

**Kwong Lung Enterprise Co., Ltd. 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,

KWONG LUNG ENTERPRISE CO., LTD.

By

March 24, 2017

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Kwong Lung Enterprise Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Kwong Lung Enterprise Co., Ltd. and its subsidiaries (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 audit and the reports of the other auditors (refer to the Other Matter section of our 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.

Impairment of Trade Receivables

Refer to Notes 5 and 10 of the accompanying consolidated financial statements for disclosures regarding the accounting policies for and detailed information on trade receivables and the impairment of trade receivables.

The products sold by the Group to its main customer base are concentrated in clothing, down and bedding, the sales of which comprise more than 70% of the Group's total sales, which was about 10% of its total assets. In determining the impairment losses recognized on trade receivables, management's related provisions are subjective and influenced by the recoverability of past due or credit risk trade receivables. When the down and bedding industry is depressed, the Group has no receipts from the main customer base during this time of financial difficulties. For these reasons, the impairment of trade receivables was identified as a key audit matter.

In response to this key audit matter, we performed the following audit procedures:

1. Understand management's receivables' provision policy and test the accuracy of the aging of receivables in order to calculate the allowance for impairment loss recognized against trade receivables.
2. Review various customers' historic payment performance to determine whether there are any anomalies in the provision methodology and whether it has been followed consistently. Analyze whether impairment losses were recognized against trade receivables based on their estimated irrecoverable amounts which should be determined by reference to historic payment experience, current payment status and an analysis of customers' current financial positions in order to verify whether the impairment loss recognized was sufficient.
3. Evaluate the level of cash collected on past due receivables after the year end in order to determine whether any additional impairment loss should be recognized.

Evaluation of Inventory

Refer to Notes 5 and 11 of the consolidated financial statements for disclosures regarding the accounting policies for and detailed information on inventory.

The balance of inventories recognized for the year ended December 31, 2016 was \$2,248,821 thousand, which was about 36% of the Group's total assets and materials. Inventory is measured at the lower of cost or net realizable value. When the net value of inventory is at cost, write-downs of inventories are required. Management's assessment of the net realizable value of inventory is an area of significant judgment in accordance with IAS 2 "Inventories". The Group has a material amount of inventory, and so we identified the evaluation of inventory as a key audit matter.

In order to evaluate whether management's evaluation of inventory is appropriate, we performed the following audit procedures:

1. Understand the Group's business and industry as well as the nature of its products in order to evaluate the Group's inventory provision policy.
2. Select a sample of inventory items at year-end in order to confirm that inventory is valued at the lower of cost or net realizable value.
3. Obtain inventory aging profiles and compare the write-offs to assess the appropriateness of the Group's inventory provision policy; attend and observe the year-end inventory counts in order to understand the condition of inventory and evaluate the adequacy of inventory provisions for obsolete and damaged goods.

Other Matter

We have also audited the parent company only financial statements of Kwong Lung Enterprise Co., Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

We did not audit the financial statements of certain consolidated subsidiaries for the years ended December 31, 2016 and 2015, but such financial statements were audited by other auditors whose reports thereon have been furnished to us. Our opinion, insofar as it relates to the related amounts included and the information disclosed in the Group's consolidated financial statements, is based solely on the reports of the other auditors. The total assets of the aforementioned subsidiaries constitute 28% (NT\$1,709,591 thousand) and 30% (NT\$1,809,649 thousand) of the Group's consolidated total assets as of December 31, 2016 and 2015, respectively, and the total sales of the abovementioned subsidiaries constitute 4% (NT\$384,280 thousand) and 6% (NT\$524,492 thousand) of the consolidated total sales for the years ended December 31, 2016 and 2015, 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 supervisors, 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 Cheng-tsai Tsai and Chin-tsung Cheng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 24, 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.

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

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

| ASSETS | 2016 | | 2015 | |
|---|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Note 6) | \$ 797,364 | 13 | \$ 489,456 | 8 |
| Financial assets at fair value through profit or loss - current (Note 7) | 13,780 | - | - | - |
| Debt investments with no active market - current (Notes 9 and 31) | 45,000 | 1 | 53,000 | 1 |
| Notes receivable (Note 10) | 177,830 | 3 | 134,934 | 2 |
| Trade receivables (Notes 5 and 10) | 773,701 | 13 | 819,351 | 14 |
| Other receivables (Note 10) | 47,049 | 1 | 84,229 | 1 |
| Other receivables from related parties (Note 30) | 80,000 | 1 | 60,000 | 1 |
| Inventories (Notes 5 and 11) | 2,248,821 | 36 | 2,509,541 | 41 |
| Prepayments | 60,657 | 1 | 44,734 | 1 |
| Prepayments for leases (Note 17) | 4,042 | - | 4,297 | - |
| Other current assets | <u>79,672</u> | <u>1</u> | <u>114,294</u> | <u>2</u> |
| Total current assets | <u>4,327,916</u> | <u>70</u> | <u>4,313,836</u> | <u>71</u> |
| NON-CURRENT ASSETS | | | | |
| Available-for-sale financial assets - non-current (Note 8) | 163,410 | 3 | 39,805 | 1 |
| Investments accounted for using equity method (Note 13) | 181,562 | 3 | 99,881 | 2 |
| Property, plant and equipment (Notes 14, 30 and 31) | 1,254,198 | 20 | 1,295,552 | 21 |
| Investment properties (Note 15) | 96,750 | 2 | 96,214 | 2 |
| Other intangible assets (Note 16) | 36,480 | 1 | 36,319 | 1 |
| Deferred tax assets (Note 24) | 26,890 | - | 28,499 | - |
| Refundable deposits | 19,004 | - | 23,908 | - |
| Long-term prepayments for leases (Note 17) | 91,292 | 1 | 100,499 | 2 |
| Other non-current assets | <u>14,577</u> | <u>-</u> | <u>15,440</u> | <u>-</u> |
| Total non-current assets | <u>1,884,163</u> | <u>30</u> | <u>1,736,117</u> | <u>29</u> |
| TOTAL | <u>\$ 6,212,079</u> | <u>100</u> | <u>\$ 6,049,953</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 18) | \$ 545,006 | 9 | \$ 568,729 | 9 |
| Financial liabilities at fair value through profit or loss - current (Note 7) | - | - | 28,060 | 1 |
| Notes payable | 2,143 | - | 23,425 | - |
| Trade payables | 555,444 | 9 | 664,576 | 11 |
| Trade payables to related parties (Note 30) | 25,087 | 1 | 20,901 | - |
| Other payables (Note 20) | 393,955 | 6 | 341,294 | 6 |
| Current tax liabilities (Note 20) | 57,316 | 1 | 71,717 | 1 |
| Current portion of long-term borrowings (Notes 18 and 31) | - | - | 287,437 | 5 |
| Other current liabilities | <u>15,132</u> | <u>-</u> | <u>15,715</u> | <u>-</u> |
| Total current liabilities | <u>1,594,083</u> | <u>26</u> | <u>2,021,854</u> | <u>33</u> |
| NON-CURRENT LIABILITIES | | | | |
| Bonds payable | 763,482 | 12 | - | - |
| Long-term borrowings (Notes 18 and 31) | 200,000 | 3 | 577,657 | 9 |
| Deferred tax liabilities (Note 24) | 98,723 | 2 | 97,912 | 2 |
| Net defined benefit liabilities - non-current (Note 21) | 47,150 | 1 | 48,438 | 1 |
| Deposits received | <u>1,971</u> | <u>-</u> | <u>1,964</u> | <u>-</u> |
| Total non-current liabilities | <u>1,111,326</u> | <u>18</u> | <u>725,971</u> | <u>12</u> |
| Total liabilities | <u>2,705,409</u> | <u>44</u> | <u>2,747,825</u> | <u>45</u> |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | | | |
| Share capital | | | | |
| Ordinary shares | <u>1,083,250</u> | <u>17</u> | <u>1,064,690</u> | <u>18</u> |
| Capital surplus | <u>1,024,322</u> | <u>17</u> | <u>953,204</u> | <u>16</u> |
| Retained earnings | | | | |
| Legal reserve | 329,194 | 5 | 286,060 | 5 |
| Unappropriated earnings | <u>940,615</u> | <u>15</u> | <u>855,561</u> | <u>14</u> |
| Total retained earnings | <u>1,269,809</u> | <u>20</u> | <u>1,141,621</u> | <u>19</u> |
| Other equity | | | | |
| Exchange differences on translating foreign operations | 2,865 | - | 138,120 | 2 |
| Unrealized gain on available-for-sale financial assets | <u>125,637</u> | <u>2</u> | <u>2,309</u> | <u>-</u> |
| Total other equity | <u>128,502</u> | <u>2</u> | <u>140,429</u> | <u>2</u> |
| Total equity attributable to owners of the Company | 3,505,883 | 56 | 3,299,944 | 55 |
| NON-CONTROLLING INTERESTS | | | | |
| Total equity (Notes 22 and 26) | <u>787</u> | <u>-</u> | <u>2,184</u> | <u>-</u> |
| TOTAL | <u>\$ 6,212,079</u> | <u>100</u> | <u>\$ 6,049,953</u> | <u>100</u> |

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

(With Deloitte & Touche auditors' report dated March 24, 2017)

KWONG LUNG ENTERPRISE CO., LTD. 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 | | | | |
| Sales | \$ 8,598,697 | 100 | \$ 8,920,491 | 100 |
| OPERATING COSTS (Notes 11, 23 and 30) | | | | |
| Cost of goods sold | <u>(7,213,680)</u> | <u>(84)</u> | <u>(7,516,148)</u> | <u>(84)</u> |
| GROSS PROFIT | <u>1,385,017</u> | <u>16</u> | <u>1,404,343</u> | <u>16</u> |
| OPERATING EXPENSES (Note 23) | | | | |
| Selling and marketing expenses | (538,917) | (6) | (553,153) | (6) |
| General and administrative expenses | (269,051) | (3) | (282,981) | (3) |
| Research and development expenses | <u>(77,589)</u> | <u>(1)</u> | <u>(84,995)</u> | <u>(1)</u> |
| Total operating expenses | <u>(885,557)</u> | <u>(10)</u> | <u>(921,129)</u> | <u>(10)</u> |
| PROFIT FROM OPERATIONS | <u>499,460</u> | <u>6</u> | <u>483,214</u> | <u>6</u> |
| NON-OPERATING INCOME AND EXPENSES (Notes 4, 24 and 31) | | | | |
| Other income | 6,729 | - | 5,151 | - |
| Other gains and losses | 27,009 | - | 50,452 | - |
| Finance costs | (26,420) | - | (32,242) | - |
| Share of profit or loss of associates and joint ventures | <u>5,119</u> | <u>-</u> | <u>3,879</u> | <u>-</u> |
| Total non-operating income | <u>12,437</u> | <u>-</u> | <u>27,240</u> | <u>-</u> |
| PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS | 511,897 | 6 | 510,454 | 6 |
| INCOME TAX EXPENSE (Note 24) | <u>(66,052)</u> | <u>(1)</u> | <u>(80,437)</u> | <u>(1)</u> |
| NET PROFIT FOR THE YEAR | <u>445,845</u> | <u>5</u> | <u>430,017</u> | <u>5</u> |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans | 265 | - | (8,092) | - |
| Income tax relating to items that will not be reclassified subsequently to profit or loss | <u>(45)</u> | <u>-</u> | <u>1,376</u> | <u>-</u> |
| | <u>220</u> | <u>-</u> | <u>(6,716)</u> | <u>-</u> |

(Continued)

KWONG LUNG ENTERPRISE CO., LTD. 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 | \$ (135,122) | (2) | \$ 19,824 | - |
| Unrealized gain (loss) on available-for-sale financial assets | <u>123,328</u> | <u>2</u> | <u>(1,976)</u> | <u>-</u> |
| | <u>(11,794)</u> | <u>-</u> | <u>17,848</u> | <u>-</u> |
| Other comprehensive income (loss) for the year, net of income tax | <u>(11,574)</u> | <u>-</u> | <u>11,132</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 434,271</u> | <u>5</u> | <u>\$ 441,149</u> | <u>5</u> |
| NET PROFIT (LOSS) ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ 447,375 | 5 | \$ 431,341 | 5 |
| Non-controlling interests | <u>(1,530)</u> | <u>-</u> | <u>(1,324)</u> | <u>-</u> |
| | <u>\$ 445,845</u> | <u>5</u> | <u>\$ 430,017</u> | <u>5</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ 435,668 | 5 | \$ 442,395 | 5 |
| Non-controlling interests | <u>(1,397)</u> | <u>-</u> | <u>(1,246)</u> | <u>-</u> |
| | <u>\$ 434,271</u> | <u>5</u> | <u>\$ 441,149</u> | <u>5</u> |
| EARNINGS PER SHARE (Note 25) | | | | |
| From continuing operations | | | | |
| Basic | <u>\$4.19</u> | | <u>\$4.09</u> | |
| Diluted | <u>\$3.91</u> | | <u>\$3.97</u> | |

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

(With Deloitte & Touche auditors' report dated March 24, 2017)

(Concluded)

KWONG LUNG ENTERPRISE CO., LTD. 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 | | | Non-controlling Interests | Total Equity | | |
|---|--|----------------------------|-----------------------------|------------------------|---------------------------------|-----------------------|--------------|--|---|------------|---------------------------|--------------|---------------|-------------------------|
| | Share Capital | Capital Surplus | | | | Retained Earnings | | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Total | | | | |
| | | Additional Paid-in Capital | Treasury Share Transactions | Employee Share Options | Convertible Bonds Share Options | Expired Share Options | Subtotal | | | | | | Legal Reserve | Unappropriated Earnings |
| BALANCE AT JANUARY 1, 2015 | \$ 1,046,670 | \$ 841,583 | \$ 29,284 | \$ 35,197 | \$ - | \$ - | \$ 906,064 | \$ 247,841 | \$ 783,156 | \$ 118,374 | \$ 4,285 | \$ 3,106,390 | \$ 878 | \$ 3,107,268 |
| Appropriation of the 2014 earnings | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | 38,219 | (38,219) | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | - | - | - | (314,001) | - | - | (314,001) | - | (314,001) |
| Net profit (loss) for the year ended December 31, 2015 | - | - | - | - | - | - | - | - | 431,341 | - | - | 431,341 | (1,324) | 430,017 |
| Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax | - | - | - | - | - | - | - | - | (6,716) | 19,746 | (1,976) | 11,054 | 78 | 11,132 |
| Total comprehensive income (loss) for the year ended December 31, 2015 | - | - | - | - | - | - | - | - | 424,625 | 19,746 | (1,976) | 442,395 | (1,246) | 441,149 |
| Issue of ordinary shares under employee share options | 18,020 | 27,464 | - | 19,657 | - | 19 | 47,140 | - | - | - | - | 65,160 | - | 65,160 |
| Non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | 2,552 | 2,552 |
| BALANCE AT DECEMBER 31, 2015 | 1,064,690 | 869,047 | 29,284 | 54,854 | - | 19 | 953,204 | 286,060 | 855,561 | 138,120 | 2,309 | 3,299,944 | 2,184 | 3,302,128 |
| Appropriation of the 2015 earnings | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | 43,134 | (43,134) | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | - | - | - | (319,407) | - | - | (319,407) | - | (319,407) |
| Net profit (loss) for the year ended December 31, 2016 | - | - | - | - | - | - | - | - | 447,375 | - | - | 447,375 | (1,530) | 445,845 |
| Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax | - | - | - | - | - | - | - | - | 220 | (135,255) | 123,328 | (11,707) | 133 | (11,574) |
| Total comprehensive income (loss) for the year ended December 31, 2016 | - | - | - | - | - | - | - | - | 447,595 | (135,255) | 123,328 | 435,668 | (1,397) | 434,271 |
| Issue of ordinary shares under employee share options | 18,560 | 33,978 | - | 2,016 | - | 467 | 36,461 | - | - | - | - | 55,021 | - | 55,021 |
| Recognition of equity component of convertible bonds issued by the Company | - | - | - | - | 34,657 | - | 34,657 | - | - | - | - | 34,657 | - | 34,657 |
| BALANCE AT DECEMBER 31, 2016 | \$ 1,083,250 | \$ 903,025 | \$ 29,284 | \$ 56,870 | \$ 34,657 | \$ 486 | \$ 1,024,322 | \$ 329,194 | \$ 940,615 | \$ 2,865 | \$ 125,637 | \$ 3,505,883 | \$ 787 | \$ 3,506,670 |

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

(With Deloitte & Touche auditors' report dated March 24, 2017)

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

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

| | 2016 | 2015 |
|--|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 511,897 | \$ 510,454 |
| Adjustments for: | | |
| Depreciation expenses | 136,938 | 137,065 |
| Amortization expenses | 19,411 | 19,124 |
| Amortization of prepayments for leases | 4,148 | 4,251 |
| (Reversal of) impairment loss recognized on trade receivables | (1,068) | 1,530 |
| Net (gain) loss on fair value changes of financial assets and liabilities held for trading | (13,780) | 28,060 |
| Finance costs | 26,420 | 32,242 |
| Interest income | (5,794) | (2,325) |
| Gain on disposal of investments | - | (33,094) |
| Write-down of inventories | 9,239 | 24,926 |
| Compensation cost of employee share options | 17,157 | 31,054 |
| Share of profit of associates and joint ventures | (5,119) | (3,879) |
| Loss on disposal of property, plant and equipment | 187 | 350 |
| Net loss (gain) on foreign currency exchange | (10,587) | 22,696 |
| Changes in operating assets and liabilities | | |
| Decrease in derivative financial assets held for trading | - | 7,729 |
| Increase in notes receivable | (42,896) | (8,630) |
| Increase in trade receivables | 53,493 | (197,528) |
| Decrease in other receivables | 37,259 | 29,835 |
| Decrease in inventories | 257,349 | 536,794 |
| Increase in prepayments | (15,923) | (15,679) |
| (Increase) decrease in other current assets | 34,622 | (11,529) |
| Decrease in derivative financial liabilities held for trading | (28,060) | (13,884) |
| Increase (decrease) in notes payable | (21,282) | 9,457 |
| Decrease in trade payables | (109,571) | (281,385) |
| Increase in trade payables to related parties | 4,186 | - |
| Increase in other payables | 52,713 | 24,123 |
| Decrease in other current liabilities | (583) | (6,711) |
| Decrease in net defined benefit liabilities | (1,023) | (4,146) |
| Cash generated from operations | 909,333 | 840,900 |
| Interest received | 5,794 | 2,325 |
| Interest paid | (24,195) | (32,200) |
| Income tax paid | (78,078) | (70,430) |
| Net cash generated from operating activities | 812,854 | 740,595 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of debt investments with no active market | - | (53,000) |
| Proceeds from sale of debt investments with no active market | 8,000 | - |
| Acquisition of associates and joint ventures | (77,197) | - |
| Payments for property, plant and equipment | (79,041) | (235,767) |
| Proceeds from disposal of property, plant and equipment | 1,072 | 607 |

(Continued)

KWONG LUNG ENTERPRISE CO., LTD. AND SUBSIDIARIES

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

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Decrease in refundable deposits | \$ 4,904 | \$ 4,870 |
| Increase in other receivables - related parties | (20,000) | (60,000) |
| Payments for intangible assets | (18,772) | (5,804) |
| Payments for investment properties | - | (92,889) |
| Decrease in other non-current assets | 1,826 | 1,195 |
| Increase in prepayments for equipment | (64,035) | (76,287) |
| Increase in prepayments for leases | - | (45,011) |
| Other dividends received | <u>2,607</u> | <u>-</u> |
| Net cash used in investing activities | <u>(240,636)</u> | <u>(562,086)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | - | 227,948 |
| Repayments of short-term borrowings | (18,513) | - |
| Proceeds from issue of convertible bonds | 794,880 | - |
| Proceeds from long-term borrowings | 660,000 | 970,000 |
| Repayments of long-term borrowings | (1,325,094) | (955,994) |
| Proceeds from guarantee deposits received | 7 | 1,950 |
| Dividends paid to owners of the Company | (319,407) | (314,001) |
| Proceeds from share options exercised | 37,825 | 33,998 |
| Increase in non-controlling interests | <u>39</u> | <u>2,660</u> |
| Net cash used in financing activities | <u>(170,263)</u> | <u>(33,439)</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | | |
| | <u>(94,047)</u> | <u>13,592</u> |
| NET INCREASE IN CASH | 307,908 | 158,662 |
| CASH AT THE BEGINNING OF THE YEAR | <u>489,456</u> | <u>330,794</u> |
| CASH AT THE END OF THE YEAR | <u>\$ 797,364</u> | <u>\$ 489,456</u> |

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

(With Deloitte & Touche auditors' report dated March 24, 2017)

(Concluded)

KWONG LUNG ENTERPRISE CO., LTD. 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)

1. GENERAL INFORMATION

The Company was incorporated in February 1966 under the Company Law and related regulation of the Republic of China (ROC). The Company mainly manufactures and sells various feather products including apparel, down and bedding.

The Company's shares have been traded on the Taiwan GreTai Securities Market since April 1999.

The consolidated financial statements are presented in the Company's functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on March 24, 2017.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS 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 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.

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|--|
| 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: Applying the Consolidation Exception" | January 1, 2016 |
| Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |
| 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 |

(Continued)

| New, Amended or Revised Standards and Interpretations (the “New IFRSs”) | Effective Date Announced by IASB (Note 1) |
|---|--|
| Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions” | July 1, 2014 |
| Amendment to IAS 27 “Equity Method in Separate Financial Statements” | January 1, 2016 |
| 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:

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, 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 relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party. The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group’s financial position and financial performance, and will disclose these other impacts when the assessment is completed.

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.

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|--|--|
| 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 |
| 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 |

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.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

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.

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:

- a) 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;

- b) 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 instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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 that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. 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. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

2) 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 from January 1, 2018.

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.

3) 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. On 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. On 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.

4) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, and irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax effects of reversed deductible temporary differences.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, 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 values.

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 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period 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.

See Note 12 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. 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.

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 purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), 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.

f. Inventories

Inventories consist of raw materials, supplies, finished goods, work-in-process, goods to subcontractor and merchandise and 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.

g. 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 is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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

Under the equity method, investments in an associate and a joint venture 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 associate and joint venture. The Group also recognizes the changes in the Group's share of equity of associates and joint venture attributable to the Group.

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 or joint venture 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 the associate or 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 or 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 Group's 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 associate or joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate or 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 by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate or a joint venture equals or exceeds its interest in that associate or joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate or 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 or 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 the carrying amount of the investment. 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 or 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 or 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 or joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture 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 or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group' consolidated financial statements only to the extent of interests in the associate and joint venture that are not related to the Group.

h. Property, plant and equipment

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

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate 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.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. 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. 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 included in profit or loss.

j. 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. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Derecognition of intangible assets

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

k. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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, with the resulting impairment loss recognized in profit or loss.

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 for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. 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.

1) Financial assets

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

a) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. 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. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 29.

ii. 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 foreign currency exchange rates, interest income calculated using the effective interest method and 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.

iii. Loans and receivables

Loans and receivables (including trade receivables, notes receivable, cash and cash equivalents, debt investments with no active market and other receivables) 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.

b) 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 carried at amortized cost, such as trade receivables, notes receivable and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, 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.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, notes receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables, notes receivable and other receivables that are written off against the allowance account.

c) 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.

2) Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

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

3) Financial liabilities

a) Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is held for trading.

Financial liabilities held for trading are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 29.

b) 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.

4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward 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.

m. 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. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;

- d) It is probable that the economic benefits associated with the transaction will flow to the Group;
and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

2) 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.

n. 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.

o. 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 (including current service cost and past service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur, or when the plan amendment or curtailment occurs or when the settlement occurs. 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.

p. Employee share options

Employee share options granted to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimate of the number of 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 when the share options granted vest 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.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, 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 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 carry forward to the extent 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 arrangements, 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 liabilities and assets 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 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 and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 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. Estimated impairment of trade receivables

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 an 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.

b. Write-down of inventory

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|--------------------|-------------------|
| | 2016 | 2015 |
| Cash on hand | \$ 2,834 | \$ 2,260 |
| Checking accounts and demand deposits | 776,793 | 487,196 |
| Cash equivalent (investments with original maturities less than three months) | | |
| Time deposits | <u>17,737</u> | <u>-</u> |
| | <u>\$ 797,364</u> | <u>\$ 489,456</u> |

The market rate intervals of cash in bank at the end of the reporting period were as follows:

| | <u>December 31</u> | |
|---------------|--------------------|------------|
| | 2016 | 2015 |
| Bank balance | 0%-1% | 0.0001%-2% |
| Time deposits | 0.9% | - |

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | <u>December 31</u> | |
|---|--------------------|-----------|
| | 2016 | 2015 |
| <u>Financial assets at FVTPL - current</u> | | |
| Financial assets held for trading | | |
| Derivative financial assets (not under hedge accounting) | | |
| Foreign exchange forward contracts | \$ 13,780 | \$ - |
| <u>Financial liabilities at FVTPL - current</u> | | |
| Financial liabilities held for trading | | |
| Derivative financial liabilities (not under hedge accounting) | | |
| Foreign exchange forward contracts | \$ - | \$ 28,060 |

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

| | Currency | Maturity Date | Notional Amount (In Thousands) |
|--------------------------|----------|----------------------|-----------------------------------|
| <u>December 31, 2016</u> | | | |
| Sell | JPY/NTD | 2017.1.10-2017.3.28 | JPY400,000/NTD124,056 |
| <u>December 31, 2015</u> | | | |
| Sell | USD/NTD | 2016.4.12-2016.11.18 | USD6,000/NTD195,399 |
| Sell | JPY/NTD | 2016.2.16-2016.5.20 | JPY890,000/NTD236,203 |
| Sell | USD/CNY | 2016.1.21-2016.8.8 | USD13,000/CNY82,897 |

The Group entered into foreign exchange forward contracts during 2016 and 2015 to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | <u>December 31</u> | |
|----------------------|--------------------|-----------|
| | 2016 | 2015 |
| <u>Non-current</u> | | |
| Domestic investments | | |
| Listed shares | \$ 163,410 | \$ 39,805 |

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

| | <u>December 31</u> | |
|---|--------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Restricted assets - bank balance (a) | \$ 2,000 | \$ 2,000 |
| Time deposits with original maturity more than 3 months (b) | <u>43,000</u> | <u>51,000</u> |
| | <u>\$ 45,000</u> | <u>\$ 53,000</u> |

- a. Refer to Note 31 for information relating to bond investments with no active market pledged as security.
- b. The market interest rates of the time deposits with original maturity more than 3 months were 0.2%-1.2% and 0.33%-1.36% per annum as of December 31, 2016 and 2015, respectively.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

| | <u>December 31</u> | |
|-------------------------------------|--------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Notes receivable</u> | | |
| Notes receivable | \$ 177,830 | \$ 134,934 |
| Less: Allowance for impairment loss | <u>-</u> | <u>-</u> |
| | <u>\$ 177,830</u> | <u>\$ 134,934</u> |
| <u>Trade receivables</u> | | |
| Trade receivables | \$ 778,843 | \$ 825,615 |
| Less: Allowance for impairment loss | <u>(5,142)</u> | <u>(6,264)</u> |
| | <u>\$ 773,701</u> | <u>\$ 819,351</u> |
| <u>Other receivables</u> | | |
| Sale of raw materials | \$ 4,771 | \$ 19,122 |
| Tax refund receivable | 34,411 | 53,214 |
| Others | 7,867 | 11,895 |
| Less: Allowance for impairment loss | <u>-</u> | <u>(2)</u> |
| | <u>\$ 47,049</u> | <u>\$ 84,229</u> |

Notes Receivable, and Trade Receivables

In determining the recoverability of a trade receivables, the Group considered any change in the credit quality of the trade receivables since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss were recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

| | December 31 | |
|--------------------|--------------------|-------------------|
| | 2016 | 2015 |
| Less than 30 days | \$ 436,203 | \$ 509,115 |
| 31-60 days | 231,977 | 205,885 |
| 61-120 days | 100,084 | 87,850 |
| More than 121 days | <u>10,579</u> | <u>22,765</u> |
| | <u>\$ 778,843</u> | <u>\$ 825,615</u> |

The above aging schedule was based on the posting date.

The aging of receivables that were past due but not impaired was as follows:

| | December 31 | |
|--------------------|--------------------|------------------|
| | 2016 | 2015 |
| Less than 30 days | \$ 19,075 | \$ 29,451 |
| 31-60 days | 13,019 | 7,526 |
| 61-120 days | 1,271 | 3,480 |
| More than 121 days | <u>-</u> | <u>755</u> |
| | <u>\$ 33,365</u> | <u>\$ 41,212</u> |

The above aging schedule was based on the past due days from expiry date.

The movements of the allowance for doubtful receivables were as follows:

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|--|---|---|-----------------|
| Balance at January 1, 2015 | \$ 1,218 | \$ 3,395 | \$ 4,613 |
| Add: Impairment losses recognized on receivables | - | 1,530 | 1,530 |
| Foreign exchange translation gains and losses | <u>-</u> | <u>123</u> | <u>123</u> |
| Balance at December 31, 2015 | <u>\$ 1,218</u> | <u>\$ 5,048</u> | <u>\$ 6,266</u> |
| Balance at January 1, 2016 | \$ 1,218 | \$ 5,048 | \$ 6,266 |
| Less: Impairment losses reversed (Impairment losses reversed) | 217 | (1,285) | (1,068) |
| Foreign exchange translation gains and losses | <u>-</u> | <u>(56)</u> | <u>(56)</u> |
| Balance at December 31, 2016 | <u>\$ 1,435</u> | <u>\$ 3,707</u> | <u>\$ 5,142</u> |

11. INVENTORIES

| | <u>December 31</u> | |
|----------------------------|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Merchandise | \$ 197,250 | \$ 223,698 |
| Finished goods | 310,863 | 240,611 |
| Work in progress | 1,272,270 | 1,528,891 |
| Raw materials and supplies | 383,696 | 337,332 |
| Goods to subcontractor | 3,134 | 1,662 |
| Inventory in transit | <u>81,608</u> | <u>177,347</u> |
| | <u>\$ 2,248,821</u> | <u>\$ 2,509,541</u> |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was \$7,213,680 thousand and \$7,516,148 thousand, respectively. The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 included inventory write-downs of \$9,239 thousand and \$24,926 thousand.

12. SUBSIDIARIES

a. Subsidiaries included in consolidated financial statements

| Investor | Investee | Main Business | <u>% of Ownership</u> | | Remark |
|-------------------------------------|---|--|-----------------------|-------------|-----------------------------|
| | | | <u>December 31</u> | <u>2015</u> | |
| The Company | Kwong Lung Feather (B.V.I.) Limited | Overseas reinvested holding company. | 100 | 100 | |
| | Kwong Lung Meko Co., Ltd. | Manufacturing and selling of down and bedding. | 100 | 100 | |
| | Kwong Lung Japan Co., Ltd. | Manufacturing and selling of down and bedding. | 100 | 100 | |
| | Bo Hsing Enterprise Co., Ltd. | Manufacturing and selling of apparel. | 100 | 100 | |
| | Toptex Garment Co., Ltd. | Manufacturing and selling of apparel. | 100 | 100 | |
| | Nepheles Co., Ltd. | Manufacturing, exporting, importing and selling clothing. | 90 | 90 | |
| | Klego Co., Ltd. | Wholesale and retail sale of cloths, clothes, shoes, hat, umbrella and apparel, clothing accessories, furniture, bedclothes kitchen equipment, fixtures, cosmetics and other textile products; retail business without shop; retail sale of other products; international trade; software design services; data processing services; third party payment; retail sale of computer software; body shaping services; wholesale and retail sale of drugs, medical goods. | 100 | 100 | Establishment in April 2015 |
| | BBL Premium Co., Ltd. | Outerwear knitting mills; apparel, clothing accessories and other textile product manufacturing; other textile products manufacturing; cleaning products manufacturing; wholesale and retail sale of cloths, clothes, shoes, hat, umbrella and apparel, clothing accessories, furniture, bedclothes kitchen equipment, fixtures, articles for daily use, cleaning preparations and other textile products; wholesale of pottery, porcelain and glassware; international trade. | 100 | 100 | Establishment in July 2015 |
| Kwong Lung Feather (B.V.I.) Limited | Snowdown Merchandise (Suzhou) Co., Ltd. | Manufacturing and selling of down and bedding. | 100 | 100 | |
| Kwong Lung Japan Co., Ltd. | Downgoods Co., Ltd. | Manufacturing, exporting, importing and selling clothing. | 51 | 51 | Establishment in March 2015 |

The financial statements of the subsidiaries are audited as of December 31, 2016. Kwong Lung Japan Co., Ltd. and Downgoods Co., Ltd. are not major subsidiaries, so their financial statements as of December 31, 2015 have not been audited. The management believes that an audit of the financial statements of Downgoods Co., Ltd. would not result in significant impact on the Group's consolidated financial statements.

b. Subsidiaries excluded from consolidated financial statements: None.

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | <u>December 31</u> | |
|-------------------------------|--------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Investments in associates | \$ 158,363 | \$ 69,149 |
| Investments in joint ventures | <u>23,199</u> | <u>30,732</u> |
| | <u>\$ 181,562</u> | <u>\$ 99,881</u> |

a. Investments in associates

| | <u>December 31</u> | |
|---|--------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Associates that are not individually material | <u>\$ 158,363</u> | <u>\$ 69,149</u> |

Aggregate information of associates that are not individually material

| | <u>For the Year Ended December 31</u> | |
|--|---------------------------------------|---------------|
| | <u>2016</u> | <u>2015</u> |
| The Group's share of: | | |
| Profit (loss) from continuing operations | \$ 7,968 | \$ 967 |
| Other comprehensive income | <u>4,050</u> | <u>(7)</u> |
| Total comprehensive income for the year | <u>\$ 12,018</u> | <u>\$ 960</u> |

The Group's holding rate increased from 19.5% to 39.5%, and gained significant influence after the minority shareholders of the company, in which that held by the Group has financial assets measured at cost, exercised their rights and sold their shares in February 2015. Therefore, the Group reclassified the above investments from financial assets measured at cost to investments accounted for using equity method. The Group remeasured its interests based on the fair value on the day it gained significant influence and recognized gain on disposal of investment of \$33,094 thousand in 2015.

The Group invested \$77,197 thousand to acquired some associates that are not individually material in 2016.

b. Investments in joint ventures

| | <u>December 31</u> | |
|---|--------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Joint ventures that are not individually material | <u>\$ 23,199</u> | <u>\$ 30,732</u> |

Aggregate information of joint ventures that are not individually material

(In Thousands of Vietnamese Dong)

For the Year Ended December 31
2016 **2015**

The Group's share of:

| | | |
|--|-----------------------|---------------------|
| Profit (loss) from continuing operations | \$ (1,852,274) | \$ 2,072,275 |
| Other comprehensive income | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | <u>\$ (1,852,274)</u> | <u>\$ 2,072,275</u> |

At the end of the reporting period, the proportion of ownership and voting rights in joint ventures held by the Group were 49%.

The main business and the place of business and incorporation of the above associates and joint ventures are described in Schedule 7 for related disclosures.

14. PROPERTY, PLANT AND EQUIPMENT

| | Freehold Land | Buildings | Machinery Equipment | Trans- portation Equipment | Other Equipment | Property under Construction | Total |
|--|-------------------|---------------------|------------------------|----------------------------------|--------------------|-----------------------------------|---------------------|
| <u>Cost</u> | | | | | | | |
| Balance at January 1, 2015 | \$ 142,765 | \$ 1,188,919 | \$ 665,305 | \$ 41,531 | \$ 312,090 | \$ 6,813 | \$ 2,357,423 |
| Additions | - | 6,688 | 49,919 | 402 | 11,376 | 167,219 | 235,604 |
| Disposals | - | (745) | (1,113) | - | (2,050) | - | (3,908) |
| Reclassification | 122,919 | 105,767 | 6,589 | 321 | 1,694 | (171,032) | 66,258 |
| Effect of foreign currency exchange differences | <u>-</u> | <u>(226)</u> | <u>2,955</u> | <u>45</u> | <u>(2,898)</u> | <u>-</u> | <u>(124)</u> |
| Balance at December 31, 2015 | <u>\$ 265,684</u> | <u>\$ 1,300,403</u> | <u>\$ 723,655</u> | <u>\$ 42,299</u> | <u>\$ 320,212</u> | <u>\$ 3,000</u> | <u>\$ 2,655,253</u> |
| <u>Accumulated depreciation</u> | | | | | | | |
| Balance at January 1, 2015 | \$ - | \$ 450,109 | \$ 527,737 | \$ 21,497 | \$ 229,376 | \$ - | \$ 1,228,719 |
| Disposals | - | (24) | (514) | - | (2,413) | - | (2,951) |
| Depreciation expense | - | 48,691 | 51,500 | 5,226 | 31,339 | - | 136,756 |
| Effect of foreign currency exchange differences | <u>-</u> | <u>(1,976)</u> | <u>1,444</u> | <u>21</u> | <u>(2,312)</u> | <u>-</u> | <u>(2,823)</u> |
| Balance at December 31, 2015 | <u>\$ -</u> | <u>\$ 496,800</u> | <u>\$ 580,167</u> | <u>\$ 26,744</u> | <u>\$ 255,990</u> | <u>\$ -</u> | <u>\$ 1,359,701</u> |
| Carrying amounts at December 31, 2015 | <u>\$ 265,684</u> | <u>\$ 803,603</u> | <u>\$ 143,488</u> | <u>\$ 15,555</u> | <u>\$ 64,222</u> | <u>\$ 3,000</u> | <u>\$ 1,295,552</u> |
| <u>Cost</u> | | | | | | | |
| Balance at January 1, 2016 | \$ 265,684 | \$ 1,300,403 | \$ 723,655 | \$ 42,299 | \$ 320,212 | \$ 3,000 | \$ 2,655,253 |
| Additions | - | 1,370 | 43,597 | 3,296 | 2,334 | 28,444 | 79,041 |
| Disposals | - | - | (4,985) | (93) | (6,704) | - | (11,782) |
| Reclassification | - | 5,116 | 16,324 | 2,468 | 5,231 | 33,132 | 62,271 |
| Effect of foreign currency exchange differences | <u>-</u> | <u>(61,744)</u> | <u>(35,137)</u> | <u>(2,400)</u> | <u>(13,813)</u> | <u>(15)</u> | <u>(113,109)</u> |
| Balance at December 31, 2016 | <u>\$ 265,684</u> | <u>\$ 1,245,145</u> | <u>\$ 743,454</u> | <u>\$ 45,570</u> | <u>\$ 307,260</u> | <u>\$ 64,561</u> | <u>\$ 2,671,674</u> |
| <u>Accumulated depreciation</u> | | | | | | | |
| Balance at January 1, 2016 | \$ - | \$ 496,800 | \$ 580,167 | \$ 26,744 | \$ 255,990 | \$ - | \$ 1,359,701 |
| Disposals | - | - | (4,478) | (93) | (5,952) | - | (10,523) |
| Depreciation expense | - | 57,790 | 48,035 | 5,404 | 25,184 | - | 136,413 |
| Effect of foreign currency exchange differences | <u>-</u> | <u>(25,801)</u> | <u>(29,367)</u> | <u>(1,677)</u> | <u>(11,270)</u> | <u>-</u> | <u>(68,115)</u> |
| Balance at December 31, 2016 | <u>\$ -</u> | <u>\$ 528,789</u> | <u>\$ 594,357</u> | <u>\$ 30,378</u> | <u>\$ 263,952</u> | <u>\$ -</u> | <u>\$ 1,417,476</u> |
| Carrying amounts at December 31, 2016 | <u>\$ 265,684</u> | <u>\$ 716,356</u> | <u>\$ 149,097</u> | <u>\$ 15,192</u> | <u>\$ 43,308</u> | <u>\$ 64,561</u> | <u>\$ 1,254,198</u> |

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

| | |
|--------------------------|----------------|
| Building | |
| Main buildings | 10 to 51 years |
| Construction | 1 to 26 years |
| Machinery equipment | 2 to 20 years |
| Transportation equipment | 4 to 12 years |
| Office equipment | 2 to 15 years |
| Other equipment | |
| Air conditioning | 36 to 51 years |
| Utilities equipment | 2 to 23 years |
| Others | 1 to 25 years |
| Leasehold improvements | 1 to 7 years |

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 31.

15. INVESTMENT PROPERTIES

| | December 31 | |
|---------------------------------|--------------------|------------------|
| | 2016 | 2015 |
| Completed investment properties | <u>\$ 96,750</u> | <u>\$ 96,214</u> |

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

| | |
|----------------|----------|
| Main buildings | 28 years |
|----------------|----------|

The fair values of investment properties were assessed as follows:

(In Thousands of Japanese Yen)

| | December 31 | |
|-----------------------|--------------------|-------------------|
| | 2016 | 2015 |
| Independent valuation | <u>\$ 388,000</u> | <u>\$ 363,000</u> |

The fair values of investment properties as of December 31, 2016 were based on the valuations, carried out as of December 31, 2016, by independent qualified professional valuator whom in CCIS Real Estate Joint Appraisers Firm, a member of Taiwan certified Japan real estate appraisers. The fair values of investment properties were estimated based on unobservable inputs (Level 3), and by using the comparison approach, cost approach and the direct capitalization approach describe.

The fair values of investment properties as of December 31, 2015 were based on the valuations, carried out as of December 31, 2015, by independent qualified professional valuator whom in Central Real Estate Co., Ltd., a member of Japan certified Japan real estate appraisers. The fair values of investment properties were estimated based on unobservable inputs (Level 3), and by using the market value approach and the income approach describe.

16. OTHER INTANGIBLE ASSETS

| | <u>December 31</u> | |
|---------------------------|--------------------|------------------|
| | 2016 | 2015 |
| Licenses | \$ 282 | \$ 369 |
| Cost of computer software | <u>36,198</u> | <u>35,950</u> |
| | <u>\$ 36,480</u> | <u>\$ 36,319</u> |

Other intangible assets are depreciated on a straight-line basis over the estimated useful lives as follows:

| | |
|---------------------------|-----------|
| Licenses | 10 years |
| Cost of computer software | 2-5 years |

17. REPAYMENTS FOR LEASE OBLIGATIONS

| | <u>December 31</u> | |
|-------------------|--------------------|-------------------|
| | 2016 | 2015 |
| Current asset | \$ 4,042 | \$ 4,297 |
| Non-current asset | <u>91,292</u> | <u>100,499</u> |
| | <u>\$ 95,334</u> | <u>\$ 104,796</u> |

The prepaid lease payments include land use rights, which are located in mainland China and Vietnam.

18. BORROWINGS

a. Short-term borrowings

| | <u>December 31</u> | |
|-----------------------------|--------------------|-------------------|
| | 2016 | 2015 |
| <u>Unsecured borrowings</u> | | |
| Line of credit borrowings | <u>\$ 545,006</u> | <u>\$ 568,729</u> |

The range of interest rates on bank loans was 0.53%-2.16% and 0.53%-4.79% per annum as of December 31, 2016 and 2015, respectively.

b. Long-term borrowings

| | <u>December 31</u> | |
|-------------------------------------|--------------------|-------------------|
| | 2016 | 2015 |
| <u>Secured borrowings (Note 31)</u> | | |
| Bank loans (1) | \$ - | \$ 230,000 |
| <u>Unsecured borrowings</u> | | |
| Credit borrowings (2) | <u>200,000</u> | <u>635,094</u> |
| | 200,000 | 865,094 |
| Less: Current portion | <u>-</u> | <u>(287,437)</u> |
| Long-term borrowings | <u>\$ 200,000</u> | <u>\$ 577,657</u> |

- 1) As of December 31, 2015, the weighted average effective interest rate of the bank borrowings secured by the Group's freehold land and building is 1.33%-1.63% per annum and the maturity date is March 31, 2018. The company has made prepayment since June 30, 2016.
- 2) The Company entered into a syndicated loans agreement with E.Sun Bank, the mandated lead arranger of the agreement, and other participants. The agreement offered the Company a line of credit of \$1,350,000 thousand.
 - a) First Credit - the credit line for \$900,000 thousand may be used separately but may not be used on a revolving basis.
 - b) Second Credit - the credit line for \$450,000 thousand may be used on a revolving basis. The credit line shall be reduced starting from the end of the twenty-fourth months after the first use and every three months thereafter, with a total of five adjustments. The reduction in each of the first to fourth adjustments is 12.5% and 50% on the fifth adjustment.

In addition to the general provisions, the agreement also included covenants which require the Company to maintain some financial ratios. If the Company fails to comply with the covenants, the consequence shall be decided by majority lenders.

The financial ratios that the Company shall comply with during the agreement period are as follows:

- a) Current Ratio (Current assets ÷ Current liabilities) shall be maintained at above 100%;
- b) Debt Ratio (Liabilities ÷ Tangible equities) shall be maintained at below 180%;
- c) Interest Coverage Ratio [(Profit before income tax + Interest expenses + Depreciation expenses + Amortization expenses) ÷ Interest expenses) shall be maintained at above 400%;
- d) Minimum tangible equities (Equities - Intangible assets) shall be maintained at above \$1,900,000 thousand;

The above financial ratios shall be tested annually using the consolidated financial statements of the Company for the relevant financial year, and may be tested on other dates when the facility agent deems necessary. Also the Company's financial manager or certified public accountant shall issue an announcement to declare that, based on the testing results, there was no breach of the financial covenants.

If the Company failed to maintain the above financial ratios, the Company shall adjust within nine months after the relevant financial year, and if after the adjustment, the above financial ratios have been reviewed by certified public accountant and declared in compliance with covenants, the Company will not be regarded in breach of the agreement. But after the next interest payment date, as informed by the facility agent, till the next interest payment date after the Company's compliance with the loan covenants, all provision in the agreement about the margin of interest rate shall be increased by 0.125%.

The syndicated loans agreement mentioned above had been paid in full in September 2016.

19. BONDS PAYABLE

| | <u>December 31</u> | |
|-------------------------|--------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Unsecured bonds payable | \$ 763,482 | \$ - |
| Less: Current portion | <u>-</u> | <u>-</u> |
| Bonds payable | <u>\$ 763,482</u> | <u>\$ -</u> |

To repay the loan, the company issued the 1st domestic unsecured convertible bonds with an aggregate principal amount of \$800,000 thousand and a par value of \$100 thousand per bond certificate. At the end from the bond issuance date, bondholders have the right to redeem the convertible bonds at par value in cash. The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - option. The terms and conditions are as follows:

- a. Issuance date: September 30, 2016
- b. Coupon rate: 0%
- c. Issuance period: 3 years, and a circulation period from September 30, 2016 to September 30, 2019.
- d. Redemption of the convertible bonds

At the end of the third year from the bond issuance date, bondholders have the right to request the Company to redeem the convertible bonds at par value in cash. The conditions are as follows:

- 1) the closing price of the Company common shares on Taipei Exchange Market is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after one month of the bonds issue to 40 days before the maturity date, or
 - 2) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date.
- e. Redemption method
- 1) Conversion of subject: The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.
 - 2) Conversion period:

The bonds are exchangeable at any time on or after 31 October, 2016 and prior to 30 September, 2019 into common shares of the Company except closed period.

- 3) The conversion price of the bonds is set up based on the Arithmetic mean of the business date's stock closing price multiplying 103% premium rate before the effective date, September 22, 2016. The conversion price was originally NT\$50.88 per share.
 - a) After the issuance of the convertible bonds, except for the event that the company renewal ordinary share by all kinds of securities with the conversion or stock option of the ordinary shares or issue ordinary share due to employee bonus, the company shall adjust the conversion price of the converted bonds according to the formula when the publicly or privately issued ordinary share increase(Including but not limited to cash replenishment by either public issuance or private placement, earnings transferred to capital, capital surplus transferred to capital, stock issuance of corporate combination, stock split, and cash replenishment to participate the issuance of overseas depositary receipts etc.)

- b) After the issuance of the convertible bonds, in the event that the ratio of the cash dividends of the ordinary shares to the price per share is more than 1.5%, the conversion price shall be reduced on the basis of the ratio at effective date.
- c) After the issuance of the convertible bonds, the conversion price shall be adjusted according to the formula when the company re-raise or privately place all kinds of securities with the conversion or stock option of the ordinary shares at price lower than the market price per share.
- d) After the issuance of the convertible bonds, the conversion price shall be adjusted according to the formula when the reduction of the ordinary shares is not because of the capital reduction of the treasury shares.
- 4) The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - option. The effective interest rate of the liability component was 1.7145% per annum on initial recognition.

| | |
|---|-------------------|
| Proceeds from issue (less transaction costs \$5,120 thousand) | \$ 794,880 |
| Equity component (less transaction costs allocated to the equity component of \$223 thousand) | <u>(34,657)</u> |
| Liability component at the date of issuance (less transaction costs allocated to the liability component of \$4,897 thousand) | 760,223 |
| Interest charged at an effective interest rate | <u>3,259</u> |
| Liability component at December 31, 2016 | <u>\$ 763,482</u> |

20. OTHER PAYABLES

| | <u>December 31</u> | |
|---|--------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Accrued payroll and employee benefit | \$ 172,994 | \$ 144,324 |
| Accrued fabrication expense | 23,707 | 23,183 |
| Accrued bonus to employees | 50,000 | 50,000 |
| Accrued remuneration to directors and supervisors | 14,900 | 15,000 |
| Others | <u>132,354</u> | <u>108,787</u> |
| | <u>\$ 393,955</u> | <u>\$ 341,294</u> |

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company, Klego Co., Ltd. and BBL Premium Co., Ltd. of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiary outside Taiwan are members of a state-managed retirement benefit plan operated by the government. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 3.18% 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 Company 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 Company 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 Company 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 were as follows:

| | December 31 | |
|---|--------------------|------------------|
| | 2016 | 2015 |
| Present value of defined benefit obligation | \$ 69,036 | \$ 73,550 |
| Fair value of plan assets | <u>(21,886)</u> | <u>(25,112)</u> |
| Net defined benefit liability | <u>\$ 47,150</u> | <u>\$ 48,438</u> |

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

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|--|--|--|
| Balance at January 1, 2015 | <u>\$ 78,811</u> | <u>\$ (34,319)</u> | <u>\$ 44,492</u> |
| Service cost | | | |
| Current service cost | 847 | - | 847 |
| Changes in plan curtailment | (10,729) | - | (10,729) |
| Payments in plan settlement | - | 7,356 | 7,356 |
| Net interest expense (income) | <u>1,570</u> | <u>(701)</u> | <u>869</u> |
| Recognized in profit or loss | <u>(8,312)</u> | <u>6,655</u> | <u>(1,657)</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (174) | (174) |
| Actuarial loss - changes in demographic assumptions | 681 | - | 681 |
| Actuarial loss - changes in financial assumptions | 7,251 | - | 7,251 |
| Actuarial loss - experience adjustments | <u>334</u> | <u>-</u> | <u>334</u> |
| Recognized in other comprehensive income | <u>8,266</u> | <u>(174)</u> | <u>8,092</u> |
| Contributions from the employer | - | (2,168) | (2,168) |
| Benefits paid - recognized expenses | (321) | - | (321) |
| Benefits paid - from plan assets | <u>(4,894)</u> | <u>4,894</u> | <u>-</u> |
| Balance at December 31, 2015 | <u>73,550</u> | <u>(25,112)</u> | <u>48,438</u> |

(Continued)

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|--|--|--|
| Service cost | | | |
| Current service cost | \$ 591 | \$ - | \$ 591 |
| Changes in plan curtailment | (2,159) | - | (2,159) |
| Payments in plan settlement | - | 1,784 | 1,784 |
| Net interest expense (income) | <u>913</u> | <u>(320)</u> | <u>593</u> |
| Recognized in profit or loss | <u>(655)</u> | <u>1,464</u> | <u>809</u> |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 160 | 160 |
| Actuarial loss - changes in demographic assumptions | 15 | - | 15 |
| Actuarial loss - experience adjustments | <u>(440)</u> | <u>-</u> | <u>(440)</u> |
| Recognized in other comprehensive income | <u>(425)</u> | <u>160</u> | <u>(265)</u> |
| Contributions from the employer | - | (1,825) | (1,825) |
| Benefits paid - recognized expenses | (7) | - | (7) |
| Benefits paid - from plan assets | <u>(3,427)</u> | <u>3,427</u> | <u>-</u> |
| Balance at December 31, 2016 | <u>\$ 69,036</u> | <u>\$ (21,886)</u> | <u>\$ 47,150</u> (Concluded) |

Through the defined benefit plans 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 or corporate 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:

| | <u>December 31</u> | |
|-------------------------------------|--------------------|-------------|
| | 2016 | 2015 |
| Discount rate(s) | 1.25% | 1.25% |
| Expected rate(s) of salary increase | 3.00% | 3.00% |
| Turnover rate | 0.34% | 0.34% |

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

| | December 31 | |
|-------------------------------------|--------------------|-------------------|
| | 2016 | 2015 |
| Discount rate(s) | | |
| 0.25% increase | <u>\$ (2,052)</u> | <u>\$ (2,197)</u> |
| 0.25% decrease | <u>\$ 2,140</u> | <u>\$ 2,293</u> |
| Expected rate(s) of salary increase | | |
| 0.25% increase | <u>\$ 2,098</u> | <u>\$ 2,248</u> |
| 0.25% decrease | <u>\$ (2,032)</u> | <u>\$ (2,166)</u> |
| Turnover rate | | |
| 10% increase | <u>\$ (27)</u> | <u>\$ (35)</u> |
| 10% decrease | <u>\$ 27</u> | <u>\$ 35</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.

| | December 31 | |
|--|--------------------|-----------------|
| | 2016 | 2015 |
| The expected contributions to the plan for the next year | <u>\$ 1,852</u> | <u>\$ 1,887</u> |
| The average duration of the defined benefit obligation | 11 years | 12 years |

22. EQUITY

a. Share capital

Ordinary shares

| | December 31 | |
|---|---------------------|---------------------|
| | 2016 | 2015 |
| Number of shares authorized (in thousands) | <u>160,000</u> | <u>160,000</u> |
| Shares authorized | <u>\$ 1,600,000</u> | <u>\$ 1,600,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>108,325</u> | <u>106,469</u> |
| Shares issued | <u>\$ 1,083,250</u> | <u>\$ 1,064,690</u> |

b. Capital surplus

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares and treasury share transactions) 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).

The capital surplus arising from employee share and convertible bonds options may not be used for any purpose.

c. Retained earnings and dividend policy

The Company's Articles of Incorporation provide that 10% of the annual net income (less any deficit) should be appropriated as legal reserve. A special reserve should be provided in accordance with relevant regulations, and the appropriations of the remainder should be resolved by the board of directors and then submitted in the shareholders' meeting for approval. These appropriations should include more than 20% as cash dividends, more than 1% as employees' bonus and less than 5% as remuneration to directors and supervisors.

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 consequential amendments to the Company's Articles of Incorporation had been proposed by the Company's board of directors on December 18, 2015 and are subject to the resolution of the shareholders in their meeting to be held on June 21, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to Note 23 (4), Employee benefits expense.

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.

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 have been approved in the shareholders' meetings on June 21, 2016 and June 9, 2015, respectively; the amounts were as follows:

| | <u>Appropriation of Earnings</u> | | <u>Dividends Per Share (NT\$)</u> | |
|----------------|----------------------------------|-------------|-----------------------------------|-------------|
| | <u>For the Year Ended</u> | | <u>For the Year Ended</u> | |
| | <u>December 31</u> | | <u>December 31</u> | |
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Legal reserve | \$ 43,134 | \$ 38,219 | | |
| Cash dividends | 319,407 | 314,001 | \$3 | \$3 |

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 24, 2017. The appropriations and dividends per share were as follows:

| | <u>Appropriation</u> | <u>Dividends Per</u> |
|----------------|----------------------|----------------------|
| | <u>of Earnings</u> | <u>Share (NT\$)</u> |
| Legal reserve | \$ 44,737 | |
| Cash dividends | 389,970 | \$3.6 |

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

23. NET PROFIT FROM CONTINUING OPERATIONS

Net Profit from Continuing Operations

a. Other gains and losses

| | For the Year Ended December 31 | |
|--|---------------------------------------|------------------|
| | 2016 | 2015 |
| Foreign exchange gains | \$ 185,302 | \$ 340,488 |
| Foreign exchange losses | (179,260) | (298,045) |
| Net gain (loss) arising on financial assets designated as at FVTPL | 13,780 | (28,060) |
| Gain on disposal of investment | - | 33,094 |
| Loss on disposal of property, plant and equipment | (187) | (350) |
| Others | <u>7,374</u> | <u>3,325</u> |
| | <u>\$ 27,009</u> | <u>\$ 50,452</u> |

b. Finance costs

| | For the Year Ended December 31 | |
|------------------------|---------------------------------------|------------------|
| | 2016 | 2015 |
| Interest on bank loans | \$ 23,161 | \$ 32,242 |
| convertible bonds | <u>3,259</u> | <u>-</u> |
| | <u>\$ 26,420</u> | <u>\$ 32,242</u> |

c. Depreciation and amortization

| | For the Year Ended December 31 | |
|--|---------------------------------------|-------------------|
| | 2016 | 2015 |
| Property, plant and equipment | \$ 136,413 | \$ 136,756 |
| Investment property | 525 | 309 |
| Intangible assets (included in operating expenses) | <u>19,411</u> | <u>19,124</u> |
| | <u>\$ 156,349</u> | <u>\$ 156,189</u> |
| An analysis of depreciation by function | | |
| Operating costs | \$ 87,106 | \$ 95,845 |
| Operating expenses | <u>49,832</u> | <u>41,220</u> |
| | <u>\$ 136,938</u> | <u>\$ 137,065</u> |

d. Employee benefits expense

| | <u>For the Year Ended December 31</u> | |
|--|--|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Post-employment benefits | | |
| Defined contribution plans | \$ 20,826 | \$ 22,120 |
| Defined benefit plans | <u>809</u> | <u>(1,657)</u> |
| | <u>21,635</u> | <u>20,463</u> |
| Share-based payments | | |
| Equity-settled | <u>17,157</u> | <u>31,054</u> |
| Other employee benefits | <u>1,083,650</u> | <u>1,037,147</u> |
| Total employee benefits expense | <u>\$ 1,122,442</u> | <u>\$ 1,088,664</u> |
| An analysis of employee benefits expense by function | | |
| Operating costs | \$ 696,670 | \$ 654,475 |
| Operating expenses | <u>425,772</u> | <u>434,189</u> |
| | <u>\$ 1,122,442</u> | <u>\$ 1,088,664</u> |

Bonus to employees' compensation and remuneration of directors and supervisors for 2016 and 2015

Incorporation of the Company approved by the shareholders in their meeting in June 2016, the Company accrued employees' compensation and remuneration to directors and supervisors at the rates no less than 1% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 24, 2017 and March 25, 2016, respectively, were as follows:

Amount

| | <u>For the Year Ended December 31</u> | |
|---|--|--------------------|
| | <u>2016</u> | <u>2015</u> |
| | Cash | Cash |
| Employees' compensation | \$ 50,000 | \$ 50,000 |
| Remuneration to directors and supervisors | 14,900 | 15,000 |

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 to 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 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.

Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 9, 2015 were as follows:

| | For the Year Ended December 31, 2014 |
|---|---|
| | Cash |
| Bonus to employees | \$ 45,706 |
| Remuneration of directors and supervisors | 15,000 |

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 9, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

- a. Major components of income tax expense recognized in profit or loss

| | For the Year Ended December 31 | |
|---|---------------------------------------|------------------|
| | 2016 | 2015 |
| Current tax | | |
| In respect of the current year | \$ 58,695 | \$ 84,581 |
| Income tax expense of unappropriated earnings | 6,208 | 2,722 |
| Adjustments for prior periods | <u>(1,226)</u> | <u>-</u> |
| | 63,677 | 87,303 |
| Deferred tax | | |
| In respect of the current year | <u>2,375</u> | <u>(6,866)</u> |
| Income tax expense recognized in profit or loss | <u>\$ 66,052</u> | <u>\$ 80,437</u> |

A reconciliation of accounting profit and income tax expenses is as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|-------------------|
| | 2016 | 2015 |
| Profit before tax from continuing operations | <u>\$ 511,897</u> | <u>\$ 510,454</u> |
| Income tax expense calculated at the statutory rate (17%) | \$ 87,022 | \$ 86,777 |
| Nondeductible expenses (deductible gains) in determining taxable income | 981 | (2,082) |
| Deferred tax on undistributed earnings from subsidiary | 39,605 | 40,006 |
| Additional income tax on unappropriated earnings | 6,208 | 2,722 |
| Unrecognized deductible temporary differences | (40,396) | (38,623) |
| Effect of different tax rate of group entities operating in other jurisdictions | (26,142) | (8,363) |
| Adjustments for prior years' tax | <u>(1,226)</u> | <u>-</u> |
| Income tax expense recognized in profit or loss | <u>\$ 66,052</u> | <u>\$ 80,437</u> |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2016 appropriations of earnings is uncertain, the potential income tax consequences of 2015 unappropriated earnings are not reliably determinable.

b. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehen- sive Income | Closing Balance |
|---------------------------------|----------------------------|---|---|----------------------------|
| <u>Deferred tax assets</u> | | | | |
| Temporary differences | | | | |
| Foreign exchange losses | \$ 3,777 | \$ 28,477 | \$ - | \$ 6,624 |
| Write-down of inventories | 4,934 | (304) | - | 4,630 |
| Unrealized intercompany gain | 2,112 | 326 | - | 2,438 |
| FVTPL financial liabilities | 4,770 | (4,770) | - | - |
| Defined benefit obligation | 8,210 | (176) | (45) | 7,989 |
| Accrued employee benefit | 4,696 | (285) | - | 4,411 |
| Others | <u>-</u> | <u>798</u> | <u>-</u> | <u>798</u> |
| | <u>\$ 28,499</u> | <u>\$ (1,564)</u> | <u>\$ (45)</u> | <u>\$ 26,890</u> |

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehen- sive Income | Closing Balance |
|--|----------------------------|---|---|----------------------------|
| <u>Deferred tax liabilities</u> | | | | |
| Temporary differences | | | | |
| Foreign exchange gains | \$ (1,775) | \$ 1,744 | \$ - | \$ (31) |
| FVTPL financial assets | - | (2,342) | - | (2,342) |
| Unappropriated earnings of subsidiaries and joint ventures | (95,996) | (213) | - | (96,209) |
| Others | <u>(141)</u> | <u>-</u> | <u>-</u> | <u>(141)</u> |
| | <u>\$ (97,912)</u> | <u>\$ (811)</u> | <u>\$ -</u> | <u>\$ (98,723)</u> |

For the year ended December 31, 2015

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehen- sive Income | Closing Balance |
|---------------------------------|----------------------------|---|---|----------------------------|
| <u>Deferred tax assets</u> | | | | |
| Temporary differences | | | | |
| Foreign exchange losses | \$ 1,501 | \$ 2,276 | \$ - | \$ 3,777 |
| Write-down of inventories | 4,681 | 253 | - | 4,934 |
| Unrealized intercompany gain | 1,484 | 628 | - | 2,112 |
| FVTPL financial liabilities | 2,360 | 2,410 | - | 4,770 |
| Defined benefit obligation | 7,533 | (699) | 1,376 | 8,210 |
| Accrued employee benefit | <u>4,349</u> | <u>347</u> | <u>-</u> | <u>4,696</u> |
| | <u>\$ 21,908</u> | <u>\$ 5,215</u> | <u>\$ 1,376</u> | <u>\$ 28,499</u> |

Deferred tax liabilities

| | | | | |
|--|--------------------|-----------------|-------------|--------------------|
| Temporary differences | | | | |
| Foreign exchange gains | \$ (4,227) | \$ 2,452 | \$ - | \$ (1,775) |
| FVTPL financial assets | (1,314) | 1,314 | - | - |
| Unappropriated earnings of subsidiaries and joint ventures | (93,881) | (2,115) | - | (95,996) |
| Others | <u>(141)</u> | <u>-</u> | <u>-</u> | <u>(141)</u> |
| | <u>\$ (99,563)</u> | <u>\$ 1,651</u> | <u>\$ -</u> | <u>\$ (97,912)</u> |

c. Integrated income tax

| | <u>December 31</u> | |
|--|--|--------------------|
| | <u>2016</u> | <u>2015</u> |
| Unappropriated earnings | | |
| Generated before January 1, 1998 | \$ - | \$ - |
| Generated on and after January 1, 1998 | <u>940,615</u> | <u>855,561</u> |
| | <u>\$ 940,615</u> | <u>\$ 855,561</u> |
| Imputation credit accounts | <u>\$ 80,662</u> | <u>\$ 70,187</u> |
| | <u>For the Year Ended December 31</u> | |
| | <u>2016</u> | <u>2015</u> |
| | (Expected) | (Actual) |
| Creditable ratio for distribution of earnings. | 11.85% | 12.66% |

d. Income tax assessments

The tax returns through 2014, have been assessed by the tax authorities except for 2013.

25. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net Profit for the Year

| | <u>For the Year Ended December 31</u> | |
|--|---------------------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Profit for the period attributable to owners of the Company | \$ 447,375 | \$ 431,341 |
| Effect of potentially dilutive ordinary shares: | | |
| Interest on convertible bonds (after tax) | <u>3,259</u> | <u>-</u> |
| Earnings used in the computation of diluted earnings per share | <u>\$ 450,634</u> | <u>\$ 431,341</u> |

Weighted average number of ordinary shares outstanding (in thousand shares):

| | <u>For the Year Ended December 31</u> | |
|--|---------------------------------------|----------------|
| | <u>2016</u> | <u>2015</u> |
| Weighted average number of ordinary shares in computation of basic earnings per share | 106,674 | 105,451 |
| Effect of potentially dilutive ordinary shares: | | |
| Convertible bonds | 5,241 | - |
| Employee share option | 2,141 | 1,687 |
| Employees' compensation or bonus issue to employees | <u>1,326</u> | <u>1,390</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>115,382</u> | <u>108,528</u> |

If the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation or 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, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

26. SHARE-BASED PAYMENT ARRANGEMENTS

a. Employee share option plan of the Company

- 1) Qualified employees of the Company and its subsidiaries were granted 6,000 options in March 2014 and June 2013. Each option entitles the holder to subscribe for one thousand common shares of the Company. The options granted are valid for 6 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's common shares listed on the GreTai Securities Market on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

| | 2016 | | | | 2015 | | | |
|------------------------------------|----------------------------------|--|----------------------------------|--|----------------------------------|--|----------------------------------|--|
| | Granted 2015 | | Granted 2014 | | Granted 2015 | | Granted 2014 | |
| | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) |
| Balance at January 1 | 452 | \$ 41.20 | 2,996 | \$ 17.90 | 472 | \$ 44.80 | 4,989 | \$ 19.40 |
| Options exercised | (87) | 39.76 | (1,592) | 16.80 | - | - | (1,802) | 18.87 |
| Options forfeited | (13) | 38.40 | (29) | 17.18 | (20) | 41.20 | (191) | 17.90 |
| Balance at December 31 | <u>352</u> | 38.40 | <u>1,375</u> | 16.70 | <u>452</u> | 41.20 | <u>2,996</u> | 17.90 |
| Options exercisable, end of period | <u>139</u> | | <u>1,375</u> | | <u>-</u> | | <u>742</u> | |

Information on outstanding options as of December 31, 2016 and 2015 was as follows:

| | December 31 | |
|---|---------------|---------------|
| | 2016 | 2015 |
| Range of exercise price (NT\$) | \$16.7-\$38.4 | \$17.9-\$41.2 |
| Weighted-average remaining contractual life (years) | 2.46-3.22 | 3.47-4.22 |

Options granted in March 2014 and June 2013 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

| | March 2014 | June 2013 |
|-----------------------------|------------|------------|
| Grant-date share price (\$) | \$48 | \$21.3 |
| Exercise price (\$) | \$48 | \$21.3 |
| Expected volatility | 37.04% | 36.55% |
| Expected life (years) | 4.25 years | 4.25 years |
| Expected dividend yield | 0.00% | 0.00% |
| Risk-free interest rate | 1.07% | 0.99% |

Expected volatility was based on the historical share price volatility.

- 2) Qualified employees of the Company and its subsidiaries were granted 3,926 options in March 2015 and April 2014. Each option entitles the holder to subscribe for one thousand common shares of the Company. The options granted are valid for 6 years exercisable at certain percentages after the second anniversary from the grant date. The options were granted at an exercise price equal to the highest closing price of the Company's common shares listed on the GreTai Securities Market on the day before the grant date, on the grant date and on the day after it, or the average closing price of the three days. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

| | 2016 | | | | 2015 | | | |
|---|----------------------------------|--|----------------------------------|--|----------------------------------|--|----------------------------------|--|
| | Granted 2015 | | Granted 2014 | | Granted 2015 | | Granted 2014 | |
| | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) |
| Balance at January 1 | 785 | \$ 39.60 | 2,717 | \$ 45.60 | - | \$ - | 2,842 | \$ 49.50 |
| Options granted | - | - | - | - | 955 | 39.60 | - | - |
| Options exercised | - | - | (176) | 43.12 | - | - | - | - |
| Options forfeited | (50) | 36.72 | (146) | 43.90 | (170) | 39.60 | (125) | 45.60 |
| Balance at December 31 | <u>735</u> | 36.90 | <u>2,395</u> | 42.50 | <u>785</u> | 39.60 | <u>2,717</u> | 45.60 |
| Options exercisable, end of period | <u>-</u> | | <u>1,146</u> | | <u>-</u> | | <u>-</u> | |
| Weighted-average fair value of options granted (\$) | <u>-</u> | | <u>-</u> | | <u>12.86</u> | | <u>-</u> | |

Information on outstanding options as of December 31, 2016 and 2015 was as follows:

| | December 31 | |
|---|--------------------|---------------|
| | 2016 | 2015 |
| Range of exercise price (NT\$) | \$36.9-\$42.5 | \$39.6-\$45.6 |
| Weighted-average remaining contractual life (years) | 3.28-4.22 | 4.28-5.22 |

Options granted in March 2015 and April 2014 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

| | March 2015 | April 2014 |
|-----------------------------|-------------------|-------------------|
| Grant-date share price (\$) | \$43 | \$53.8 |
| Exercise price (\$) | \$43 | \$53.8 |
| Expected volatility | 34.65% | 37.11% |
| Expected life (years) | 4.38 years | 4.38 years |
| Expected dividend yield | 0.00% | 0.00% |
| Risk-free interest rate | 1.04% | 1.09% |

Expected volatility was based on the historical share price volatility.

Compensation cost recognized was \$17,157 thousand and \$31,054 thousand for years ended December 31, 2016 and 2015, respectively.

The weighted-average share price at the date of exercise of share options for the year ended December 31, 2016 and 2015 was \$49.26 and \$37.89, respectively.

27. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

Operating leases relate to leases of office and machinery equipment. The Group does not have a bargain purchase option to acquire the leased office and machinery equipment at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments in Taiwan and Japan, respectively, were as follows:

| | (In Thousands of NT\$) | |
|--|-------------------------------|------------------|
| | December 31 | |
| | 2016 | 2015 |
| Not later than 1 year | \$ 15,742 | \$ 12,929 |
| Later than 1 year and not later than 5 years | <u>25,014</u> | <u>14,524</u> |
| | <u>\$ 40,756</u> | <u>\$ 27,453</u> |

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy has no significant variations.

The capital structure of the Group consists of net debt (borrowings offset by cash) and equity attributable to owners of the Company (comprising issued capital, reserves, retained earnings and other equity).

The Group is not subject to any externally imposed capital requirements.

29. FINANCIAL INSTRUMENTS

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

December 31, 2016

| | Carrying Amount | Fair Value |
|------------------------------|----------------------------|-------------------|
| <u>Financial liabilities</u> | | |
| Convertible bonds | \$ 763,482 | \$ 823,360 |

December 31, 2015

| | Carrying Amount | Fair Value |
|------------------------------|----------------------------|-------------------|
| <u>Financial liabilities</u> | | |
| Convertible bonds | \$ - | \$ - |

- b. Fair value of financial instruments that are measured at fair value on a recurring basis

- 1) Fair value hierarchy

December 31, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|------------------|------------------|----------------|------------------|
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | <u>\$163,410</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$163,410</u> |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | <u>\$ -</u> | <u>\$ 13,780</u> | <u>\$ -</u> | <u>\$ 13,780</u> |

December 31, 2015

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|------------------|------------------|----------------|------------------|
| Available-for-sale financial assets | | | | |
| Securities listed in ROC | | | | |
| Equity securities | <u>\$ 39,805</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 39,805</u> |
| Financial liabilities at FVTPL | | | | |
| Derivative financial liabilities | <u>\$ -</u> | <u>\$ 28,060</u> | <u>\$ -</u> | <u>\$ 28,060</u> |

There were no transfers between Levels 1 and 2 in the current and prior periods.

- 2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

| <u>Financial Instruments</u> | <u>Valuation Techniques and Inputs</u> |
|--|--|
| Derivatives - foreign currency forward contracts | Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. |

- c. Categories of financial instruments

| | <u>December 31</u> | |
|---|--------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Financial assets</u> | | |
| Fair value through profit or loss (FVTPL) | | |
| Held for trading | \$ 13,780 | \$ - |
| Loans and receivables (1) | 1,886,533 | 1,587,756 |
| Available-for-sale financial assets (2) | 163,410 | 39,805 |
| <u>Financial liabilities</u> | | |
| Fair value through profit or loss (FVTPL) | | |
| Held for trading | - | 28,060 |
| Amortized cost (3) | 2,247,223 | 2,274,402 |

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash, debt investments with no active market, notes receivable, trade receivables and other receivables.
- 2) The balances included the carrying amount of available-for-sale financial assets measured at cost.
- 3) The balances included financial liabilities measured at amortized cost, which comprise notes payable, short-term and long-term loans, trade payables and other payables.

- c. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivable, other receivables, trade payables, other payables and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, 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 market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (refer to (a) below) and interest rates (refer to (b) below). The Group entered into forward foreign exchange contracts to manage its exposure to foreign currency risk.

a) Foreign currency risk

Several subsidiaries of the Company 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.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 34.

| | <u>December 31</u> | |
|--------------------|--------------------|-------------|
| | 2016 | 2015 |
| <u>Assets</u> | | |
| JPY | \$ 13,780 | \$ - |
| <u>Liabilities</u> | | |
| JPY | - | 7,164 |
| USD | - | 20,896 |

Sensitivity analysis

The Group was mainly exposed to the USD, CNY, JPY and EUR.

The following table details the Group's sensitivity to a 3% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 3% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts which were not designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 3% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated with New Taiwan dollars weakening by 3% against the relevant currency. For a 3% strengthening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

| | <u>USD Impact</u> | | <u>JPY Impact</u> | |
|-----------------|---------------------------------------|-------------|---------------------------------------|-------------|
| | <u>For the Year Ended December 31</u> | | <u>For the Year Ended December 31</u> | |
| | 2016 | 2015 | 2016 | 2015 |
| Profit or loss* | \$ 6,379 | \$ (19,139) | \$ 5,079 | \$ 1,773 |

| | CNY Impact | | EUR Impact | |
|-----------------|---------------------------------------|-------------|---------------------------------------|-------------|
| | For the Year Ended December 31 | | For the Year Ended December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| Profit or loss* | \$ 5,555 | \$ 6,088 | \$ (2,610) | \$ (658) |

* This was mainly attributable to the exposure on outstanding foreign currency cash, trade receivables, other receivables, borrowings, accounts payable, and other payables, which were not hedged at the end of the reporting period.

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.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

| | December 31 | |
|-------------------------------|--------------------|-------------|
| | 2016 | 2015 |
| Fair value interest rate risk | | |
| Financial assets | \$ 138,715 | \$ 102,000 |
| Financial liabilities | 914,631 | 654,653 |
| Cash flow interest rate risk | | |
| Financial assets | 775,248 | 484,715 |
| Financial liabilities | 593,857 | 779,170 |

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For 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 year. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would decrease/increase by \$907 thousand and decrease/increase by \$1,472 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities. The Group does not actively trade these investments. The Group's equity price risk was mainly concentrated on equity instruments operating in the ROC.

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 prices had been 10% higher/lower, the pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would increase/decrease by \$16,341 thousand and \$3,981 thousand, respectively, as a result of the changes in fair value of available-for-sale shares.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks with good credit ratings assigned by international credit-rating agencies.

Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

As of December 31, 2016 and 2015, the Group have individual account receivable comprising more than 10% of the Group's total accounts receivable would decrease/increase by \$336,705 thousand and \$258,638 thousand, respectively. The credit risk concentration of the Group's single customer does not exceed the total monetary assets of 20%.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash 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 bank loan facilities in the amounts of \$7,134,609 thousand and \$7,067,422 thousand, respectively.

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2016

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years |
|---|---|-------------------|-------------------------------|---------------------|
| <u>Non-derivative financial liabilities</u> | | | | |
| Non-interest bearing | \$ 945,671 | \$ 27,144 | \$ 3,814 | \$ - |
| Bonds payable | - | - | - | 800,000 |
| Borrowings | <u>65,763</u> | <u>86,728</u> | <u>397,297</u> | <u>201,241</u> |
| | <u>\$ 1,011,434</u> | <u>\$ 113,872</u> | <u>\$ 401,111</u> | <u>\$ 1,001,241</u> |

December 31, 2015

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year | 1-5 Years |
|---|---|-------------------|-------------------------------|-------------------|
| <u>Non-derivative financial liabilities</u> | | | | |
| Non-interest bearing | \$ 793,101 | \$ 9,905 | \$ 37,573 | \$ - |
| Borrowings | <u>108,817</u> | <u>369,618</u> | <u>394,665</u> | <u>589,576</u> |
| | <u>\$ 901,918</u> | <u>\$ 379,523</u> | <u>\$ 432,238</u> | <u>\$ 589,576</u> |

The amounts included above for variable interest rate instruments for both non-derivative financial assets and 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 risk rate 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 that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2016

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year |
|--|---|-------------------|-------------------------------|
| <u>Gross settled</u> | | | |
| Foreign exchange forward contracts - outflows | <u>\$ 61,481</u> | <u>\$ 62,575</u> | <u>\$ _____</u> |

December 31, 2015

| | On Demand or Less than 1 Month | 1-3 Months | 3 Months to 1 Year |
|--|---|-------------------|-------------------------------|
| <u>Net settled</u> | | | |
| Foreign exchange forward contracts - outflows | <u>\$ _____</u> | <u>\$ 9,499</u> | <u>\$ 11,321</u> |

30. 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. Manufacturing overhead

| Related Party Categories | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|-------------------|
| | 2016 | 2015 |
| Joint ventures | <u>\$ 141,293</u> | <u>\$ 141,402</u> |

b. Payables to related parties

| Related Party Categories | December 31 | |
|---------------------------------|--------------------|------------------|
| | 2016 | 2015 |
| Joint ventures | <u>\$ 25,087</u> | <u>\$ 20,901</u> |

The outstanding trade payables to related parties are unsecured.

c. Property, plant and equipment acquired

| Related Party Categories | Price | |
|---------------------------------|---------------------------------------|-------------------|
| | For the Year Ended December 31 | |
| | 2016 | 2015 |
| Associates | \$ - | \$ 145,710 |
| Joint ventures | <u>1,990</u> | <u>-</u> |
| | <u>\$ 1,990</u> | <u>\$ 145,710</u> |

d. Loans to related parties

| Related Party Categories | December 31 | |
|---------------------------------|--------------------|------------------|
| | 2016 | 2015 |
| Other receivables | | |
| Associates | <u>\$ 80,000</u> | <u>\$ 60,000</u> |

| Related Party Categories | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|---------------|
| | 2016 | 2015 |
| Interest income | | |
| Associates | <u>\$ 1,024</u> | <u>\$ 792</u> |

e. Compensation of key management personnel

| | For the Year Ended December 31 | |
|------------------------------|---------------------------------------|------------------|
| | 2016 | 2015 |
| Short-term employee benefits | \$ 53,866 | \$ 52,887 |
| Post-employment benefits | 683 | 824 |
| Share-based payments | <u>2,677</u> | <u>5,447</u> |
| | <u>\$ 57,226</u> | <u>\$ 59,158</u> |

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

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and usance Letters of Credit:

| | December 31 | |
|--|--------------------|-------------------|
| | 2016 | 2015 |
| Pledge assets (classified as debt investments with no active market) | \$ 2,000 | \$ 2,000 |
| Land | - | 140,441 |
| Buildings, net | <u>-</u> | <u>75,418</u> |
| | <u>\$ 2,000</u> | <u>\$ 217,859</u> |

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2016 and 2015 were as follows:

a. Significant commitments

- 1) Unused letters of credit for purchases of raw materials, machinery as follows:

| | <u>December 31</u> | |
|-----|--------------------|----------|
| | 2016 | 2015 |
| USD | \$ 2,022 | \$ 4,293 |
| EUR | 185 | 143 |

- 2) As of December 31, 2016 and 2015, guarantees issued by financial institutions for purchases of raw materials and development of technology plan amounted to NT\$24,450 thousand and NT\$15,935 thousand, respectively.
- 3) As of December 31, 2016 and 2015, notes provided as refundable deposits for the line of bank borrowing and purchases of raw materials were \$224,000 thousand and \$587,000 thousand, respectively.
- 4) As of December 31, 2016 and 2015, commitment for purchases of machinery and equipment were as follow:

| | <u>December 31</u> | |
|--------------|--------------------|------|
| | 2016 | 2015 |
| Unpaid price | | |
| NTD | \$ 166,050 | \$ - |
| USD | 60 | - |

33. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

The Company is based on the revitalisation of interest income. The Company subscribed for \$50,000 thousand of the first private unsecured convertible bonds issued by Snowdown Merchandise Corporation.

On March 23, 2017, the bedding factory of Kwong Lung Meko Co., Ltd. was in flames. The total amount of the losses are still under estimation.

34. 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:

December 31, 2016

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|-------------------------------|----------------------|----------------------------|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 36,645 | 32.25 (USD:NTD) | \$ 1,181,786 |
| USD | 7,384 | 6.9851 (USD:CNY) | 238,125 |
| USD | 13,227 | 25,000 (USD:VND) | 426,564 |
| JPY | 1,166,371 | 0.2756 (JPY:NTD) | 321,452 |
| VND | 27,954,063 | 0.00129 (VND:USD) | 35,551 |
| CNY | 40,104 | 4.617 (CNY:NTD) | 185,160 |
| Non-monetary items | | | |
| Investments accounted for using equity method | | | |
| VND | 17,983,643 | 0.00129 (VND:NTD) | 23,199 |
| USD | 1,500 | 32.25 (USD:NTD) | 48,351 |

Financial liabilities

| | | | |
|----------------|------------|-------------------|-----------|
| Monetary items | | | |
| USD | 35,660 | 32.25 (USD:NTD) | 1,150,036 |
| USD | 4,534 | 6.9851 (USD:CNY) | 146,210 |
| USD | 10,468 | 25,000 (USD:VND) | 337,608 |
| EUR | 2,608 | 33.9 (EUR:NTD) | 88,421 |
| VND | 60,185,919 | 0.00129 (VND:USD) | 2,407 |
| JPY | 151,312 | 0.2756 (JPY:NTD) | 41,702 |

December 31, 2015

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|-------------------------------|----------------------|----------------------------|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 30,992 | 32.825 (USD:NTD) | \$ 1,017,328 |
| USD | 11,636 | 6.5716 (USD:CNY) | 381,939 |
| USD | 9,283 | 23,280 (USD:VND) | 304,725 |
| JPY | 1,115,729 | 0.2727 (JPY:NTD) | 304,259 |
| VND | 5,169,451 | 0.000043(VND:USD) | 7,289 |
| CNY | 40,627 | 4.995 (CNY:NTD) | 202,930 |
| Non-monetary items | | | |
| Investments accounted for using equity method | | | |
| VND | 21,795,916 | 0.00141 (VND:NTD) | 30,732 |

(Continued)

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|------------------------------|-------------------------------|----------------------|----------------------------|
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | \$ 38,847 | 32.825 (USD:NTD) | \$ 1,275,167 |
| USD | 5,434 | 6.5716 (USD:CNY) | 178,365 |
| USD | 7,926 | 23,280 (USD:VND) | 260,158 |
| EUR | 634 | 35.88 (EUR:NTD) | 22,764 |
| VND | 56,684,068 | 0.000043 (VND:USD) | 79,925 |
| | | | (Concluded) |

The significant realized and unrealized foreign exchange gains (losses) were as follows:

| For the Year Ended December 31 | | | | |
|---------------------------------------|----------------------|---|----------------------|---|
| 2016 | | | 2015 | |
| Foreign Currencies | Exchange Rate | Net Foreign Exchange Gain (Loss) | Exchange Rate | Net Foreign Exchange Gain (Loss) |
| VND | 0.00134 (VND:NTD) | \$ 1,173 | 0.00139 (VND:NTD) | \$ 1,598 |
| NTD | 1 (NTD:NTD) | (15,451) | 1 (NTD:NTD) | 32,588 |
| USD | 31.263 (USD:NTD) | 2,474 | 31.974 (USD:NTD) | (2,256) |
| CNY | 4.849 (CNY:NTD) | <u>17,846</u> | 5.040 (CNY:NTD) | <u>10,513</u> |
| | | <u>\$ 6,042</u> | | <u>\$ 42,443</u> |

35. SEGMENT INFORMATION

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 under IFRS 8 "Operating Segments" were as follows:

Apparel department - manufacturing, developing, designing and selling of apparel.

Down material department - manufacturing, developing and selling of down.

Home textile department - manufacturing, developing, designing and selling of bedding.

OBM department - channel managing and marketing of private bedding brand.

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

| | Segment Revenue | | Segment Profit | |
|--|---------------------------|---------------------|---------------------------|-------------------|
| | For the Year Ended | | For the Year Ended | |
| | December 31 | | December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| Apparel department | \$ 3,499,281 | \$ 3,289,441 | \$ 158,512 | \$ 180,667 |
| Down material department | 2,809,383 | 3,353,643 | 184,361 | 146,877 |
| Home textile department | 2,493,765 | 2,558,701 | 158,276 | 187,278 |
| OBM department | <u>181,253</u> | <u>166,610</u> | <u>(1,689)</u> | <u>(31,608)</u> |
| Segment revenues | 8,983,682 | 9,368,395 | 499,460 | 483,214 |
| Eliminations | <u>(384,985)</u> | <u>(447,904)</u> | <u>-</u> | <u>-</u> |
| Segment revenue or segment income | <u>\$ 8,598,697</u> | <u>\$ 8,920,491</u> | 499,460 | 483,214 |
| Other income | | | 6,729 | 5,151 |
| Other gains and losses | | | 27,009 | 50,452 |
| Finance costs | | | (26,420) | (32,242) |
| Share of profit or loss of associates and joint ventures | | | <u>5,119</u> | <u>3,879</u> |
| Profit before tax (continuing operations) | | | <u>\$ 511,897</u> | <u>\$ 510,454</u> |

Segment profit represented the profit before tax earned by each segment without allocation of share of profit or loss of associates and joint ventures, other income, other gains and losses, and finance costs. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

This was not a measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

c. Revenue from major products

The following is an analysis of the Group's revenue from continuing operations from its major products.

| | For the Year Ended December 31 | |
|------------------------|---------------------------------------|---------------------|
| | 2016 | 2015 |
| Apparel products | \$ 3,499,281 | \$ 3,289,441 |
| Down material products | 2,523,848 | 2,951,680 |
| Home textile products | 2,403,761 | 2,513,207 |
| OBM products | <u>171,807</u> | <u>166,163</u> |
| | <u>\$ 8,598,697</u> | <u>\$ 8,920,491</u> |

d. Geographical information

The Group operates in four principal geographical areas - Taiwan, China, Vietnam and Japan.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

| | Revenue from External Customers | | Non-current Assets | |
|---------|--|---------------------|---------------------------|---------------------|
| | For the Year Ended December 31 | | December 31 | |
| | 2016 | 2015 | 2016 | 2015 |
| USA | \$ 2,572,834 | \$ 2,412,926 | \$ - | \$ - |
| Taiwan | 527,206 | 745,387 | 464,927 | 463,755 |
| China | 758,891 | 954,690 | 321,359 | 371,107 |
| Vietnam | 99,501 | 146,342 | 601,966 | 604,299 |
| Japan | 3,683,246 | 3,544,163 | 105,045 | 104,863 |
| Others | <u>957,019</u> | <u>1,116,983</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 8,598,697</u> | <u>\$ 8,920,491</u> | <u>\$ 1,493,297</u> | <u>\$ 1,544,024</u> |

Non-current assets exclude non-current assets classified as financial instruments and deferred tax assets.

e. Information on major customers

Single customers contributed 10% or more to the Group's revenue were as follows:

| Customer | For the Year Ended December 31 | | | |
|-----------------|---------------------------------------|-----------------------|---------------|-----------------------|
| | 2016 | | 2015 | |
| | Amount | % to Total | Amount | % to Total |
| A | \$ 1,537,927 | 18 | \$ 1,689,198 | 19 |