <u>2016</u>         | <u>2015</u>         |
| Not later than 1 year                        | \$ 2,678,532        | \$ 2,135,408        |
| Later than 1 year and not later than 5 years | 3,642,346           | 3,731,030           |
| Later than 5 years                           | <u>1,802,904</u>    | <u>1,304,399</u>    |
|  | <u>\$ 8,123,782</u> | <u>\$ 7,170,837</u> |

#### b. The Group as lessor

The future minimum lease receivables of non-cancellable operating leases commitments were as follows:

|  | <u>December 31</u>  |                     |
|--|---------------------|---------------------|
|  | <u>2016</u>         | <u>2015</u>         |
| Not later than 1 year                        | \$ 342,043          | \$ 315,514          |
| Later than 1 year and not later than 5 years | 604,430             | 541,448             |
| Later than 5 years                           | <u>681,604</u>      | <u>781,990</u>      |
|  | <u>\$ 1,628,077</u> | <u>\$ 1,638,952</u> |

### 36. CAPITAL MANAGEMENT

The Group's capital management policy is to ensure the Group has sufficient financial resources and operating plans to balance the working capital, capital expenditure, research and development expenditure, repayment of debt and dividends paid to shareholders within twelve months.

### 37. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments that are not measured at fair value

Financial assets and financial liabilities that are not measured at fair value were as follows:

|   | <b>December 31</b>         |                   |                            |                   |
|---|----------------------------|-------------------|----------------------------|-------------------|
|   | <b>2016</b>                |                   | <b>2015</b>                |                   |
|   | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> |
| <u>Financial assets</u>   |                            |                   |                            |                   |
| Held-to-maturity financial assets   | \$ 6,163,413               | \$ 6,163,413      | \$ 1,451,293               | \$ 1,451,293      |
| Debt investments with no active market  | 829,129                    | 829,129           | 1,423,468                  | 1,423,468         |
| Other loans and receivables   | 78,471,723                 | 78,471,723        | 75,468,067                 | 75,468,067        |
| Financial assets directly associated with non-current assets held for sale      | 737,590                    | 737,590           | -                          | -                 |
| <u>Financial liabilities</u>  |                            |                   |                            |                   |
| Bank borrowings   | 74,394,246                 | 74,394,246        | 66,638,392                 | 66,638,392        |
| Short-term bills payable  | 2,544,755                  | 2,544,755         | 2,589,343                  | 2,589,343         |
| Financial liabilities measured at amortized cost                                | 40,091,700                 | 40,091,700        | 43,261,531                 | 43,261,531        |
| Financial liabilities directly associated with non-current assets held for sale | 1,067,765                  | 1,067,765         | -                          | -                 |

The above fair value measurements are measured at Level 3 fair value.

b. Fair value of financial instruments that are measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 and 2 based on the degree to which the fair value is observable:

- 1) Level 1 fair value measurements are those derived from quoted prices in active market for identical assets or liabilities.

|                                     | <u>December 31</u> |            |
|-------------------------------------|--------------------|------------|
|                                     | 2016               | 2015       |
| <u>Financial assets</u>             |                    |            |
| Financial assets at FVTPL           |                    |            |
| Domestic open-ended mutual funds    | \$ 889,537         | \$ 460,002 |
| Available-for-sale financial assets |                    |            |
| Domestic listed securities          |                    |            |
| Equity investment                   | 14,264,621         | 12,859,057 |
| Foreign listed securities           |                    |            |
| Equity investment                   | 519,410            | 455,116    |

- 2) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

|   | <u>December 31</u> |            |
|---|--------------------|------------|
|   | 2016               | 2015       |
| <u>Financial assets</u>                 |                    |            |
| Financial assets at FVTPL               |                    |            |
| Derivative financial instruments        | \$ 220,604         | \$ 121,286 |
| Financial assets designated as at FVTPL | 328,492            | 654,795    |

Financial liabilities

|                                  |         |           |
|----------------------------------|---------|-----------|
| Financial liabilities at FVTPL   |         |           |
| Derivative financial instruments | 915,676 | 1,404,523 |

Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair value of financial assets and financial liabilities are determined as follows:

- a) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices (includes listed bonds). When such prices were not available, valuation techniques were applied. The estimates and assumptions used by the Group are consistent with those that market participants would use in setting a price for the financial instrument.
- b) The fair value of derivative instruments were calculated using quoted prices. When such prices were not available, a valuation method was used and the estimates and assumptions used by the Group are consistent with those that market participants would use in setting a price for the financial instrument.

c. Categories of financial instruments

|   | <b>December 31</b> |             |
|---|--------------------|-------------|
|   | <b>2016</b>        | <b>2015</b> |
| <u>Financial assets</u>                   |                    |             |
| Fair value through profit or loss (FVTPL) |                    |             |
| Held for trading                          | \$ 1,110,141       | \$ 581,288  |
| Designated as at FVTPL                    | 328,492            | 654,795     |
| Held-to-maturity financial assets         | 6,163,413          | 1,451,293   |
| Loans and receivables (Note 1)            | 80,038,442         | 76,891,535  |
| Available-for-sale financial assets       | 14,784,031         | 13,314,173  |
| Financial assets measured at cost         | 592,550            | 659,395     |
| <u>Financial liabilities</u>              |                    |             |
| Fair value through profit or loss (FVTPL) |                    |             |
| Held for trading                          | 915,676            | 1,404,523   |
| Amortized cost (Note 2)                   | 118,098,466        | 112,489,266 |

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, accounts receivable, other receivables, refundable deposits and financial assets directly associated with non-current assets held for sale.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes payable, accounts payable, other payables, long-term borrowings, long-term payables, guarantee deposits and financial liabilities directly associated with non-current assets held for sale.

d. Financial risk management objectives and policies

The Group's major financial instruments included equity investments, borrowings, receivables, payables, refundable deposits and guarantee deposits. The Group's treasury function monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include foreign currency risk, interest rate risk, credit risk and liquidity risk.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts and other derivative instruments.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and the carrying amount of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 41.



### Sensitivity analysis

The Group was mainly exposed to the USD, RMB, HKD, VND, IDR and CHF.

The following table details the Group's sensitivity to 5% increase (decrease) in New Taiwan dollars (the functional currency) against the relevant foreign currencies. A positive (negative) number below indicates an increase (decrease) in pre-tax profit with New Taiwan dollars strengthened 5% against the relevant currency. For a 5% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

|     | <b>For the Year Ended December 31</b> |             |
|-----|---------------------------------------|-------------|
|     | <b>2016</b>                           | <b>2015</b> |
| USD | \$ (85,120)                           | \$ (26,408) |
| RMB | (459,668)                             | (481,965)   |
| HKD | (5,740)                               | (5,082)     |
| VND | 36,418                                | 21,395      |
| IDR | 47,131                                | 47,035      |
| CHF | -                                     | (49,406)    |

#### b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

The carrying amounts of the Group's financial liabilities with exposure to interest rates at the end of the reporting periods were as follows.

|                              | <b>December 31</b> |               |
|------------------------------|--------------------|---------------|
|                              | <b>2016</b>        | <b>2015</b>   |
| Cash flow interest rate risk |                    |               |
| Financial liabilities        | \$ 60,261,584      | \$ 54,533,997 |

### Sensitivity analysis

The sensitivity analyses below were based on the Group's floating rate liabilities. The analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. If 1% increase in interest rate would cause the Group to increase its cash-out by \$602,616 thousand and \$545,340 thousand during the years ended December 31, 2016 and 2015, respectively.

#### c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities and mutual funds. The investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

### Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period. If equity price declined by 1%, the fair value of the investments at December 31, 2016 and 2015 would have decrease by \$271,331 thousand and \$257,094 thousand, respectively.

## 2) Credit risk

Financial instruments are evaluated for credit risk which represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached the contracts. The risk includes centralization of credit risk, components, contracts figure, and its accounts receivable. Besides, the Company requires significant clients to provide guarantees or other rights to reduce credit risk of the Company effectively.

## 3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Group had available unutilized short-term bank borrowing facilities set out in (c) below.

### a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The tables had been drawn up based on the undiscounted cash flows of financial liabilities included both interest and principal from the earliest date on which the Group can be required to pay.

#### December 31, 2016

|   | Weighted<br>Average<br>Effective<br>Interest Rate<br>(%) | On Demand or<br>Less than<br>1 Month | 1-3 Months           | 3 Months to<br>1 Year | 1-5 Years            | 5+ Years         |
|---|--|--------------------------------------|----------------------|-----------------------|----------------------|------------------|
| <u>Non-derivative financial liabilities</u> |  |                                      |                      |                       |                      |                  |
| Non-interest bearing                        | -  | \$ 18,594,409                        | \$ 9,379,612         | \$ 11,257,230         | \$ 118,743           | \$ 61,267        |
| Variable interest rate liabilities          | 1.79   | 11,255,339                           | 3,008,868            | 1,610,357             | 45,960,956           | -                |
| Fixed interest rate liabilities             | 1.32   | 10,878,663                           | 300,000              | -                     | 5,500,000            | -                |
| Financial guarantee contracts               | -  | 3,715,350                            | -                    | -                     | -                    | -                |
|   |  | <u>\$ 44,443,761</u>                 | <u>\$ 12,688,480</u> | <u>\$ 12,867,587</u>  | <u>\$ 51,579,699</u> | <u>\$ 61,267</u> |

#### December 31, 2015

|   | Weighted<br>Average<br>Effective<br>Interest Rate<br>(%) | On Demand or<br>Less than<br>1 Month | 1-3 Months           | 3 Months to<br>1 Year | 1-5 Years            | 5+ Years         |
|---|--|--------------------------------------|----------------------|-----------------------|----------------------|------------------|
| <u>Non-derivative financial liabilities</u> |  |                                      |                      |                       |                      |                  |
| Non-interest bearing                        | -  | \$ 22,976,935                        | \$ 10,167,025        | \$ 9,300,384          | \$ 289,951           | \$ 51,293        |
| Variable interest rate liabilities          | 1.38   | 2,630,220                            | 11,192,024           | 20,108,742            | 21,346,148           | -                |
| Fixed interest rate liabilities             | 1.19   | 9,263,395                            | 700,000              | 732,500               | 4,000,000            | -                |
| Financial guarantee contracts               | -  | 3,811,299                            | -                    | -                     | -                    | -                |
|   |  | <u>\$ 38,681,849</u>                 | <u>\$ 22,059,049</u> | <u>\$ 30,141,626</u>  | <u>\$ 25,636,099</u> | <u>\$ 51,293</u> |

The amounts included above for variable interest rate instruments for both non-derivative financial liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Liquidity and interest rate risk tables for derivative financial liabilities

The following table detailed the Group's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

December 31, 2016

|                                | <b>On Demand or<br/>Less than<br/>1 Month</b> | <b>1-3 Months</b> | <b>3 Months to<br/>1 Year</b> | <b>1-5 Years</b> | <b>5+ Years</b> |
|--------------------------------|---|-------------------|-------------------------------|------------------|-----------------|
| Interest rate swap contracts   | \$ -  | \$ -              | \$ -                          | \$ 17,246        | \$ -            |
| Exchange rate option contracts | 323,011                                       | -                 | 383,653                       | 61,982           | -               |
| Exchange rate swap contracts   | <u>-</u>                                      | <u>116,291</u>    | <u>13,493</u>                 | <u>-</u>         | <u>-</u>        |
|                                | <u>\$ 323,011</u>                             | <u>\$ 116,291</u> | <u>\$ 397,146</u>             | <u>\$ 79,228</u> | <u>\$ -</u>     |

December 31, 2015

|                                | <b>On Demand or<br/>Less than<br/>1 Month</b> | <b>1-3 Months</b> | <b>3 Months to<br/>1 Year</b> | <b>1-5 Years</b>  | <b>5+ Years</b> |
|--------------------------------|---|-------------------|-------------------------------|-------------------|-----------------|
| Interest rate swap contracts   | \$ -  | \$ -              | \$ 6,488                      | \$ 37,633         | \$ -            |
| Forward exchange contracts     | 63,656  | -                 | -                             | -                 | -               |
| Exchange rate option contracts | 632,413                                       | -                 | 157,295                       | 473,336           | -               |
| Exchange rate swap contracts   | <u>19,430</u>                                 | <u>12,523</u>     | <u>1,749</u>                  | <u>-</u>          | <u>-</u>        |
|                                | <u>\$ 715,499</u>                             | <u>\$ 12,523</u>  | <u>\$ 165,532</u>             | <u>\$ 510,969</u> | <u>\$ -</u>     |

c) Financing facilities

|                          | <u>December 31</u>   |                      |
|--------------------------|----------------------|----------------------|
|                          | <u>2016</u>          | <u>2015</u>          |
| Unsecured bank facility: |                      |                      |
| Amount used              | \$ 76,643,124        | \$ 68,930,573        |
| Amount unused            | <u>19,879,552</u>    | <u>30,298,897</u>    |
|                          | <u>\$ 96,522,676</u> | <u>\$ 99,229,470</u> |
| Secured bank facility:   |                      |                      |
| Amount used              | \$ 488,000           | \$ 488,000           |
| Amount unused            | <u>-</u>             | <u>-</u>             |
|                          | <u>\$ 488,000</u>    | <u>\$ 488,000</u>    |

### 38. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Operating revenue

| Account Items | Related Party Categories      | For the Year Ended December 31 |                     |
|---------------|-------------------------------|--------------------------------|---------------------|
|               |                               | 2016                           | 2015                |
| Sales         | Associates and joint ventures | <u>\$ 872,831</u>              | <u>\$ 1,019,751</u> |

Sales to related parties have prices and receivable terms that have no significant differences with non-related parties.

b. Purchases

| Related Party Categories      | For the Year Ended December 31 |                     |
|-------------------------------|--------------------------------|---------------------|
|                               | 2016                           | 2015                |
| Associates and joint ventures | <u>\$ 7,273,312</u>            | <u>\$ 8,139,085</u> |

Purchases from related parties have prices and payment terms that have no significant differences with non-related parties.

c. Receivables from related parties

| Account Items                         | Related Party Categories      | December 31      |                  |
|---------------------------------------|-------------------------------|------------------|------------------|
|                                       |                               | 2016             | 2015             |
| Notes receivable, accounts receivable | Associates and joint ventures | <u>\$ 54,173</u> | <u>\$ 78,126</u> |

No bad debt expense had been recognized for the years ended December 31, 2016 and 2015 for the amounts owed by related parties.

d. Payables to related parties

| Account Items                   | Related Party Categories      | December 31         |                     |
|---------------------------------|-------------------------------|---------------------|---------------------|
|                                 |                               | 2016                | 2015                |
| Notes payable, accounts payable | Associates and joint ventures | <u>\$ 1,476,826</u> | <u>\$ 1,881,363</u> |

e. Compensation of key management personnel

The amounts of the remuneration of directors and other members of key management personnel were as follows:

|                              | For the Year Ended December 31 |                   |
|------------------------------|--------------------------------|-------------------|
|                              | 2016                           | 2015              |
| Short-term employee benefits | <u>\$ 232,465</u>              | <u>\$ 199,882</u> |

The remuneration of directors and key management personnel was determined by the remuneration committee having regard to the performance of individuals and market trends.

### 39. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and issuing gift coupons:

|  | <u>December 31</u> |                   |
|--|--------------------|-------------------|
|  | 2016               | 2015              |
| Debt investmntnets with no active market | \$ 35,205          | \$ 32,771         |
| Investment properties                    | <u>657,296</u>     | <u>657,296</u>    |
|  | <u>\$ 692,501</u>  | <u>\$ 690,067</u> |

### 40. SIGNIFICANT COMMITMENTS AND UNRECOGNIZED LIABILITIES

- a. Outstanding letters of credit of the Group at the end of reporting period were as follows:

**Unit: In Thousands of Foreign Currencies**

| Currencies | <u>December 31</u> |            |
|------------|--------------------|------------|
|            | 2016               | 2015       |
| USD        | \$ 2,562           | \$ 2,631   |
| EUR        | 473                | 431        |
| HKD        | -                  | 100        |
| IDR        | 13,618,125         | 15,657,664 |

- b. The Company invests in Nan Shan Life Insurance Co., Ltd. through Ruen Chen Investment Holding Co., Ltd. According to a request by the FSC, the Company provides shares of Yue Yuen in the custody during the period from June 27, 2011 to June 27, 2021. The Company will not dispose of or do encumbrance to the shares of Wealthplus which is equal to the shares of Yue Yuen during the trust period.
- c. Because of the Company's investment in Nan Shan Life Insurance Co., Ltd. through Ruen Chen Investment Holding Co., Ltd., the Company received a request by the FSC for the Company to provide 490,000 thousand common shares of Ruen Chen in the custody of the trust department of First Bank, and the trust period is ten years.
- d. The Company entered into project agreements with the Institute for Information Industry ("III"). According to the project agreements, the Company has to provide promissory notes and bank guarantee to III as guarantee.

#### 41. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

**Unit: All Currencies In Thousands (Including Foreign Currencies and New Taiwan Dollars)**

December 31, 2016

|                              | <b>Foreign Currencies</b> | <b>Exchange Rate</b> | <b>Carrying Amount</b> |
|------------------------------|---------------------------|----------------------|------------------------|
| <u>Financial assets</u>      |                           |                      |                        |
| Monetary items               |                           |                      |                        |
| USD                          | \$ 95,042                 | 32.250               | \$ 3,065,111           |
| NTD                          | 320,400                   | 1                    | 320,400                |
| RMB                          | 2,157,779                 | 4.617                | 9,962,470              |
| HKD                          | 57,550                    | 4.158                | 239,295                |
| VND                          | 173,390,697               | 0.00129              | 223,674                |
| IDR                          | 178,755,144               | 0.00243              | 434,375                |
| Non-monetary items           |                           |                      |                        |
| USD                          | 4,090                     | 32.250               | 131,915                |
| NTD                          | 918,707                   | 1                    | 918,707                |
| RMB                          | 1,090,648                 | 4.617                | 5,035,522              |
| HKD                          | 62,464                    | 4.158                | 259,724                |
| <u>Financial liabilities</u> |                           |                      |                        |
| Monetary items               |                           |                      |                        |
| USD                          | 42,231                    | 32.250               | 1,361,968              |
| NTD                          | 813,081                   | 1                    | 813,081                |
| RMB                          | 167,902                   | 4.617                | 775,201                |
| HKD                          | 29,949                    | 4.158                | 124,531                |
| VND                          | 780,350,388               | 0.00129              | 1,006,652              |
| IDR                          | 571,515,226               | 0.00243              | 1,388,782              |

December 31, 2015

|                              | <b>Foreign<br/>Currencies</b> | <b>Exchange Rate</b> | <b>Carrying<br/>Amount</b> |
|------------------------------|-------------------------------|----------------------|----------------------------|
| <u>Financial assets</u>      |                               |                      |                            |
| Monetary items               |                               |                      |                            |
| USD                          | \$ 77,423                     | 32.825               | \$ 2,541,421               |
| NTD                          | 166,554                       | 1                    | 166,554                    |
| RMB                          | 2,198,906                     | 4.995                | 10,983,531                 |
| HKD                          | 62,137                        | 4.235                | 263,152                    |
| VND                          | 353,954,609                   | 0.00141              | 499,076                    |
| IDR                          | 209,944,856                   | 0.00243              | 510,166                    |
| CHF                          | 29,783                        | 33.185               | 988,337                    |
| Non-monetary items           |                               |                      |                            |
| USD                          | 2,600                         | 32.825               | 85,353                     |
| NTD                          | 692,074                       | 1                    | 692,074                    |
| RMB                          | 258,270                       | 4.995                | 1,290,057                  |
| HKD                          | 53,736                        | 4.235                | 227,573                    |
| <u>Financial liabilities</u> |                               |                      |                            |
| Monetary items               |                               |                      |                            |
| USD                          | 61,344                        | 32.825               | 2,013,605                  |
| NTD                          | 971,699                       | 1                    | 971,699                    |
| RMB                          | 271,013                       | 4.995                | 1,353,716                  |
| HKD                          | 38,169                        | 4.235                | 161,647                    |
| VND                          | 659,596,454                   | 0.00141              | 930,031                    |
| IDR                          | 601,899,588                   | 0.00243              | 1,462,616                  |

For the years ended December 31, 2016 and 2015, net foreign exchange (losses) gains were \$(839,582) thousand and \$303,809 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the functional currencies of the Group entities.

## **42. SEGMENT INFORMATION**

### **a. Information about reportable segments**

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments were as follows:

- 1) Manufacturing of shoes and apparel;
- 2) Retailing of sporting goods and brand licensing business;
- 3) Others.

b. Segment revenues and results

The Group's revenue and results by reportable segment were as follows:

For the year ended December 31, 2016

|  | <b>Manufacturing<br/>of Shoes and<br/>Apparel</b> | <b>Retailing of<br/>Sporting Goods<br/>and Brand<br/>Licensing<br/>Business</b> | <b>Others</b>       | <b>Total</b>          |
|--|---|---|---------------------|-----------------------|
| Revenues from external customers                                       | <u>\$ 194,830,122</u>                             | <u>\$ 78,880,234</u>  | <u>\$ 1,184,990</u> | <u>\$ 274,895,346</u> |
| Segment income   | <u>\$ 28,961,242</u>                              | <u>\$ 7,123,502</u>   | <u>\$ 610,250</u>   | \$ 36,694,994         |
| Administrative cost, remuneration<br>to directors and supervisors      |   |   |                     | (19,066,493)          |
| Rental income  |   |   |                     | 313,133               |
| Interest income  |   |   |                     | 530,490               |
| Dividend income  |   |   |                     | 874,208               |
| Other income   |   |   |                     | 2,620,408             |
| Net loss on disposal of property,<br>plant and equipment               |   |   |                     | (251,490)             |
| Net foreign exchange loss  |   |   |                     | (839,582)             |
| Net gain on disposal of<br>subsidiaries and associates                 |   |   |                     | 26,489                |
| Net gain on disposal of financial<br>assets measured at cost           |   |   |                     | 31,530                |
| Net gain arising on financial assets<br>designated as at FVTPL         |   |   |                     | 741,655               |
| Net gain arising on financial<br>liabilities designated as at<br>FVTPL |   |   |                     | 39,613                |
| Impairment loss  |   |   |                     | (228,320)             |
| Other loss   |   |   |                     | (162,882)             |
| Finance costs  |   |   |                     | (1,316,016)           |
| Share of the profit of associates<br>and joint ventures                |   |   |                     | <u>6,272,065</u>      |
| Income before income tax   |   |   |                     | <u>\$ 26,279,802</u>  |



For the year ended December 31, 2015

|   | <b>Manufacturing<br/>of Shoes and<br/>Apparel</b> | <b>Retailing of<br/>Sporting Goods<br/>and Brand<br/>Licensing<br/>Business</b> | <b>Others</b>     | <b>Total</b>          |
|---|---|---|-------------------|-----------------------|
| Revenues from external customers  | <u>\$ 195,313,401</u>                             | <u>\$ 72,926,712</u>  | <u>\$ 841,060</u> | <u>\$ 269,081,173</u> |
| Segment income  | <u>\$ 27,176,403</u>                              | <u>\$ 5,985,075</u>   | <u>\$ 550,021</u> | \$ 33,711,499         |
| Administrative cost, remuneration<br>to directors and supervisors         |   |   |                   | (21,358,105)          |
| Rental income   |   |   |                   | 331,019               |
| Interest income   |   |   |                   | 428,575               |
| Dividend income   |   |   |                   | 758,064               |
| Other income  |   |   |                   | 2,350,706             |
| Net loss on disposal of property,<br>plant and equipment                  |   |   |                   | (393,827)             |
| Net foreign exchange gain   |   |   |                   | 303,809               |
| Net gain on disposal of<br>subsidiaries, associates and joint<br>ventures |   |   |                   | 159,898               |
| Net gain on disposal of<br>available-for-sale financial<br>assets         |   |   |                   | 78,039                |
| Net gain on disposal of financial<br>assets measured at cost              |   |   |                   | 47,940                |
| Net gain arising on financial assets<br>designated as at FVTPL            |   |   |                   | 217,571               |
| Net loss arising on financial<br>liabilities designated as at<br>FVTPL    |   |   |                   | (1,005,440)           |
| Impairment loss   |   |   |                   | (607,272)             |
| Other loss  |   |   |                   | (147,561)             |
| Finance costs   |   |   |                   | (1,121,294)           |
| Share of the profit of associates<br>and joint ventures                   |   |   |                   | <u>6,486,653</u>      |
| Income before income tax  |   |   |                   | <u>\$ 20,240,274</u>  |

- 1) Sales between segments were made at market price.
- 2) Segment profit represented the profit before income tax earned by each segment without allocation of administration costs, remuneration to directors and supervisors, rental income, interest income, dividend income, other income, net loss on disposal of property, plant and equipment, net foreign exchange (loss) gain, net gain on disposal of subsidiaries, associates and joint ventures, net gain on disposal of available-for-sale financial assets, net gain on disposal of financial assets measured at cost, gain (loss) on financial instruments, impairment loss, other loss, finance costs and share of the profit of associates and joint ventures. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

c. Geographical information

The Group's revenues from continuing operations from external customers by location of operations were detailed below.

|        | <b>Revenues from<br/>External Customers</b> |                       |
|--------|---|-----------------------|
|        | <b>For the Year Ended December 31</b>       |                       |
|        | <b>2016</b>                                 | <b>2015</b>           |
| Asia   | \$ 134,417,566                              | \$ 129,987,620        |
| USA    | 79,484,350                                  | 80,751,723            |
| Europe | 54,210,053                                  | 52,111,466            |
| Others | <u>6,783,377</u>                            | <u>6,230,364</u>      |
|        | <u>\$ 274,895,346</u>                       | <u>\$ 269,081,173</u> |

d. Information about major customers

Revenue recognized from the manufacture of shoes and apparel in 2016 and 2015, amounted to \$194,830,122 thousand and \$195,313,401 thousand, respectively. Except as detailed in the following table, no other single customer contributed 10% or more to the Group's revenue for both 2016 and 2015.

|            | <b>For the Year Ended December 31</b> |                       |                      |                       |
|------------|---------------------------------------|-----------------------|----------------------|-----------------------|
|            | <b>2016</b>                           |                       | <b>2015</b>          |                       |
|            | <b>Amount</b>                         | <b>% of<br/>Total</b> | <b>Amount</b>        | <b>% of<br/>Total</b> |
| Customer A | \$ 53,816,071                         | 20                    | \$ 53,428,639        | 20                    |
| Customer B | <u>52,176,821</u>                     | <u>19</u>             | <u>44,260,321</u>    | <u>16</u>             |
|            | <u>\$ 105,992,892</u>                 | <u>39</u>             | <u>\$ 97,688,960</u> | <u>36</u>             |