

**Test-Rite International Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2015 and 2014 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Test-Rite International Co., Ltd.

We have audited the accompanying consolidated balance sheets of Test-Rite International Co., Ltd. and its subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014 (all expressed in thousands of New Taiwan dollars). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2015 and 2014, in conformity 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 by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of Test-Rite International Co., Ltd. as of and for the years ended December 31, 2015 and 2014 on which we have issued an unqualified report.

March 25, 2016

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. Also, as stated in Note 4 to the consolidated financial statements, the additional footnote disclosures that are not required under accounting principles and practices generally applied in the Republic of China were not translated into English.

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

ASSETS	2015		2014	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,903,406	8	\$ 2,316,128	9
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	938,954	4	1,053,554	4
Debt investments with no active market - current (Notes 4 and 9)	297,342	1	158,668	1
Notes receivable (Notes 4 and 10)	61,493	-	78,835	-
Trade receivables (Notes 4 and 10)	2,411,447	10	3,031,812	12
Other receivables	257,556	1	411,106	2
Inventories (Notes 4 and 11)	6,718,609	27	5,696,015	23
Prepayments	380,974	1	385,433	2
Other current financial assets	29,665	-	1,707	-
Other current assets	23,921	-	60,925	-
Total current assets	<u>13,023,367</u>	<u>52</u>	<u>13,194,183</u>	<u>53</u>
NON-CURRENT ASSETS				
Financial assets measured at cost - non-current (Notes 4 and 8)	94,011	-	71,085	-
Debt investments with no active market - non-current (Notes 4 and 9)	50,000	-	50,000	-
Property, plant and equipment (Notes 4 and 13)	6,411,230	26	6,048,084	24
Goodwill (Notes 4 and 14)	2,342,753	9	2,231,278	9
Other intangible assets (Notes 4 and 15)	270,535	1	241,740	1
Deferred tax assets (Note 4)	1,248,753	5	1,182,045	5
Refundable deposits	969,191	4	974,859	4
Prepayments for investment	-	-	44,404	-
Other non-current assets	785,406	3	883,268	4
Total non-current assets	<u>12,171,879</u>	<u>48</u>	<u>11,726,763</u>	<u>47</u>
TOTAL	<u>\$ 25,195,246</u>	<u>100</u>	<u>\$ 24,920,946</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ 2,283,327	9	\$ 2,749,782	11
Short-term bills payable (Note 16)	49,966	-	79,957	-
Notes payable	2,697	-	35,216	-
Trade payables	5,821,749	23	5,860,687	23
Other payables (Notes 4 and 18)	1,475,366	6	1,382,290	6
Current tax liabilities (Note 4)	162,720	1	87,247	-
Advance receipts	503,411	2	464,746	2
Current portion of long-term borrowings (Note 16)	1,603,641	6	500,000	2
Other current liabilities	190,895	1	207,748	1
Total current liabilities	<u>12,093,772</u>	<u>48</u>	<u>11,367,673</u>	<u>45</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 16)	5,106,969	20	5,662,504	23
Net defined benefit liabilities - non-current (Notes 4 and 19)	188,712	1	125,072	1
Guarantee deposits received	250,637	1	225,464	1
Deferred credit (Note 13)	50,000	-	100,000	-
Other non-current liabilities	75,734	1	79,258	-
Total non-current liabilities	<u>5,672,052</u>	<u>23</u>	<u>6,192,298</u>	<u>25</u>
Total liabilities	<u>17,765,824</u>	<u>71</u>	<u>17,559,971</u>	<u>70</u>
EQUITY ATTRIBUTABLE TO OWNERS OF TEST-RITE				
Share capital				
Common stock (Notes 4 and 20)	5,098,875	20	5,139,555	21
Capital surplus (Notes 4 and 20)	673,456	2	678,829	3
Retain earnings (Notes 4 and 20)				
Legal reserve	995,491	4	929,953	4
Special reserve	148,098	1	148,098	-
Unappropriated earnings	538,877	2	655,376	3
Total retain earnings	1,682,466	7	1,733,427	7
Other equity (Notes 4 and 20)	(28,857)	-	29,813	-
Treasury shares (Notes 4 and 21)	-	-	(248,171)	(1)
Total equity attributable to owners of TEST-RITE	7,425,940	29	7,333,453	30
NON-CONTROLLING INTERESTS (Note 4)	<u>3,482</u>	<u>-</u>	<u>27,522</u>	<u>-</u>
Total equity	<u>7,429,422</u>	<u>29</u>	<u>7,360,975</u>	<u>30</u>
TOTAL	<u>\$ 25,195,246</u>	<u>100</u>	<u>\$ 24,920,946</u>	<u>100</u>

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

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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

	2015		2014	
	Amount	%	Amount	%
OPERATING REVENUE (Note 4)	\$ 35,981,451	100	\$ 35,946,241	100
OPERATING COSTS (Note 11)	<u>24,678,579</u>	<u>69</u>	<u>25,114,215</u>	<u>70</u>
GROSS PROFIT	11,302,872	31	10,832,026	30
OPERATING EXPENSES	<u>10,492,405</u>	<u>29</u>	<u>9,850,124</u>	<u>27</u>
PROFIT FROM OPERATIONS	<u>810,467</u>	<u>2</u>	<u>981,902</u>	<u>3</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	25,505	-	17,992	-
Other income	189,181	1	172,754	-
Gain on sale of investments, net	37,662	-	14,472	-
Foreign exchange gain	156,526	-	-	-
Net gain on fair value change of financial assets and liabilities designated as at fair value through profit or loss	-	-	317,254	1
Interest expense	(216,533)	(1)	(188,093)	(1)
Other expense	(121,117)	-	(179,914)	-
Loss on disposal of property, plant and equipment	(4,795)	-	(5,038)	-
Foreign exchange loss	-	-	(248,185)	(1)
Net loss on fair value change of financial assets and liabilities designated as at fair value through profit or loss	(2,092)	-	-	-
Impairment loss	<u>(9,699)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating income and expenses	<u>54,638</u>	<u>-</u>	<u>(98,758)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	865,105	2	883,144	2
INCOME TAX EXPENSE (Notes 4 and 22)	<u>(194,620)</u>	<u>-</u>	<u>(167,977)</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>670,485</u>	<u>2</u>	<u>715,167</u>	<u>2</u>

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2015		2014	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (70,940)	-	\$ 6,287	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	<u>(60,353)</u>	<u>-</u>	<u>31,036</u>	<u>-</u>
Other comprehensive income (loss) for the year	<u>(131,293)</u>	<u>-</u>	<u>37,323</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 539,192</u>	<u>2</u>	<u>\$ 752,490</u>	<u>2</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	\$ 670,509	2	\$ 705,731	2
Non-controlling interests	<u>(24)</u>	<u>-</u>	<u>9,436</u>	<u>-</u>
	<u>\$ 670,485</u>	<u>2</u>	<u>\$ 715,167</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owner of the Company	\$ 540,899	2	\$ 744,221	2
Non-controlling interests	<u>(1,707)</u>	<u>-</u>	<u>8,269</u>	<u>-</u>
	<u>\$ 539,192</u>	<u>2</u>	<u>\$ 752,490</u>	<u>2</u>
EARNINGS PER SHARE (Notes 4 and 23)				
Basic	<u>\$ 1.32</u>		<u>\$ 1.42</u>	
Diluted	<u>\$ 1.32</u>		<u>\$ 1.42</u>	

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

(Concluded)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of Test-Rite											Total Equity
	Share Capital		Capital Surplus	Retained Earnings			Other Equity		Treasury Shares	Total	Non-controlling Interests	
	Share (In Thousands of Shares)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets				
BALANCE AT JANUARY 1, 2014	521,956	\$ 5,219,555	\$ 694,476	\$ 874,164	\$ 148,098	\$ 557,887	\$ (2,415)	\$ 25	\$ (729,124)	\$ 6,762,666	\$ 30,494	\$ 6,793,160
Appropriation of 2013 earnings (Note 20)												
Legal reserve	-	-	-	55,789	-	(55,789)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(502,088)	-	-	-	(502,088)	-	(502,088)
Net profit for the year ended December 31, 2014	-	-	-	-	-	705,731	-	-	-	705,731	9,436	715,167
Other comprehensive income (loss) for the year ended December 31, 2014	-	-	-	-	-	6,287	32,203	-	-	38,490	(1,167)	37,323
Total comprehensive income for the year ended December 31, 2014	-	-	-	-	-	712,018	32,203	-	-	744,221	8,269	752,490
Treasury shares transferred to employees (Note 21)	-	-	17,344	-	-	-	-	-	313,665	331,009	-	331,009
Retirement of treasury shares (Notes 20 and 21)	(8,000)	(80,000)	(32,991)	-	-	(54,297)	-	-	167,288	-	-	-
Equity transactions with non-controlling interests (Note 25)	-	-	-	-	-	(2,355)	-	-	-	(2,355)	(11,241)	(13,596)
BALANCE AT DECEMBER 31, 2014	513,956	5,139,555	678,829	929,953	148,098	655,376	29,788	25	(248,171)	7,333,453	27,522	7,360,975
Appropriation of 2014 earnings (Note 20)												
Legal reserve	-	-	-	65,538	-	(65,538)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(577,401)	-	-	-	(577,401)	-	(577,401)
Net profit (loss) for the year ended December 31, 2015	-	-	-	-	-	670,509	-	-	-	670,509	(24)	670,485
Other comprehensive loss for the year ended December 31, 2015	-	-	-	-	-	(70,940)	(58,670)	-	-	(129,610)	(1,683)	(131,293)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-	599,569	(58,670)	-	-	540,899	(1,707)	539,192
Treasury shares transferred to employees (Note 21)	-	-	-	-	-	(481)	-	-	163,105	162,624	-	162,624
Retirement of treasury shares (Notes 20 and 21)	(4,068)	(40,680)	(5,373)	-	-	(39,013)	-	-	85,066	-	-	-
Equity transactions with non-controlling interests (Note 25)	-	-	-	-	-	(33,635)	-	-	-	(33,635)	(22,333)	(55,968)
BALANCE AT DECEMBER 31, 2015	509,888	\$ 5,098,875	\$ 673,456	\$ 995,491	\$ 148,098	\$ 538,877	\$ (28,882)	\$ 25	\$ -	\$ 7,425,940	\$ 3,482	\$ 7,429,422

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

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 865,105	\$ 883,144
Adjustments for:		
Depreciation expenses	668,155	644,286
Amortization expenses	155,210	165,887
Impairment loss recognized (reversal of impairment loss) on trade receivables	267	(808)
Net loss (gain) on fair value change of financial assets and liabilities designated as at fair value through profit or loss	2,092	(317,254)
Interest expense	216,533	188,093
Interest income	(25,505)	(17,992)
Compensation cost of employee share options	5,226	8,250
Loss on disposal and impairment of property, plant and equipment	4,795	5,038
Gain on disposal of investments	(37,662)	(2,115)
Impairment loss recognized on financial assets	9,699	-
Amortization of unrealized gain on sale-leaseback	(50,000)	(50,000)
Changes in operating assets and liabilities		
Financial assets held for trading	224,548	81,141
Notes receivable	17,342	(73,659)
Trade receivables	721,551	(276,740)
Other receivables	159,272	44,715
Inventories	(250,430)	(541,749)
Prepayments	8,035	178,200
Other current assets	82,231	23,704
Other financial assets	(471)	(1,445)
Other operating assets	92,556	(231,855)
Notes payable	(32,519)	(66,187)
Trade payables	(697,650)	495,112
Other payables	(155,207)	(462,306)
Advance receipts	38,088	(138,635)
Other current liabilities	(81,271)	(23,095)
Other operating liabilities	(36,245)	11,639
Cash generated from operations	1,903,745	525,369
Interest received	26,513	17,790
Interest paid	(215,309)	(177,343)
Income tax paid	(169,967)	(190,271)
Net cash generated from operating activities	<u>1,544,982</u>	<u>175,545</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	-	(465,474)
Purchase of debt investments with no active market	(156,132)	(6,438)
Proceeds on sale of debt investments with no active market	17,458	13,893
Purchase of financial assets measured at cost	(32,500)	-
Proceeds on sale of financial assets measured at cost	-	2,853

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TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
Increase in prepayments of investment	\$ -	\$ (44,404)
Decrease in prepayments of investment	44,404	-
Net cash outflow on acquisition of subsidiaries	(144,602)	-
Payments for property, plant and equipment	(1,010,298)	(731,541)
Proceeds from disposal of property, plant and equipment	3,065	7,187
Decrease (increase) in refundable deposits	5,668	(41,211)
Payments for intangible assets	<u>(36,295)</u>	<u>(40,477)</u>
Net cash used in investing activities	<u>(1,309,232)</u>	<u>(1,305,612)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	-	493,119
Repayments of short-term borrowings	(600,059)	-
(Repayments of) proceeds from short-term bills payable	(29,991)	69,960
Proceeds from long-term borrowings	9,932,056	3,510,564
Repayments of long-term borrowings	(9,383,950)	(2,875,675)
Increase in guarantee deposits received	25,173	27,465
Dividends paid	(577,401)	(502,088)
Proceeds from treasury stock transferred to employees	157,398	322,759
Payments for equity transactions with non-controlling interests	<u>(55,968)</u>	<u>(13,596)</u>
Net cash (used in) generated from financing activities	<u>(532,742)</u>	<u>1,032,508</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(115,730)</u>	<u>(4,752)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(412,722)	(102,311)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,316,128</u>	<u>2,418,439</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,903,406</u>	<u>\$ 2,316,128</u>

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

(Concluded)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Information of Parent Company

Test-Rite International Co., Ltd. (“Test-Rite”) was established in August 1978.

Test-Rite is engaged mainly in the import and export of hand tools, auto parts, machinery, furniture, and various home appliances. Test-Rite’s marketplaces are primarily located in the United States of America, Canada, Great Britain, France, Germany, Australia, etc.

The Taiwan Securities and Futures Commission approved in February 1993 Test-Rite’s application for stock listing in the Taiwan Stock Exchange.

The consolidated financial statements are presented in Test-Rite’s functional currency, New Taiwan dollars.

As of December 31, 2015 and 2014, Test-Rite and subsidiaries (collectively, the “Company”) had 6,004 and 6,226 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by Test-Rite’s board of directors on March 25, 2016.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (FSC)

Rule No. 1030029342 and Rule No. 1030010325 issued by the FSC on April 3, 2014, stipulated that the Company should apply the 2013 version of IFRS, IAS, IFRIC and SIC (collectively, “IFRSs”) endorsed by the FSC and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers starting January 1, 2015.

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 IFRSs version did not have any material impact on the Group's accounting policies:

1) IFRS 10 "Consolidated Financial Statements"

IFRS 10 replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation - Special Purpose Entities". The Company considers whether it has control over other entities for consolidation. The Company has control over an investee if and only if it has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee and (iii) the ability to use its power over the investee to affect the amount of its returns. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

2) IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than in past standards. Please refer to Note 12 for related disclosures.

3) IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than in past standards; for example, quantitative and qualitative disclosures based on the three-level fair value hierarchy previously required only for financial instruments are extended by IFRS 13 to cover all assets and liabilities within its scope.

The fair value measurements under IFRS 13 are applied prospectively from January 1, 2015.

4) Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to IAS 1 require items of other comprehensive income to be grouped into those items that (1) will not be reclassified subsequently to profit or loss; and (2) may be reclassified subsequently to profit or loss. Income taxes on related items of other comprehensive income are grouped on the same basis. Under previous IAS 1, there were no such requirements.

The Company retrospectively applied the above amendments starting in 2015. Items that are not expected to be reclassified to profit or loss are remeasurements of the defined benefit plans. Items that are expected to be reclassified to profit or loss are the exchange differences on translating foreign operations and unrealized gains (loss) on available-for-sale financial assets. The application of the above amendments did not have any impact on the net profit for the year, other comprehensive income for the year (net of income tax), and total comprehensive income for the year.

5) Amendments to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities"

The amendments to IFRS 7 require disclosure of information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting arrangements and similar arrangements.

6) Amendments to IAS 32 “Offsetting Financial Assets and Financial Liabilities”

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realization and settlement”.

7) Annual Improvements to IFRSs: 2009-2011 Cycle

Several standards, including IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IAS 1 “Presentation of Financial Statements”, IAS 16 “Property, Plant and Equipment”, IAS 32 “Financial Instruments: Presentation” and IAS 34 “Interim Financial Reporting”, were amended in this annual improvement.

The amendments to IAS 1 clarify that an entity is required to present a balance sheet as at the beginning of the preceding period when a) it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassifies items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period. The amendments also clarify that related notes are not required to accompany the balance sheet at the beginning of the preceding period.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be recognized in accordance with IAS 16 when they meet the definition of property, plant and equipment and otherwise as inventory.

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 “Income Taxes”.

The amendments to IAS 34 clarify that a measure of total liabilities for a reportable segment would be disclosed in interim financial reporting when such amounts are regularly provided to the chief operating decision maker of the Company and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

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

On March 10, 2016, the FSC announced the scope of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” and those with undetermined effective date. In addition, the FSC announced that the Company should apply IFRS 15 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, amended and revised standards and interpretations.

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

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)
IFRS 9 “Financial Instruments”	January 1, 2018

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
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
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
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
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 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above New 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 of the above New IFRSs, whenever applied, would not have any material impact on the Company'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 Company'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 Company 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 Company 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.

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

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Company is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

3) Annual Improvements to IFRSs: 2010-2012 Cycle

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

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss.

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

IFRS 13 was amended to clarify that the issuance of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of not discounting is immaterial.

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

4) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself.

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

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

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

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

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

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

An entity should apply the aforementioned amendments prospectively for annual periods beginning on or after the effective date.

6) 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, 2017.

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 contracts; 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.

7) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards, including IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7, IAS 19 and IAS 34, were amended in this annual improvement.

8) 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 Company 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 Company 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 Company 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 Company as lessor.

When IFRS 16 becomes effective, the Company 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.

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

The amendment clarifies 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, irrespective of whether the Company 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 Company should assess a deductible temporary difference in combination with all other deductible temporary differences, except when the tax law restricts the utilization of a loss as deduction only of a specific type of income, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company’s assets at more than their carrying amount if there is sufficient evidence that it is probable that the Company will realize the higher amount, and that the estimate of future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

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:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. 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
- c. Level 3 inputs are unobservable inputs for the asset or liability.

Classification of Current and Non-current Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

Basis of Consolidation

Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of Test-Rite and entities controlled by Test-Rite (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 and 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 Test-Rite and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company'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).

Business Combinations

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

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

Above subsidiary included in consolidated financial statements is based on the financial statements audited by the auditors.

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.

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

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, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by category, except where it may be appropriate to group similar or related categories. Net realizable value is the estimated selling price of inventories less all estimated costs necessary to make the sale. Inventories are recorded using the moving average method.

Real estate and construction in progress are stated at carrying cost or construction cost by construction project. Interest is capitalized during the construction period.

Constructions in progress and advance construction receipts related to the same construction should be netted. If the netted amount is a debit balance, then it should be recorded in construction in progress, whereas credit balance should be recorded in advance construction receipts.

Property, Plant and Equipment

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation 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.

Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. 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.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

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.

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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.

a. Financial assets

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

1) Measurement category

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

a) Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

b) Loans and receivables

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

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

c) Financial assets measured at cost

Investments in equity instruments under available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is subsequently measured at cost less any identified impairment loss at the end of each reporting period.

2) Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade 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 aging of receivables, historical experience of the counterparties and an analysis of their current financial position for estimating irrecoverable amounts.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade 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 that are written off against the allowance account.

3) Derecognition of financial assets

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

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

b. Financial liabilities

1) Subsequent measurement

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

Financial liabilities 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.

2) Derecognition of financial liabilities

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

c. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to 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. 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.

Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors.

a. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- 1) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) The amount of revenue can be measured reliably;
- 4) It is probable that the economic benefits associated with the transaction will flow to the Company;
and
- 5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of goods that result in award credits for customers, under the Company's award scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value, the amount for which the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction but is deferred and recognized as revenue when the award credits are redeemed and the Company's obligations have been fulfilled.

b. Rendering of services

Service is recognized when services are provided.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

c. 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 Company 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 Company 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.

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.

a. The Company as lessor

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

b. The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Employee Benefits

a. 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.

b. 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 rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Rereasurement, comprising actuarial gains and losses and return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement 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 Company'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.

Share-based Payment Arrangements

The fair value at the grant date of the employee share options granted to employee that is vesting immediately is recognized as an expense in full at the grant date, based on the Company's best estimate of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options.

Taxation

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

a. 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.

b. 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 carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies the 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 to be 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.

Estimated Impairment of Trade Receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As of December 31, 2015 and 2014, the carrying amounts of trade receivables were \$2,411,447 thousand and \$3,031,812 thousand (deducted by allowances for impairment loss of \$29,306 thousand and \$40,770 thousand, respectively).

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2015	2014
Cash on hand	\$ 66,132	\$ 50,706
Checking accounts and demand deposits	1,702,564	2,199,657
Cash equivalents	<u>134,710</u>	<u>65,765</u>
	<u>\$ 1,903,406</u>	<u>\$ 2,316,128</u>

The time deposits with original maturity more than 3 months were \$297,342 thousand and \$158,668 thousand, respectively, as of December 31, 2015 and 2014 and reclassified to debt investments with no active market (Notes 9 and 31).

The time deposits of the Company which pledged as collaterals for purchases of raw materials and collaterals for warranties of construction and reclassified to refundable deposits paid were as follows:

	<u>December 31</u>	
	2015	2014
Time deposits	<u>\$ 68,207</u>	<u>\$ 162,399</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2015	2014
Financial assets held for trading - current		
Derivative financial assets		
Foreign exchange forward contracts	\$ 217,798	\$ 308,883
Non-derivative financial assets		
Equity securities listed in open market	51,331	110,943
Mutual funds	15,341	9,534
Corporate bonds	76,537	64,923
Financial products	<u>577,947</u>	<u>559,271</u>
	<u>\$ 938,954</u>	<u>\$ 1,053,554</u>

Outstanding forward exchange contracts as of balance sheet dates were as follows:

	Currency	Maturity Period	Contract Amount (In Thousands)
<u>December 31, 2015</u>			
Forward exchange contracts - sell	US\$/NT\$	2016.01.04-2017.01.03	US\$372,000/NT\$12,300,552
Forward exchange contracts - buy	US\$/NT\$	2016.01.04-2016.12.28	US\$382,000/NT\$12,631,212
Forward exchange contracts - sell	EUR/US\$	2016.01.11	EUR100/US\$109
Forward exchange contracts - buy	EUR/US\$	2016.01.15-2016.08.31	US\$25,621/EUR22,731
Forward exchange contracts - sell	US\$/EUR	2016.01.15-2016.10.11	US\$2,212/EUR1,997
Forward exchange contracts - sell	AUD/EUR	2016.05.23	AUD150/EUR100
Forward exchange contracts - sell	GBP/EUR	2016.05.31-2016.06.13	GBP324/EUR458
<u>December 31, 2014</u>			
Forward exchange contracts - sell	US\$/NT\$	2015.01.05-2015.03.30	US\$180,000/NT\$5,709,240
Forward exchange contracts - buy	US\$/NT\$	2015.01.05-2015.12.28	US\$234,000/NT\$7,422,012
Forward exchange contracts - sell	EUR/US\$	2015.01.30	EUR100/US\$122

The Company entered into derivative contracts to manage exposures to exchange rate fluctuations of foreign-currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and therefore were not accounted for using hedge accounting.

8. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>	
	2015	2014
Domestic investments		
Domestic unlisted common shares	\$ 42,120	\$ 42,120
Foreign investments		
Overseas unlisted common shares	<u>51,891</u>	<u>28,965</u>
	<u>\$ 94,011</u>	<u>\$ 71,085</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 94,011</u>	<u>\$ 71,085</u>

Management believed that the above unlisted equity investments held by the Company, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<u>December 31</u>	
	2015	2014
Current		
Time deposits with original maturity more than 3 months (Note 6)	<u>\$ 297,342</u>	<u>\$ 158,668</u>
Non-current		
Subordinated bond of Ta Chong Bank	<u>\$ 50,000</u>	<u>\$ 50,000</u>

As of December 31, 2015 and 2014, debt investments with no active market - current of \$297,342 thousand and \$149,654 thousand were pledged as collaterals for borrowings (see Note 31).

10. NOTES AND TRADE RECEIVABLES

	December 31	
	2015	2014
Notes receivable	\$ 61,493	\$ 78,835
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>61,493</u>	<u>78,835</u>
Trade receivables	2,440,753	3,072,582
Less allowance for doubtful accounts	<u>(29,306)</u>	<u>(40,770)</u>
	<u>2,411,447</u>	<u>3,031,812</u>
	<u>\$ 2,472,940</u>	<u>\$ 3,110,647</u>

The average credit period of sales of goods was 90 days. In determining the collectibility of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss is recognized based on estimated uncollectible amounts determined by reference to the aging of receivables, historical experience of the counterparties and an analysis of their current financial position.

The aging of receivables was as follows:

	December 31	
	2015	2014
Not due	\$ 2,047,513	\$ 2,665,297
Less than 30 days	167,066	156,763
31-60 days	66,521	161,481
61-365 days	89,560	33,097
More than 366 days	<u>70,093</u>	<u>55,944</u>
	<u>\$ 2,440,753</u>	<u>\$ 3,072,582</u>

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

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

	December 31	
	2015	2014
Less than 30 days	\$ 167,066	\$ 154,630
31-60 days	66,258	93,143
More than 61 days	<u>30,689</u>	<u>21,076</u>
	<u>\$ 264,013</u>	<u>\$ 268,849</u>

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

Movements in the allowance for impairment loss recognized on notes receivable and trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2014	\$ 4,684	\$ 40,071	\$ 44,755
Add: Impairment loss (reversal) recognized on receivables	(4,059)	3,251	(808)
Less: Amounts turned to overdue receivables	-	(3,111)	(3,111)
Foreign exchange translation gains and losses	<u>-</u>	<u>(66)</u>	<u>(66)</u>
Balance at December 31, 2014	<u>\$ 625</u>	<u>\$ 40,145</u>	<u>\$ 40,770</u>
Balance at January 1, 2015	\$ 625	\$ 40,145	\$ 40,770
Add: Additional amounts recognized from business combinations occurring during the year	-	1,308	1,308
Add: Impairment losses recognized on receivables	4	263	267
Less: Amounts written off during the year as uncollectible	(4)	-	(4)
Less: Amounts turned to overdue receivables	-	(12,936)	(12,936)
Foreign exchange translation gains and losses	<u>-</u>	<u>(99)</u>	<u>(99)</u>
Balance at December 31, 2015	<u>\$ 625</u>	<u>\$ 28,681</u>	<u>\$ 29,306</u>

The trade receivables factoring are summarized as follows:

(Unit: US\$ in Dollars; NT\$ in Thousands)

Counterparties	Balance at Beginning of Year	Factoring During the Year	Amounts Collected During the Year	Balance at End of Year (Note 1)	Balance at End of Year of Advances Received	Interest Rates on Advances Received (%)	Retention for Factoring	Credit Line	Collateral
<u>2015</u>									
Taishin International Bank	<u>\$ 42,153</u> (Note 1)	<u>\$ 122,975</u> (Note 2)	<u>\$ 148,995</u> (Note 3)	<u>\$ 16,133</u> (Note 4)	<u>\$ -</u>	-	<u>\$ -</u>	US\$ 3,800,000	\$ -
<u>2014</u>									
Taishin International Bank	<u>\$ -</u>	<u>\$ 40,435</u> (Note 1)	<u>\$ -</u>	<u>\$ 40,435</u> (Note 1)	<u>\$ -</u>	-	<u>\$ -</u>	US\$ 3,800,000	-

International Art Enterprise concluded an accounts receivable factoring agreement with Taishin International Bank. The agreement declared that the bank has no right of further recourse against International Art Enterprise. According to the agreement, International Art Enterprise only has to be responsible for loss that resulted from business disputes.

Note 1: US\$1,274,819.

Note 2: US\$3,719,065.

Note 3: US\$4,505,986.

Note 4: US\$487,898.

The above credit lines may be used on a revolving basis.

11. INVENTORIES

	December 31	
	2015	2014
Merchandise - retail	\$ 4,284,737	\$ 3,910,286
Merchandise - trade	2,235,675	1,580,687
Construction in progress	<u>198,197</u>	<u>205,042</u>
	<u>\$ 6,718,609</u>	<u>\$ 5,696,015</u>

The cost of inventories recognized as cost of sales for the years ended December 31, 2015 and 2014 was \$22,296,503 thousand and \$22,907,938 thousand, respectively.

The operating cost includes inventory value decline in the amount of \$36,851 thousand and loss on physical inventory count in the amount of \$58,895 thousand for the year ended December 31, 2015; the operating cost includes reversal of inventory value decline in the amount of \$576 thousand and loss on physical inventory count in the amount of \$54,508 thousand for the year ended December 31, 2014. Previous write-downs had been reversed according to the result of inventory close-out.

Merchandise - retail is the inventories of TR Retailing, Test-Rite Retail, Test-Rite Home Service, Chung Cin Enterprise, Testrite Brand Agency and Test-Rite C&B.

Merchandise - trade is the inventories of Test-Rite, TR Trading, TR Canada, TR Development, Test-Rite Int'l (U.S.) and Test Cin M&E Engineering.

Construction in progress is the inventories of Chung Cin Enterprise, Tony Construction, Test Cin M&E Engineering, Chung Cin Interior Design Construction.

12. SUBSIDIARIES

Subsidiaries included in consolidated financial statements:

Investor	Subsidiaries	Main Businesses	% of Ownership		Remark
			December 31		
			2015	2014	
Test-Rite International Co., Ltd.	Fortune Miles Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Star Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Investment (B.V.I.) Co., Ltd.	Investment in various industries	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Retailing Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Trading Co., Ltd.	Investment holding company	100.00	100.00	Note 1
Test-Rite International Co., Ltd.	TRS Investment Co., Ltd.	Investment holding company	-	100.00	Note 1
Test-Rite International Co., Ltd.	Test-Rite Pte. Ltd.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Product (Hong Kong) Ltd.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Int'l (Australia) Pty Ltd.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Canada Co., Ltd.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite (UK) Co., Ltd.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Development Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Upmaster Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd. and Upmaster Co., Ltd.	Test-Rite Int'l (U.S.) Co., Ltd.	Investment holding company	100.00	100.00	
Test-Rite International Co., Ltd.	Test-Rite Vietnam Co., Ltd.	Importation and exportation	95.00	95.00	Note 3
Test-Rite International Co., Ltd.	Test-Rite Int'l (Thailand) Ltd.	Importation and exportation	-	48.99	Note 2
Test-Rite International Co., Ltd.	Lih Chiou Co., Ltd.	Investment holding company	100.00	100.00	Note 4
Test-Rite International Co., Ltd.	Lih Teh International Co., Ltd.	Logistics services	100.00	100.00	
Test-Rite International Co., Ltd.	Pro-quality Service Co., Ltd.	Management system verification and notarization service	100.00	100.00	
Test-Rite International Co., Ltd.	Fusion International Distribution, Inc.	Importation and exportation	100.00	100.00	
Test-Rite International Co., Ltd.	Chung Cin Enterprise Co., Ltd.	Authorized builder to build dwelling, rental and sale of building	100.00	100.00	

(Continued)

Investor	Subsidiaries	Main Businesses	% of Ownership		Remark
			December 31		
			2015	2014	
Test-Rite International Co., Ltd. and Lih Chiou Co., Ltd.	Test-Rite Retail Co., Ltd.	Sale of house decoration hardware and construction materials	100.00	100.00	
Test-Rite International Co., Ltd.	International Art Enterprise Co., Ltd.	Trading of leisure goods	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Tony Construction Co., Ltd.	Build and civil engineering	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Test Cin M&E Engineering Co., Ltd.	Mechanical and electronic engineering	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Chung Cin Interior Design Construction Co., Ltd.	Interior design	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Viet Han Co., Ltd.	Importation and exportation	100.00	100.00	Note 5
Test-Rite Retail	Test-Rite Home Service Co., Ltd.	Interior design	100.00	100.00	
Test-Rite Retail	Hola Homefurnishings Co., Ltd.	Sales of furniture, bedclothes, kitchen equipment and fixtures	100.00	100.00	Note 4
Test-Rite Retail	Testrite Brand Agency Co., Ltd.	Sales of furniture, bedclothes, kitchen equipment and fixtures	100.00	100.00	Note 4
Test-Rite Retail	Test-Rite C&B Co., Ltd.	Sales of furniture, bedclothes, kitchen equipment and fixtures	100.00	100.00	Note 4

(Concluded)

Note 1: Intercompany transaction to reorganize the investment structure of the Company, Test-Rite sold TRS Investment Co., Ltd. to Test-Rite Trading Co., Ltd. in April 2015.

Note 2: Liquidated.

Note 3: Test-Rite Vietnam Co., Ltd. decided to dissolve in September 2015 but not liquidated yet.

Note 4: Intercompany transaction to reorganize the investment structure of the Company, Lih Chiou Co., Ltd. sold all interests in Hola Homefurnishings Co., Ltd., Testrite Brand Agency Co., Ltd. and Test-Rite C&B Co., Ltd. which hold retailing brand to Test-Rite Retail in March 2014.

Note 5: Acquired 49% of interests in Viet Han in June 2014.

13. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2015	2014
Land	\$ 545,512	\$ 545,512
Buildings and improvements	2,138,718	1,966,467
Machinery and equipment	31,595	29,542
Transportation equipment	22,849	19,640
Furniture, fixtures and office equipment	184,488	188,630
Leasehold improvements	2,917,889	3,021,347
Molds and tools	3,307	5,577
Other equipment	179,551	188,814
Prepayments for property, plant and equipment	<u>387,321</u>	<u>82,555</u>
	<u>\$ 6,411,230</u>	<u>\$ 6,048,084</u>

	Land	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Molds and Tools	Other Equipment	Prepayments for Property, Plant and Equipment	Total
<i>Cost</i>										
Balance at January 1, 2014	\$ 545,512	\$ 2,928,343	\$ 77,072	\$ 69,393	\$ 864,055	\$ 7,070,264	\$ 10,478	\$ 767,237	\$ 27,281	\$12,359,635
Additions	-	13,597	17,979	8,403	20,489	321,981	4,238	2,053	342,801	731,541
Disposals	-	-	(25,234)	(8,266)	(41,589)	(79,514)	-	(12,746)	-	(167,349)
Reclassified	-	(567,633)	8,307	(812)	(11,427)	144,658	(3,031)	(9,022)	(287,527)	(726,487)
Effect of foreign currency exchange differences	-	13,321	2,035	638	16,125	96,003	308	28,216	-	156,556
Balance at December 31, 2014	<u>\$ 545,512</u>	<u>\$ 2,387,538</u>	<u>\$ 80,159</u>	<u>\$ 69,356</u>	<u>\$ 847,653</u>	<u>\$ 7,553,392</u>	<u>\$ 11,993</u>	<u>\$ 775,738</u>	<u>\$ 82,555</u>	<u>\$12,353,896</u>

(Continued)

	Land	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Molds and Tools	Other Equipment	Prepayments for Property, Plant and Equipment	Total
Accumulated depreciation and impairment										
Balance at January 1, 2014	\$ -	\$ 713,209	\$ 71,024	\$ 44,514	\$ 649,886	\$ 4,154,700	\$ 5,958	\$ 512,280	\$ -	\$ 6,151,571
Depreciation expense	-	110,398	21,686	11,034	54,000	387,569	3,476	56,123	-	644,286
Disposals	-	-	(20,443)	(5,257)	(39,367)	(77,665)	-	(12,392)	-	(155,124)
Reclassified	-	(411,086)	(23,500)	(812)	(11,140)	(28,119)	(3,031)	(8,441)	-	(486,129)
Effect of foreign currency exchange differences	-	8,550	1,850	237	5,644	95,560	13	39,354	-	151,208
Balance at December 31, 2014	\$ -	\$ 421,071	\$ 50,617	\$ 49,716	\$ 659,023	\$ 4,532,045	\$ 6,416	\$ 586,924	\$ -	\$ 6,305,812
Carrying amounts at December 31, 2014	\$ 545,512	\$ 1,966,467	\$ 29,542	\$ 19,640	\$ 188,630	\$ 3,021,347	\$ 5,577	\$ 188,814	\$ 82,555	\$ 6,048,084
Cost										
Balance at January 1, 2015	\$ 545,512	\$ 2,387,538	\$ 80,159	\$ 69,356	\$ 847,653	\$ 7,553,392	\$ 11,993	\$ 775,738	\$ 82,555	\$ 12,353,896
Additions	-	14,163	6,853	6,975	29,527	183,397	-	19,980	804,710	1,065,605
Acquisitions through business combinations	-	-	2,695	9,091	9,506	-	-	6,254	-	27,546
Disposals	-	(8,657)	(3,200)	(5,584)	(34,932)	(42,470)	(1,399)	(20,793)	-	(117,055)
Reclassified	-	385,629	2,254	(3,105)	34,292	322,743	(1,565)	31,198	(499,975)	271,471
Effect of foreign currency exchange differences	-	5,606	(716)	(1,642)	(2,241)	(9,842)	(10)	(1,477)	31	(10,291)
Balance at December 31, 2015	\$ 545,512	\$ 2,784,279	\$ 88,045	\$ 75,091	\$ 883,805	\$ 8,007,220	\$ 9,019	\$ 810,900	\$ 387,321	\$ 13,591,192
Accumulated depreciation and impairment										
Balance at January 1, 2015	\$ -	\$ 421,071	\$ 50,617	\$ 49,716	\$ 659,023	\$ 4,532,045	\$ 6,416	\$ 586,924	\$ -	\$ 6,305,812
Depreciation expense	-	120,480	5,405	8,383	54,492	406,601	2,991	69,803	-	668,155
Acquisitions through business combinations	-	-	1,371	2,117	8,525	-	-	3,957	-	15,970
Disposals	-	(8,657)	(475)	(3,948)	(33,431)	(25,859)	(1,234)	(19,855)	-	(93,459)
Reclassified	-	108,141	-	(3,105)	12,187	181,328	(2,458)	(8,602)	-	287,491
Effect of foreign currency exchange differences	-	4,526	(468)	(921)	(1,479)	(4,784)	(3)	(878)	-	(4,007)
Balance at December 31, 2015	\$ -	\$ 645,561	\$ 56,450	\$ 52,242	\$ 699,317	\$ 5,089,331	\$ 5,712	\$ 631,349	\$ -	\$ 7,179,962
Carrying amounts at December 31, 2015	\$ 545,512	\$ 2,138,718	\$ 31,595	\$ 22,849	\$ 184,488	\$ 2,917,889	\$ 3,307	\$ 179,551	\$ 387,321	\$ 6,411,230

(Concluded)

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

Building and improvements	35-60 years
Machinery and equipment	2-20 years
Transportation equipment	3-5 years
Furniture, fixtures and office equipment	3-10 years
Leasehold improvements	3-20 years
Molds and tools	2-10 years
Other equipment	3-17 years

Test-Rite sold a real property and leased it back immediately in consideration of business strategies. Under IFRSs, if the sale price is fair value, the sale and leaseback should be recognized immediately to the profit or loss; sale price is higher than the fair value should be deferred and expect to be amortized over lease term. For the years ended December 31, 2015 and 2014, the amortization of unrealized gain was \$50,000 thousand, which was treated as a reduction of rental cost. As of December 31, 2015 and 2014, the unrealized gain was \$100,000 thousand and \$150,000 thousand, respectively, which were recorded: The current portion of \$50,000 thousand as other current liabilities and the noncurrent portion of \$50,000 thousand and \$100,000 thousand, respectively, as other liabilities - deferred credit.

14. GOODWILL

	<u>For the Year Ended December 31</u>	
	2015	2014
Balance at January 1	\$ 2,231,278	\$ 2,205,300
Additional amounts recognized from business combinations occurring during the year (Note 24)	115,951	-
Effect of foreign currency exchange differences	<u>(4,476)</u>	<u>25,978</u>
Balance at December 31	<u>\$ 2,342,753</u>	<u>\$ 2,231,278</u>

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

	<u>December 31</u>	
	2015	2014
Retail	\$ 2,118,928	\$ 2,117,869
Trading	204,432	94,016
Others	<u>19,393</u>	<u>19,393</u>
	<u>\$ 2,342,753</u>	<u>\$ 2,231,278</u>

For the years ended December 31, 2015 and 2014, the Company evaluated the recoverable amounts of the above three cash-generating units, and no indication of impairment was found.

The calculation of value in use was based on expected future cash flows of financial budgets approved by management covering a five-year period and the growth rate used in preparing the budgets was based on the prediction of related industry.

15. OTHER INTANGIBLE ASSETS

	<u>December 31</u>	
	2015	2014
Computer software	\$ 181,650	\$ 230,325
Others	<u>88,885</u>	<u>11,415</u>
	<u>\$ 270,535</u>	<u>\$ 241,740</u>

	Computer Software	Others	Total
<u>Cost</u>			
Balance at January 1, 2014	\$ 777,731	\$ -	\$ 777,731
Additions	37,434	3,043	40,477
Classified	<u>142,155</u>	<u>13,507</u>	<u>155,662</u>
Balance at December 31, 2014	<u>\$ 957,320</u>	<u>\$ 16,550</u>	<u>\$ 973,870</u>

(Continued)

	Computer Software	Others	Total
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2014	\$ 563,695	\$ -	\$ 563,695
Amortization expense	163,300	2,587	165,887
Classified	<u>-</u>	<u>2,548</u>	<u>2,548</u>
Balance at December 31, 2014	<u>\$ 726,995</u>	<u>\$ 5,135</u>	<u>\$ 732,130</u>
Carrying amounts at December 31, 2014	<u>\$ 230,325</u>	<u>\$ 11,415</u>	<u>\$ 241,740</u>
<u>Cost</u>			
Balance at January 1, 2015	\$ 957,320	\$ 16,550	\$ 973,870
Additions	33,273	3,022	36,295
Acquisitions through business combinations	20,652	94,723	115,375
Disposals	(310,525)	(3,411)	(313,936)
Classified	<u>791</u>	<u>(7,996)</u>	<u>(7,205)</u>
Balance at December 31, 2015	<u>\$ 701,511</u>	<u>\$ 102,888</u>	<u>\$ 804,399</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2015	\$ 726,995	\$ 5,135	\$ 732,130
Amortization expense	145,219	9,991	155,210
Acquisitions through business combinations	13,153	1,231	14,384
Disposals	(310,525)	(3,411)	(313,936)
Classified	<u>(54,981)</u>	<u>1,057</u>	<u>(53,924)</u>
Balance at December 31, 2015	<u>\$ 519,861</u>	<u>\$ 14,003</u>	<u>\$ 533,864</u>
Carrying amounts at December 31, 2015	<u>\$ 181,650</u>	<u>\$ 88,885</u>	<u>\$ 270,535</u> (Concluded)

The other intangible assets of the Company were amortized on a straight-line basis over the estimated useful life of the asset as follows:

Computer software	3-5 years
Customer relationship	7-15 years
Business strife limitation	3 years

16. BORROWINGS

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Short-term borrowings	<u>\$ 2,283,327</u>	<u>\$ 2,749,782</u>
Short-term bills payable	<u>\$ 49,966</u>	<u>\$ 79,957</u>
Current portion of long-term borrowings	<u>\$ 1,603,641</u>	<u>\$ 500,000</u>
Long-term borrowings	<u>\$ 5,106,969</u>	<u>\$ 5,662,504</u>

- a. Short-term borrowings as of December 31, 2015 and 2014 were as follows:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>\$ 2,283,327</u>	<u>\$ 2,749,782</u>

The range of weighted average effective interest rate on bank loans was 1.058%-4.8% and 0.75%-5.65% per annum as of December 31, 2015 and 2014, respectively.

- b. Short-term bills payable

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Commercial paper	\$ 50,000	\$ 80,000
Less: Unamortized discount on bills payable	<u>(34)</u>	<u>(43)</u>
	<u>\$ 49,966</u>	<u>\$ 79,957</u>

- c. Long-term borrowings

	<u>December 31</u>		
		<u>2015</u>	<u>2014</u>
	<u>Interest Rate</u>	<u>Amount</u>	<u>Amount</u>
First Commercial Bank's Syndicate Loan			
Unsecured loan from June 24, 2015 to June 24, 2020. The authorized credit line of \$1,500 million. The principal due in 7 eight months installments with first installment due on December 17, 2016.	1.7895%	\$ 1,500,000	\$ -
Unsecured loan from June 17, 2015 to June 24, 2020. The authorized credit line of \$4,480 million. Principal due on June 17, 2020.	1.7895%	1,000,000	-
Unsecured loan from June 24, 2015 to June 17, 2020. The authorized credit line of \$4,480 million. Principal due on June 17, 2020.	1.5603%	661,320	-
Unsecured loan from July 27, 2012 to June 24, 2016. The authorized credit line of \$4,000 million. Principal due on June 24, 2016.	1.0274%- 1.035%	595,188	2,236,119
Unsecured loan from June 24, 2011 to June 24, 2016. The authorized credit line of \$2,000 million. The principal due in 7 semi-annual installments with first installment due on June 24, 2013. In June 2015, the Company paid the principal in full in advance.	-	-	1,500,000 (Continued)

	December 31		
	2015		2014
	Interest Rate	Amount	Amount
First Commercial Bank and Taiwan Business Bank's Syndicate Loan			
Unsecured loan from July 16, 2012 to July 16, 2019. The authorized credit line is US\$29,000 thousand. The principal due in annual installments with first installment due on July 16, 2017.	2.1171%	\$ 958,914	\$ 919,822
Unsecured loan from July 16, 2012 to July 16, 2019. The authorized credit line is US\$29,000 thousand, principal due on July 16, 2019.	2.1171%	462,924	529,691
First Commercial Bank			
Unsecured loan from June 22, 2012 to July 30, 2017. The authorized credit line of \$500 million. The principal with first installment is due on June 22, 2014.	1.7000%	350,000	350,000
Chang Hwa Bank			
Unsecured loan from October 1, 2013 to October 1, 2016. The authorized credit line of \$300 million. Principal due on October 1, 2016.	1.6600%	200,000	200,000
Taishin International Bank			
Unsecured loan from October 16, 2015 to January 14, 2016. The authorized credit line of \$200 million. The authorized period from May 18, 2015 to May 18, 2017, principal due on January 14, 2016.	1.8000%	200,000	-
Taiwan Business Bank			
Unsecured loan from November 20, 2015 to May 18, 2016. The authorized credit line of \$500 million. The authorized period is from November 12, 2013 to November 12, 2016, principal due on May 8, 2016.	1.7800%	150,000	-
Unsecured loan from December 22, 2015 to June 22, 2016. The authorized credit line of \$500 million. The authorized period is from November 12, 2013 to November 12, 2016, principal due on June 22, 2017.	1.7100%	100,000	-
Unsecured loan from November 20, 2014 to February 10, 2015. The authorized credit line of \$500 million. The authorized period is from November 12, 2013 to November 12, 2016, principal due on February 10, 2015.	-	-	100,000

(Continued)

	December 31		
	2015	2014	
	Interest Rate	Amount	Amount
Export-Import Bank of the Republic of China Unsecured loan period from November 18, 2013 to November 19, 2018. The authorized credit line of US\$4 million. The principal is due in 5 semi-annual installments with first installment due on first interest payment after the first 3 years since the initial borrowing. Interest is paid quarterly.	1.4840%	\$ 132,264	\$ 126,872
Industrial Bank of Taiwan Unsecured loan from December 29, 2015 to December 29, 2018. The authorized credit line of \$200 million. The principal due in 4 three-month installments with first installment due on March 29, 2018.	1.7898%	200,000	-
Unsecured loan from August 29, 2013 to August 15, 2017. The authorized credit line of \$100 million. The principal due in 12 monthly installments with first installment due on September 15, 2016.	1.6438%	100,000	100,000
Unsecured loan from September 25, 2013 to August 29, 2017. The authorized credit line of \$100 million. Principal due on August 29, 2017.	1.6438%	100,000	100,000
Less current portion		<u>(1,603,641)</u>	<u>(500,000)</u>
		<u>\$ 5,106,969</u>	<u>\$ 5,662,504</u> (Concluded)

Test-Rite promised to maintain the following financial covenants according to the loan agreements:

1) First Commercial Bank Syndicated Loan

- a) Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1.
- b) Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- c) EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.
- d) Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than \$5,200,000 thousand.
- e) The calculations of the ratios are based on the parent company only financial statements of Test-Rite for the year ended December 31.

- 2) First Commercial Bank and Taiwan Business Bank's Syndicated Loan
 - a) Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1.
 - b) Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
 - c) EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.
 - d) Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than \$5,200,000 thousand.
 - e) The calculations of the ratios are based on the parent company only financial statements of Test-Rite for the year ended December 31.

Test-Rite Retail promised to maintain the following financial covenants according to the loan agreements with Taishin International Bank, Taiwan Business Bank and Industrial Bank of Taiwan:

- 1) Total Liabilities Ratio, Test-Rite Retail shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1.
- 2) Current Ratio, Test-Rite Retail shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- 3) EBITDA Ratio, Test-Rite Retail shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.
- 4) Minimum Tangible Net Worth, Test-Rite Retail shall maintain Tangible Net Worth of not less than \$5,200,000 thousand.
- 5) The calculations of the ratios are based on the parent company only financial statements of Test-Rite Retail for the year ended December 31.

17. PROVISIONS

	December 31	
	2015	2014
Decommissioning cost (included in other non-current liabilities)	\$ 60,494	\$ 55,242
Customer returns and rebates (included in other payables)	27,050	16,758
Employee benefits (included in other payables)	<u>12,006</u>	<u>13,837</u>
	<u>\$ 99,550</u>	<u>\$ 85,837</u>
Current	\$ 39,056	\$ 30,595
Non-current	<u>60,494</u>	<u>55,242</u>
	<u>\$ 99,550</u>	<u>\$ 85,837</u>

- a. The provision of decommissioning cost represents the present value of the cost of clearing away and recovering property, plant and equipment. The estimated cost was required by laws and contracts.

- b. The provision of customer returns and rebates was based on historical experience, management's judgments and other known reasons resulting in product returns and rebates. The provision was recognized as a reduction of operating income in the periods of the related goods sold.
- c. The provision for employee benefits represents annual leave and vested long service leave entitlements accrued and compensation claims made by employees.

18. OTHER PAYABLES

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Accrued expenses	\$ 1,133,704	\$ 1,163,392
Payable for purchase of property, plant and equipment	87,132	31,825
Bonuses payable to employees	17,970	17,936
Bonuses payable to directors and supervisors	32,143	32,650
Allowance of sales returns and discounts	27,050	16,758
Payable for employee benefits	12,006	13,837
Others	<u>165,361</u>	<u>105,892</u>
	<u>\$ 1,475,366</u>	<u>\$ 1,382,290</u>

19. RETIREMENT BENEFIT PLANS

- a. Defined contribution plans

The Company 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.

- 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 4% 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. 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 Company's defined benefit plans were as follows:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Present value of defined benefit obligation	\$ 427,231	\$ 339,015
Fair value of plan assets	<u>(298,840)</u>	<u>(293,572)</u>
Defined benefit asset (included in other non-current assets)	<u>128,391</u>	<u>45,443</u>
	<u>60,321</u>	<u>79,629</u>
Net defined benefit liability (included in net defined benefit liabilities - non-current)	<u>\$ 188,712</u>	<u>\$ 125,072</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, 2014	<u>\$ 345,784</u>	<u>\$ (281,734)</u>	<u>\$ 64,050</u>
Service cost			
Current service cost	3,335	-	3,335
Net interest expense (income)	<u>6,230</u>	<u>(5,532)</u>	<u>698</u>
Recognized in profit or loss	<u>9,565</u>	<u>(5,532)</u>	<u>4,033</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,726)	(1,726)
Actuarial gain - changes in demographic assumptions	<u>(4,561)</u>	<u>-</u>	<u>(4,561)</u>
Recognized in other comprehensive income	<u>(4,561)</u>	<u>(1,726)</u>	<u>(6,287)</u>
Contributions from the employer	-	(16,353)	(16,353)
Benefits paid	<u>(11,773)</u>	<u>11,773</u>	<u>-</u>
Balance at December 31, 2014	339,015	(293,572)	45,443
Business combinations	<u>38,689</u>	<u>(13,268)</u>	<u>25,421</u>
Service cost			
Current service cost	4,408	-	4,408
Net interest expense (income)	<u>7,189</u>	<u>(6,166)</u>	<u>1,023</u>
Recognized in profit or loss	<u>11,597</u>	<u>(6,166)</u>	<u>5,431</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	223	223
Actuarial loss - changes in financial assumptions	15,202	-	15,202
Actuarial loss - experience adjustments	33,178	-	33,178
Actuarial loss - changes in demographic assumptions	<u>22,337</u>	<u>-</u>	<u>22,337</u>
Recognized in other comprehensive income	<u>70,717</u>	<u>223</u>	<u>70,940</u>
Contributions from the employer	-	(17,406)	(17,406)
Benefits paid	(30,330)	30,330	-
Others	<u>(2,457)</u>	<u>1,019</u>	<u>(1,438)</u>
Balance at December 31, 2015	<u>\$ 427,231</u>	<u>\$ (298,840)</u>	<u>\$ 128,391</u>

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

	For the Year Ended December 31	
	2015	2014
Selling and marketing expenses	<u>\$ 5,431</u>	<u>\$ 4,033</u>

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 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>	
	2015	2014
Discount rate	1.375%-2.500%	1.750%-2.000%
Expected rate of salary increase	0.000%-3.000%	2.500%-3.000%

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:

	<u>December 31</u>	
	2015	2014
Discount rate		
0.25%-0.5% increase	<u>\$ (15,631)</u>	<u>\$ (9,451)</u>
0.25%-0.5% decrease	<u>\$ 16,810</u>	<u>\$ 9,836</u>
Expected rate of salary increase		
0.25%-1% increase	<u>\$ 13,367</u>	<u>\$ 11,640</u>
0.25%-1% decrease	<u>\$ (12,565)</u>	<u>\$ (10,892)</u>

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

	<u>December 31</u>	
	2015	2014
The expected contributions to the plan for the next year	<u>\$ 17,383</u>	<u>\$ 16,336</u>
The average duration of the defined benefit obligation	9.10-25.44 years	8.80-21.00 years

20. EQUITY

a. Share capital

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Number of shares authorized (in thousands)	<u>750,000</u>	<u>750,000</u>
Shares authorized	<u>\$ 7,500,000</u>	<u>\$ 7,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>509,888</u>	<u>513,956</u>
Shares issued	<u>\$ 5,098,875</u>	<u>\$ 5,139,555</u>

Fully paid common shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

Test-Rite's outstanding share capital as of January 1, 2014 amounted to \$5,219,555 thousand. On October 3, 2014 and June 26, 2015, the board of directors decided to retire treasury shares of 8,000 thousand shares and 4,068 thousand shares, respectively. Such retirements of treasury shares resulted in decrease in share capital by \$80,000 thousand and \$40,680 thousand, respectively. Consequently, as of December 31, 2015, Test-Rite's capital stock decreased to \$5,098,875 thousand.

b. Capital surplus

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Additional paid-in capital - issuance of shares in excess of par	<u>\$ 673,456</u>	<u>\$ 678,829</u>

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

c. Retained earnings and dividend policy

According to the Company Law of the Republic of China and Test-Rite's Articles of Incorporation, 10% of Test-Rite's earnings, after paying tax and offsetting deficit, if any, shall first be appropriated as legal reserve. The remaining balance, if any, shall be distributed in the following order:

- 1) Bonus to directors and supervisors - 2%, and
- 2) Bonus to employees - at least 1% or more,
- 3) The remainder shall then be allocated in accordance with the resolution of the stockholders in their annual meeting.

The dividend policy of Test-Rite is as follows:

The dividend policy is designed for Test-Rite to achieve its business plan and at the same time, maintain stockholders' benefits. Distribution is made through stock dividends, common stocks from capital surplus and cash dividends. Cash dividends shall not be less than 10% of total distribution. However, if cash dividends per share are less than \$0.1, stock dividends could be distributed instead of cash dividends.

The appropriations of earnings for 2014 and 2013 had been approved in the shareholders' meetings on June 15, 2015 and June 11, 2014, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended December 31		For the Year Ended December 31	
	2014	2013	2014	2013
Legal reserve	\$ 65,538	\$ 55,789	\$ -	\$ -
Cash dividends	577,401	502,088	1.15	1.00

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 Test-Rite's Articles of Incorporation had been proposed by Test-Rite's board of directors on January 28, 2016 and are subject to the resolution of the shareholders in their meeting to be held on June 23, 2016. For information about the accrual basis of the employees' compensation and remuneration to directors and supervisors and the actual appropriations, please refer to employee benefits expense in Note 27.

The appropriations of 2015 earnings had been proposed by the board of directors on March 25, 2016. The proposed appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 53,888	\$ -
Cash dividends	484,393	0.95

The appropriations of 2015 earnings and the amounts of bonus to employees and remuneration to directors and supervisors will be resolved by the shareholders in their meeting scheduled for June 23, 2016.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve. The special reserve appropriated as above may be reversed in proportion to the reversal of the other equity deduction and thereafter distributed.

d. Others equity items

1) Exchange differences on translating foreign operations

Exchange differences relating to the translation of the results and net assets of the Company's foreign operations from their functional currencies to the Company's presentation currency (New Taiwan dollars) were recognized directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of the foreign operation.

2) Unrealized gains or losses on available-for-sale financial assets

Unrealized gains or losses on available-for-sale financial assets represents the cumulative gains and losses arising on the revaluation of AFS financial assets that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed of or are determined to be impaired.

21. TREASURY SHARES

The changes in treasury shares for the years ended December 31, 2015 and 2014 were summarized as follows (in shares):

Purpose	January 1, 2015	Increase	Decrease	December 31, 2015
To transfer to employees	<u>11,868,000</u>	<u>-</u>	<u>11,868,000</u>	<u>-</u>

Purpose	January 1, 2014	Increase	Decrease	December 31, 2014
To transfer to employees	<u>34,868,000</u>	<u>-</u>	<u>23,000,000</u>	<u>11,868,000</u>

As of December 31, 2014, the treasury shares of Test-Rite amounted to \$248,171 thousand, which was purchased back by Test-Rite.

Test-Rite should transfer all shares purchased back in lump sum or from time to time to employees, including those of subsidiaries in which Test-Rite holds directly or indirectly more than one half of the total number of voting shares, within three years from the buyback date.

Test-Rite transferred to employees 7,800 thousand and 15,000 thousand treasury shares amounting to \$157,398 thousand and \$322,759 thousand in April 2015 and March 2014, respectively. Based on the Transferring Way of Purchased Back Treasury Stock for Transfer to Employees issued by Test-Rite, employee stock options granted during the years ended December 31, 2015 and 2014 were priced using the Black-Scholes model, and compensation cost of \$5,226 thousand and \$8,250 thousand (recorded as salary expense) was recognized in 2015 and 2014, respectively. Such transactions of treasury shares resulted in decrease in retained earnings by \$481 thousand in the year ended December 31, 2015 and increase in capital surplus by \$17,344 thousand in the year ended December 31, 2014.

Since some of the treasury shares, purchased back by Test-Rite from time to time for the purpose of transferring to employees, were not transferred within the statutory period (three years from the buyback date), Test-Rite retired 4,068 thousand treasury shares amounting to \$85,066 thousand in August 2015. Such retirement of treasury shares resulted in decrease in share capital by \$40,680 thousand, capital surplus by \$5,373 thousand and retained earnings by \$39,013 thousand.

Since some of the treasury shares, purchased back by Test-Rite from time to time for the purpose of transferring to employees, were not transferred within the statutory period (three years from the buyback date), Test-Rite retired 8,000 thousand treasury shares amounting to \$167,288 thousand in October 2014. Such retirement of treasury shares resulted in decrease in share capital by \$80,000 thousand, capital surplus by \$32,991 thousand and retained earnings by \$54,297 thousand.

According to the Stock Exchange Law of the ROC, the shares of treasury shares should not be over 10% of Test-Rite's issued and outstanding shares and the amount of treasury shares should not be over the total of retained earnings and realized additional paid-in capital. The highest number of shares of treasury shares held by Test-Rite as of December 31, 2015 and 2014 was 11,688 thousand shares and 34,868 thousand shares, respectively. The total amount was \$248,171 thousand and \$729,124 thousand pursuant to the law, respectively.

As of December 31, 2015 and 2014, information regarding Test-Rite's share-based payment was summarized below:

a. As of December 31, 2015 and 2014, Test-Rite's share-based payment was as follows:

Type of Arrangement	Grant Date	Number of Options Granted	Contract Period	Grant Condition	Turnover Rates for This Year	Estimated Turnover Rate
Treasury stock transfer to Employees	April 24, 2015	7,800,000	-	Immediate	-	-
	March 10, 2014	15,000,000	-	Immediate	-	-

b. Options granted were priced at estimated fair market value using Black-Scholes pricing model and the inputs to the model were as follows:

Type of Arrangement	Grant Date	Grant-date Share Price (NT\$)	Exercise Price (NT\$)	Expected Volatility	Option Life (Years)	Expected Dividend Yield	Risk-free Interest Rate	Fair Value Per Unit (NT\$)
Treasury stock transfer to employees	April 24, 2015	\$20.90	\$20.240	12.76%	-	-	0.60%	\$0.67
	March 10, 2014	22.10	21.582	11.58%	-	-	0.53%	0.55

According to the Stock Exchange Law of the ROC, the treasury shares of Test-Rite should not be pledged and does not have the same right as the common stock.

22. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense (income) were as follows:

	<u>For the Year Ended December 31</u>	
	2015	2014
In respect of the current year	\$ 259,457	\$ 235,108
Adjustments to deferred tax assets	(68,032)	(62,650)
In respect of prior periods	<u>3,195</u>	<u>(4,461)</u>
	<u>\$ 194,620</u>	<u>\$ 167,997</u>

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

	<u>For the Year Ended December 31</u>	
	2015	2014
Profit before tax		
Income tax expense calculated at the statutory rate	\$ 405,845	\$ 351,808
Decrease in tax resulting from other adjustments of permanent differences		
Tax-exempt income	(146,388)	(116,700)
Adjustments to deferred tax assets	(68,032)	(62,650)
In respect of prior periods	<u>3,195</u>	<u>(4,461)</u>
Income tax expense recognized in profit or loss	<u>\$ 194,620</u>	<u>\$ 167,997</u>

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

- c. The information of Test-Rite about Integrated Income Tax was summarized as follows:

	December 31	
	2015	2014
Unappropriated earnings		
Unappropriated earnings generated on and after January 1, 1998	<u>\$ 538,877</u>	<u>\$ 655,376</u>
Imputation credits accounts	<u>\$ 613,083</u>	<u>\$ 579,079</u>
	For the Year Ended December 31	
	2015	2014
	(Expected)	2014
Creditable ratio for distribution of earning	20.48%	20.48%

According to Article 66-6.1 of the Income Tax Law, effective January 1, 2015, ROC resident individual shareholders receiving dividends or net earnings are allowed a tax credit half of their proportionate share of the income tax paid by the Company.

- d. Income tax assessments

The income tax returns of Test-Rite for years through 2013 have been examined and approved by the tax authority.

23. EARNINGS PER SHARE

For the years ended December 31, 2015 and 2014, the amounts of earnings per share were calculated as follows:

	2015				EPS (NT\$)		
	Amounts (Numerator)		Parent Co. Stockholders Income After Tax	Shares (Denominator)	Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax
Income Before Tax Include Minority	Income After Tax Include Minority	Income Before Tax Include Minority			Income After Tax Include Minority	Parent Co. Stockholders Income After Tax	
Basic earnings per share							
Net income to stockholders of common stock	\$ 865,105	\$ 670,485	\$ 670,509	507,287,558	<u>\$ 1.71</u>	<u>\$ 1.32</u>	<u>\$ 1.32</u>
The effects of dilutive potential ordinary shares							
Bonus to employees	-	-	-	503,876			
Diluted earnings per share							
Net income to stockholders of common stock and the effects of potential ordinary shares	<u>\$ 865,105</u>	<u>\$ 670,485</u>	<u>\$ 670,509</u>	<u>507,791,434</u>	<u>\$ 1.70</u>	<u>\$ 1.32</u>	<u>\$ 1.32</u>

	2014						
	Amounts (Numerator)			Shares (Denominator) (In Thousands)	EPS (NT\$)		
	Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax		Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax
Basic earnings per share							
Net income to stockholders of common stock	\$ 883,144	\$ 715,167	\$ 705,731	498,337,558	<u>\$ 1.77</u>	<u>\$ 1.44</u>	<u>\$ 1.42</u>
The effects of dilutive potential ordinary shares							
Bonus to employees	-	-	-	405,313			
Diluted earnings per share							
Net income to stockholders of common stock and the effects of potential ordinary shares	<u>\$ 883,144</u>	<u>\$ 715,167</u>	<u>\$ 705,731</u>	<u>498,742,871</u>	<u>\$ 1.77</u>	<u>\$ 1.43</u>	<u>\$ 1.42</u>

Since Test-Rite offered to settle compensation or bonuses paid to employees in cash or shares, Test-Rite 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, as the effect is dilutive. Such dilutive effect of the potential shares is 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.

24. BUSINESS COMBINATIONS

a. Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Subsidiaries of TR Development	Importation and exportation	January 1, 2015	100	<u>\$ 240,056</u>

In order to expand its trading business, the Company paid a total of EUR6,242 thousand to related parties, Tony Ho, Judy Lee and Robin Ho and non-related parties, Dirk Zimmermann etc. to acquire two subsidiaries 100% owned by TR Development.

b. Considerations transferred

	International Art Enterprise
Cash	\$ 240,056
Original ownership at fair value	<u>2,271</u>
	<u>\$ 242,327</u>

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

	Subsidiaries of TR Development
Current assets	
Cash and cash equivalents	\$ 95,454
Financial assets at fair value through profit or loss-current	74,378
Trade receivables	101,453
Other receivables	6,730
Inventories	772,164
Prepayments	3,576
Other current assets	45,227
Non-current assets	
Plant and equipment	11,576
Deferred tax assets	18,037
Other intangible assets	100,991
Goodwill	115,951
Other non-current assets	387
Current liabilities	
Short-term borrowings	(133,604)
Trade payables	(658,712)
Other payables	(191,752)
Advanced receipts	(577)
Other current liabilities	(64,418)
Non-current liabilities	
Net defined benefit liabilities - non-current	(25,421)
Deferred tax liabilities	<u>(29,113)</u>
	<u>\$ 242,327</u>

d. Net cash outflow on acquisition of subsidiaries

	Subsidiaries of TR Development
Consideration paid in cash	\$ 240,056
Less: Cash and cash equivalent balances acquired	<u>(95,454)</u>
	<u>\$ 144,602</u>

25. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

For integrating resources and upgrading of efficiency in the management of investments and operations in coordination with the set strategy, the Company paid a total of EUR1,455 thousand to non-related parties, Dirk Zimmermann to acquire 35% of interests in TRGI. After the acquisition, the Company increased its interests of ownership in TRGI to 100%.

	TRGI
Cash consideration paid	\$ 55,968
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>(22,333)</u>
Differences arising from equity transaction	<u>\$ 33,635</u>

On June 16, 2014, the Company paid total US\$453 thousand to related parties, You-Chuan Hsieh and Yu-Yi Shih, and non-related parties, Wei-Kang Sung, Nam Long Investment Corporation and Doan Thi Tuan Huong to acquire 49% of interests in Viet Han. After the acquisition, the Company increased its interests of ownership in Viet Han to 100%.

	Viet Han
Cash consideration paid	\$ 13,596
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>(11,241)</u>
Differences arising from equity transaction	<u>\$ 2,355</u>

The above transactions were accounted for as equity transactions since the Company did not cease to have control over these subsidiaries.

26. OPERATING LEASE

Test-Rite entered into lease agreements for office premises with related parties, Tsai Wang, Li Xiong and Judy Lee for periods from 4 to 10 years. A list of rent expense for the next 5 years as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 325,155
2017	334,270
2018	8,077
2019	8,077
2020	<u>6,058</u>
	<u>\$ 681,637</u>

Hola Shanghai Retail & Trading entered into lease agreement for office premises with non-related parties from 2 to 20 years. A list of rent expense for the next 5 years including the present value of rentals from 2021 to 2030 as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 705,626
2017	697,900
2018	699,873
2019	575,607
2020	457,540
2021-2025 (present value \$946,683 thousand)	1,230,688
2026-2030 (present value \$112,598 thousand)	<u>163,267</u>
	<u>\$ 4,530,501</u>

Test-Rite Retail's lease agreements for office premises are with non-related parties. A list of rent expense for the next 5 years including the present value from 2021 to 2039 as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 1,107,536
2017	988,531
2018	726,738
2019	511,980
2020	493,112
2021-2025 (present value \$1,455,802 thousand)	1,586,886
2026-2030 (present value \$481,653 thousand)	564,521
2031-2035 (present value \$342,291 thousand)	430,091
2036-2039 (present value \$200,413 thousand)	<u>265,621</u>
	<u>\$ 6,675,016</u>

Test-Rite Home Service entered into lease agreement for office premises with non-related parties. A list of rent expense for the next 5 years including the present value of rentals from 2021 to 2025 as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 4,484
2017	4,672
2018	4,703
2019	3,986
2020	1,710
2021-2025 (present value \$312 thousand)	<u>405</u>
	<u>\$ 19,960</u>

Test-Rite C&B entered into lease agreement for office premises with non-related parties. A list of rent expense for next 5 year as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 74,660
2017	75,697
2018	79,845
2019	82,955
2020	<u>62,217</u>
	<u>\$ 375,374</u>

TR Products entered into lease agreement for office premises with non-related parties. A list of rent expense for next 5 years as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 77,242
2017	78,862
2018	26,254
2019	21,857
2020	<u>18,054</u>
	<u>\$ 222,269</u>

Energy Retailing entered into lease agreement for office premises with non-related parties. A list of rent expense for the next 5 years including the present value of rentals from 2021 to 2025 as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 247,916
2017	252,761
2018	257,687
2019	262,726
2020	267,834
2021-2025 (present value \$70,962 thousand)	<u>90,353</u>
	<u>\$ 1,379,277</u>

Test-Rite (China) Investment entered into lease agreement for office premises with non-related parties. A list of rent expense for next 3 years as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 81,946
2017	56,152
2018	<u>42,114</u>
	<u>\$ 180,212</u>

Test-Rite Business Development entered into lease agreement for office premises with non-related parties. A list of rent expense for next 3 years as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 30,689
2017	30,689
2018	<u>23,017</u>
	<u>\$ 84,395</u>

Chung Cin Enterprise entered into lease agreement for office premises with non-related parties. A list of rent expense for the next 5 years including the present value of rentals from 2021 to 2025 as of December 31, 2015 was as follows:

Period	Amount
2016	\$ 38,618
2017	38,598
2018	39,305
2019	39,805
2020	40,053
2021-2025 (present value \$946,683 thousand)	<u>189,084</u>
	<u>\$ 385,463</u>

27. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2015 and 2014 were summarized as follows:

Function Expense Item	2015			2014		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses						
Salaries	\$ 24,906	\$ 3,467,910	\$ 3,492,816	\$ 79,436	\$ 3,197,776	\$ 3,277,212
Labor insurance and health insurance	2,200	243,841	246,041	5,760	234,140	239,900
Pension cost	1,179	216,073	217,252	3,165	187,758	190,923
Others	2,159	354,493	356,652	2,703	319,768	322,471
Depreciation expenses	78,334	589,821	668,155	69,917	574,369	644,286
Amortization expenses	25	155,185	155,210	25	165,862	165,887

The existing (2014) Articles of Incorporation of Test-Rite stipulate to distribute bonus to employees and remuneration to directors and supervisors at the rates no less than 1% and no higher than 2%, respectively, of net income (net of the bonus and remuneration). For the year ended December 31, 2014, the bonus to employees and the remuneration to directors and supervisors were \$5,500 thousand and \$11,100 thousand, respectively, representing 1% and 2%, respectively, of the base net income.

In compliance with the Company Act as amended in May 2015, Test-Rite proposed amendments to its Articles of Incorporation to distribute employees' compensation and remuneration to directors and supervisors at the rates no less than 1% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. For the year ended December 31, 2015, the employees' compensation and the remuneration to directors and supervisors were \$7,380 thousand and \$11,070 thousand, respectively, representing 1% and 1.5%, respectively, of the base net profit. The employees' compensation and remuneration to directors and supervisors in cash for the year ended December 31, 2015 have been approved by Test-Rite's board of directors on March 25, 2016 and are subject to the resolution and adoption of the amendments to Test-Rite's Articles of Incorporation by the shareholders in their meeting to be held on June 23, 2016, and in addition thereto, a report of such distribution shall be submitted to the shareholders' meeting.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual consolidated financial statements are authorized for issue are adjusted in the year the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The bonuses to employees and remuneration to directors and supervisors for 2014 and 2013 which have been approved in the shareholders' meetings on June 15, 2015 and June 11, 2014, respectively, were as follows:

	For the Year Ended December 31	
	2014	2013
	Cash Dividends	Cash Dividends
Bonus to employees	\$ 5,898	\$ 5,021
Remuneration of directors and supervisors	11,297	10,042

The bonus to employees and the remuneration to directors and supervisors for the years ended December 31, 2014 and 2013 approved in the shareholders' meetings on June 15, 2015 and June 11, 2014 and the amounts recognized in the financial statements for the years ended December 31, 2014 and 2013, respectively, were as follows:

	For the Year Ended December 31			
	2014		2013	
	Bonus to Employees	Remuneration of Directors and Supervisors	Bonus to Employees	Remuneration of Directors and Supervisors
Amounts approved in shareholders' meetings	\$ 5,898	\$ 11,297	\$ 5,021	\$ 10,042
Amounts recognized in respective financial statements	5,500	11,100	5,260	10,521

The differences were adjusted to profit and loss for the years ended December 31, 2015 and 2014.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2016 and bonus to employees, directors and supervisors resolved by the shareholders' meeting in 2015 and 2014 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

28. CAPITAL MANAGEMENT

The objective of the Company's capital management is to ensure it has the necessary financial resource and operational plan so that it can cope with the next twelve months working capital requirements, capital expenditures and dividends spending.

29. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between Test-Rite and its subsidiaries have been eliminated on consolidation. Details of transactions between the Company and other related parties are disclosed below.

a. Operating transactions

	Rent Expense	
	For the Year Ended December 31	
	2015	2014
Others (Tsai Wang)	<u>\$ 311,009</u>	<u>\$ 300,226</u>

The Company's rental income from related parties is according to market price and the rental income is received monthly.

	Refundable Deposits Paid	
	December 31	
	2015	2014
Others (Tsai Wang)	<u>\$ 125,000</u>	<u>\$ 125,000</u>

The transaction conditions of related parties are almost the same as non-related parties.

b. Equity transaction

See Notes 24 and 25.

c. Property lease

See Note 26.

d. Endorsements or guarantees

Endorsements or guarantees that Test-Rite provided to subsidiaries were summarized in Note 32.

As of December 31, 2015, short-term bills payable of \$49,966 thousand were guaranteed by others (Tony Ho).

As of December 31, 2015, short-term borrowings of \$10,769 thousand were guaranteed by others (Tony Ho and Judy Lee), short-term borrowings of \$214,823 thousand were guaranteed by others (Judy Lee), short-term borrowings of \$250,000 thousand were guarantee by others (Tony Ho).

As of December 31, 2015, long-term borrowings of \$1,421,838 thousand were guaranteed by others (Tony Ho and Judy Lee), long-term borrowings of \$3,888,772 thousand were guaranteed by others (Judy Lee), and long-term borrowings of \$1,400,000 thousand were guaranteed by others (Tony Ho).

As of December 31, 2014, short-term bills payable of \$79,957 thousand were guaranteed by others (Tony Ho).

As of December 31, 2014, short-term borrowings of \$891,276 thousand were guaranteed by others (Tony Ho and Judy Lee), short-term borrowings of \$412,334 thousand were guaranteed by others (Judy Lee) and short-term borrowings of \$310,000 thousand were guaranteed by others (Tony Ho). As of December 31, 2014, short-term borrowings of \$30,000 thousand were guaranteed by others (Yu-chuan Hsieh).

As of December 31, 2014, long-term borrowings of \$1,449,512 thousand were guaranteed by others (Tony Ho and Judy Lee), long-term borrowings of \$3,736 thousand were guaranteed by others (Judy Lee) and long-term borrowings of \$925,000 thousand were guaranteed by others (Tony Ho).

e. Compensation of key management personnel

	For the Year Ended December 31	
	2015	2014
Short-term employee benefits	\$ 187,146	\$ 183,719
Post-employment benefits	<u>38,665</u>	<u>2,982</u>
	<u>\$ 225,811</u>	<u>\$ 186,701</u>

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

30. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Fair value of financial instruments not carried at fair value

The management considers that the carrying amounts of financial assets and financial liabilities not carried at fair value approximate their fair value. As of December 31, 2015 and 2014, the carrying amounts approximate their fair value.

b. Fair value measurements recognized in the consolidated balance sheets

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ 217,798	\$ -	\$ 217,798
Non-derivative financial assets	\$ 721,156	\$ -	\$ -	\$ 721,156

December 31, 2014

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivatives financial assets	\$ -	\$ 308,883	\$ -	\$ 308,883
Non-derivative financial assets	\$ 744,671	\$ -	\$ -	\$ 744,671

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

Financial Risk Management Objectives and Policies

The Company's major financial instruments include equity and debt investments, borrowings, trade receivables and trade payables. The Company'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 Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

The Company 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 Company'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 Company did not enter into or trade financial instruments for speculative purposes.

a. Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates. The Company entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward foreign exchange contracts to hedge the exchange rate risk arising on the export.

There had been no change to the Company's exposure to market risks or the manner in which these risks were managed and measured.

1) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities (see Note 33).

The sensitivity analysis included only outstanding foreign currency denominated monetary items, and the effect on profit and loss by their translation at the end of the reporting period for a 10% change in foreign currency rates. A positive number below indicates an increase in post-tax profit and other equity associated with New Taiwan dollars strengthen 10% against the relevant currency. For a 10% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on post-tax profit and other equity and the balances below would be negative.

	<u>Currency USD Impact</u>		<u>Currency EUR Impact</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>
Equity	\$ (63,645)	\$ (183,771)	\$ 5,682	\$ 5,850

2) Interest rate risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at floating interest rates. The risk is managed by the Company by maintaining floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Company's interest rate risk arises primarily from fixed revenue investment and floating interest rate borrowings.

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

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Fair value interest rate risk		
Financial assets	\$ 500,259	\$ 386,832
Financial liabilities	9,043,903	8,992,243

The sensitivity analyses were calculated by a change in fair value of the fixed interest rates financial assets and liabilities at the end of the reporting period.

If interest rates at end of the reporting period were higher by 1% and all other variables were held constant, the Company's cash outflow for the years ended December 31, 2015 and 2014 would have been higher by \$85,436 thousand and \$86,054 thousand.

b. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation and financial guarantees provided by the Company could arise from:

- 1) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and
- 2) The amount of contingent liabilities in relation to financial guarantee issued by the Company.

The Company direct against the counterparties which deal with materially to providing sufficient collateral or other right pledged, so that it could minimize credit risk effectively. Management of the Company 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 Company 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 Company's credit risk was significantly reduced.

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

The Company did transactions with a large number of customers among different industries and geography area. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

c. Liquidity risk

The Company manages and contains sufficient working capital to support the operations so there is no liquidity risk of shortage of funds by the maturity date of implementing obligation to the contracts, reduce the impact on fluctuation of cash flow.

The Company's non-derivative financial liabilities with their agreed repayment period were as follows:

	December 31, 2015			
	1 Year	1-3 Years	3+ Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 7,299,812	\$ -	\$ 250,637	\$ 7,550,449
Fixed interest rate liabilities	49,966	-	-	49,966
Variable interest rate liabilities	<u>3,886,968</u>	<u>1,988,087</u>	<u>3,118,882</u>	<u>8,993,937</u>
	<u>\$ 11,236,746</u>	<u>\$ 1,988,087</u>	<u>\$ 3,369,519</u>	<u>\$ 16,594,352</u>

	December 31, 2014			
	1 Year	1-3 Years	3+ Years	Total
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 7,278,193	\$ -	\$ 225,464	\$ 7,503,657
Fixed interest rate liabilities	79,957	-	-	79,957
Variable interest rate liabilities	<u>3,249,782</u>	<u>4,086,119</u>	<u>1,576,385</u>	<u>8,912,286</u>
	<u>\$ 10,607,932</u>	<u>\$ 4,086,119</u>	<u>\$ 1,801,849</u>	<u>\$ 16,495,900</u>

31. PLEDGED ASSETS

	December 31	
	2015	2014
Time deposits (see Notes 6 and 9)	<u>\$ 365,549</u>	<u>\$ 312,053</u>

32. COMMITMENTS AND CONTINGENCIES

Letter of Credit

Test-Rite's, Test-Rite Retail's Testrite Brand Agency's and Test-Rite C&B's outstanding letters of credit not reflected in the accompanying financial statements as of December 31, 2015 were US\$3,443 thousand and EUR381 thousand.

Test-Rite's and Test-Rite Retail's outstanding letters of credit not reflected in the accompanying financial statements as of December 31, 2014 were US\$1,761 thousand and EUR61 thousand.

Endorsements/guarantees provided: As of December 31, 2015 and 2014, endorsements or guarantees that the Company provided to its business related legal entities and subsidiaries were summarized as follows:

	December 31	
	2015	2014
Endorsements		
TR Products	US\$ 23,080	US\$ 27,559
TR Trading & TR Retailing	US\$ 21,000	US\$ 21,000
Hola Shanghai Retail & Trading, Test-Rite (China) Investment and Test-Rite Business Development	US\$ 6,500	US\$ -
Test-Rite Business Development	US\$ 5,000	US\$ 15,000
Hola Shanghai Retail & Trading	US\$ 5,000	US\$ 11,500
TR Pte.	US\$ 1,500	US\$ 1,500
Subsidiary of TR Development	EUR 7,000	EUR -
TRGI & Subsidiary of TR Development	EUR 1,000	EUR -
TR GI	EUR -	EUR 1,000
TR Canada	CAD 60	CAD 60
Test-Rite C&B	NT\$ 45,000	NT\$ 45,000

As of December 31, 2015 and 2014 Test-Rite Retail and Testrite Brand Agency have import duty relief on temporary admission, coupon execution guarantee and CPC Corporation guarantee rendered by banks for approximately \$86,960 thousand and \$132,391 thousand.

33. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The information of significant foreign-currency financial assets and liabilities as of December 31, 2015 and 2014 was summarized as follows:

(Unit: Foreign Currencies/New Taiwan Dollars in Thousands)

	December 31					
	2015			2014		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 112,546	33.066	\$ 3,721,446	\$ 123,407	31.718	\$ 3,914,223
EUR	1,956	35.8952	70,211	1,715	38.4582	65,956
<u>Financial liabilities</u>						
Monetary items						
USD	131,794	33.066	4,357,900	181,346	31.718	5,751,932
EUR	373	35.8952	13,389	194	38.4582	7,461

For the years ended December 31, 2015 and 2014, realized and unrealized net foreign exchange gains (losses) were \$156,526 thousand and \$(248,185) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

34. OPERATING SEGMENT FINANCIAL 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 Company's reportable segments under IFRS 8 "Operating Segments" were as follows:

- A Segment - retail segment
- B Segment - trading segment
- C Segment - construction segment

Segment Revenue and Results

The analysis of the Company's revenue and results from continuing operations by reportable segment for the years ended December 31, 2015 and 2014 was as follows:

	2015				
	A Segment	B Segment	C Segment	Adjustment and Elimination	Total
Operating revenue	\$ 21,768,693	\$ 20,230,377	\$ 1,535,857	\$ (7,553,476)	\$ 35,981,451
Operating costs	<u>(13,949,876)</u>	<u>(16,236,048)</u>	<u>(1,233,437)</u>	<u>6,740,782</u>	<u>(24,678,579)</u>
Gross profit	7,818,817	3,994,329	302,420	(812,694)	11,302,872
Operating expenses	<u>(7,561,017)</u>	<u>(3,800,401)</u>	<u>(177,023)</u>	<u>1,046,036</u>	<u>(10,492,405)</u>
Profit from operations	<u>\$ 257,800</u>	<u>\$ 193,928</u>	<u>\$ 125,397</u>	<u>\$ 233,342</u>	<u>810,467</u>
Nonoperating income and expenses					<u>54,638</u>
Profit before income tax					<u>\$ 865,105</u>

	2014				
	A Segment	B Segment	C Segment	Adjustment and Elimination	Total
Operating revenue	\$ 21,843,553	\$ 20,298,314	\$ 1,724,214	\$ (7,919,840)	\$ 35,946,241
Operating costs	<u>(13,958,892)</u>	<u>(15,895,587)</u>	<u>(1,434,423)</u>	<u>6,174,687</u>	<u>(25,114,215)</u>
Gross profit	7,884,661	4,402,727	289,791	(1,745,153)	10,832,026
Operating expenses	<u>(7,280,703)</u>	<u>(4,213,395)</u>	<u>(184,254)</u>	<u>1,828,228</u>	<u>(9,850,124)</u>
Profit from operations	<u>\$ 603,958</u>	<u>\$ 189,332</u>	<u>\$ 105,537</u>	<u>\$ 83,075</u>	<u>981,902</u>
Nonoperating income and expenses					<u>(98,758)</u>
Profit before income tax					<u>\$ 883,144</u>

All intercompany transactions have been eliminated upon consolidation for the years ended December 31, 2015 and 2014.

Segment Assets and Liabilities

The analysis of the Company's assets and liabilities by reportable segment as of December 31, 2015 and 2014 was as follows:

	2015				
	A Segment	B Segment	C Segment	Adjustment and Elimination	Total
Assets	<u>\$ 12,694,425</u>	<u>\$ 18,996,679</u>	<u>\$ 1,797,229</u>	<u>\$ (8,293,087)</u>	<u>\$ 25,195,246</u>
Liabilities	<u>\$ 9,641,896</u>	<u>\$ 10,673,377</u>	<u>\$ 515,209</u>	<u>\$ (3,064,658)</u>	<u>\$ 17,765,824</u>

	2014				
	A Segment	B Segment	C Segment	Adjustment and Elimination	Total
Assets	<u>\$ 12,059,455</u>	<u>\$ 20,851,729</u>	<u>\$ 1,996,700</u>	<u>\$ (9,986,938)</u>	<u>\$ 24,920,946</u>
Liabilities	<u>\$ 8,741,372</u>	<u>\$ 13,485,854</u>	<u>\$ 775,762</u>	<u>\$ (5,443,017)</u>	<u>\$ 17,559,971</u>

All intercompany transactions have been eliminated upon consolidation for the years ended December 31, 2015 and 2014.

Geographical Information

The Company operates in two principal geographical areas - Asia and America. The Company's revenue from continuing operations from external customers and information about its noncurrent assets by geographical location were detailed below:

	Revenue from External Customers		Noncurrent Assets	
	For the Year Ended December 31		For the Year Ended December 31	
	2015	2014	2015	2014
Asia	\$ 29,740,071	\$ 30,763,044	\$ 10,488,184	\$ 10,299,600
America	4,412,729	4,310,353	-	-
Europe	1,826,901	871,125	230,610	-
Australia and others	<u>1,750</u>	<u>1,719</u>	<u>-</u>	<u>-</u>
	<u>\$ 35,981,451</u>	<u>\$ 35,946,241</u>	<u>\$ 10,718,794</u>	<u>\$ 10,299,600</u>

Noncurrent assets excluded those classified as financial instruments, deferred pension cost and deferred income tax assets.

Major Customer

No individual customer accounted for at least 10% of consolidated revenue in 2015 and 2014.