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

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

## INDEPENDENT AUDITORS' REPORT

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

### Opinion

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

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

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following are key audit matters of the consolidated financial statements of the Group as of and for the year ended December 31, 2016:

Sales Revenue Recognition

The recognition of sales revenue depends on whether the ownership and risks of goods have been transferred to customers, and the point of transferring ownership and risks of goods to customers of the Group is critical to the sales revenue recognition and the presentation of the financial statements. As a result, the recognition of sales revenue is regarded as a key audit matter of the 2016 consolidated financial statements. Refer to Note 4 of the consolidated financial statements for disclosures of the accounting policies of sales revenue recognition.

Our audit procedures in response to sales revenue recognition consisted of the following: We reviewed the transaction terms of sales contracts and transaction documents to ensure that the Group's accounting method of sales revenue recognition complied with the sales contracts and was consistently applied; and we selected samples of sales transactions and performed tests of the transaction details to verify the validity of the presentation of sales revenue.

Impairment of Accounts Receivable

As of December 31, 2016, the amount of accounts receivable was material for the Group, and the recognition of allowance for doubtful accounts was subject to management's estimation of future cash flows. As a result, the impairment of accounts receivable is regarded as a key audit matter of the 2016 consolidated financial statements. Refer to Notes 4, 5 and 10 of the consolidated financial statements for further disclosures of accounts receivable and the impairment of accounts receivable.

Our audit procedures in response to accounts receivable and the impairment of accounts receivable consisted of the following: We evaluated the rationale of the assumptions used on the aging report of accounts receivable prepared by management and verified that the assumptions were consistent with those used in the prior year; we examined the calculations in the aging report; and we selected samples of outstanding balances from accounts receivable to assess their collectability by checking related cash collections after the balance sheet date.

Impairment of Goodwill

According to IFRS, management should perform an impairment review under IAS 36 "Impairment of Assets" on an annual basis. As of December 31, 2016, the amount of goodwill was material for the Group, and the impairment of goodwill was subject to management's significant judgment and estimation, including future cash flow predictions, discount rates and long term growth rates, which are influenced by the future market trends and/or economic conditions. As a result, the impairment of goodwill is regarded as a key audit matter of the 2016 consolidated financial statements. Refer to Notes 4, 5 and 14 of the consolidated financial statements for further disclosures of goodwill and the impairment of goodwill.

Our audit procedures in response to the impairment of goodwill consisted of evaluating the rationale of the significant assumptions, evaluation model, and basic information of the impairment test determined by management.

**Other Matter**

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, 2016 and 2015 on which we have issued an unmodified opinion.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Kuo-Tyan Hong and Ker-Chang Wu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 24, 2017

*<u>Notice to Readers</u>*

*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.*

## TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 2,302,564 | 9 | $ 1,903,406 | 8 |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7) | 451,827 | 2 | 938,954 | 4 |
| Debt investments with no active market - current (Notes 4 and 9) | 175,739 | 1 | 297,342 | 1 |
| Notes receivable from unrelated parties (Notes 4 and 10) | 61,825 | - | 61,493 | - |
| Trade receivables from unrelated parties (Notes 4 and 10) | 2,403,141 | 10 | 2,411,447 | 10 |
| Other receivables | 244,056 | 1 | 257,556 | 1 |
| Inventories (Notes 4 and 11) | 6,642,730 | 27 | 6,718,609 | 27 |
| Prepayments | 358,777 | 2 | 380,974 | 1 |
| Other current financial assets | 17,433 | - | 29,665 | - |
| Other current assets | 4,335 | - | 23,921 | - |
| Total current assets | 12,662,427 | 52 | 13,023,367 | 52 |
| NON-CURRENT ASSETS | | | | |
| Financial assets measured at cost - non-current (Notes 4 and 8) | 93,775 | - | 94,011 | - |
| Debt investments with no active market - non-current (Notes 4 and 9) | 105,229 | 1 | 50,000 | - |
| Property, plant and equipment (Notes 4 and 13) | 5,841,696 | 24 | 6,411,230 | 26 |
| Goodwill (Notes 4 and 14) | 2,335,902 | 10 | 2,342,753 | 9 |
| Other intangible assets (Notes 4 and 15) | 236,055 | 1 | 270,535 | 1 |
| Deferred tax assets (Note 4) | 1,279,315 | 5 | 1,248,753 | 5 |
| Refundable deposits | 812,030 | 3 | 969,191 | 4 |
| Other non-current assets | 950,869 | 4 | 785,406 | 3 |
| Total non-current assets | 11,654,871 | 48 | 12,171,879 | 48 |
| TOTAL | $ 24,317,298 | 100 | $ 25,195,246 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Note 16) | $ 1,799,526 | 7 | $ 2,283,327 | 9 |
| Short-term bills payable (Note 16) | - | - | 49,966 | - |
| Financial liabilities at fair value through profit or loss - current (Notes 4 and 7) | 51,019 | - | - | - |
| Notes payable to unrelated parties | 21,714 | - | 2,697 | - |
| Trade payables to unrelated parties | 5,783,246 | 24 | 5,821,749 | 23 |
| Other payables (Notes 4 and 18) | 1,657,087 | 7 | 1,475,366 | 6 |
| Current tax liabilities (Note 4) | 184,575 | 1 | 162,720 | 1 |
| Advance receipts | 555,304 | 2 | 503,411 | 2 |
| Current portion of long-term borrowings and bonds payable (Note 16) | 600,000 | 3 | 1,603,641 | 6 |
| Other current liabilities | 156,135 | 1 | 190,895 | 1 |
| Total current liabilities | 10,808,606 | 45 | 12,093,772 | 48 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term borrowings (Note 16) | 5,571,922 | 23 | 5,106,969 | 20 |
| Deferred tax liabilities (Note 4) | 27,661 | - | - | - |
| Net defined benefit liabilities - non-current (Notes 4 and 19) | 172,262 | 1 | 188,712 | 1 |
| Guarantee deposits received | 237,375 | 1 | 250,637 | 1 |
| Deferred credit (Note 13) | - | - | 50,000 | - |
| Other non-current liabilities | 83,189 | - | 75,734 | 1 |
| Total non-current liabilities | 6,092,409 | 25 | 5,672,052 | 23 |
| Total liabilities | 16,901,015 | 70 | 17,765,824 | 71 |
| EQUITY ATTRIBUTABLE TO OWNERS OF TEST-RITE | | | | |
| Share capital | | | | |
| Common shares (Notes 4 and 20) | 5,098,875 | 21 | 5,098,875 | 20 |
| Capital surplus (Notes 4 and 20) | 673,456 | 3 | 673,456 | 2 |
| Retain earnings (Notes 4 and 20) | | | | |
| Legal reserve | 1,049,379 | 4 | 995,491 | 4 |
| Special reserve | 148,098 | 1 | 148,098 | 1 |
| Unappropriated earnings | 609,465 | 2 | 538,877 | 2 |
| Total retain earnings | 1,806,942 | 7 | 1,682,466 | 7 |
| Other equity (Notes 4 and 20) | (166,380) | (1) | (28,857) | - |
| Total equity attributable to owners of TEST-RITE | 7,412,893 | 30 | 7,425,940 | 29 |
| NON-CONTROLLING INTERESTS (Note 4) | 3,390 | - | 3,482 | - |
| Total equity | 7,416,283 | 30 | 7,429,422 | 29 |
| TOTAL | $ 24,317,298 | 100 | $ 25,195,246 | 100 |

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, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUE (Note 4) | $ 35,443,444 | 100 | $ 35,981,451 | 100 |
| OPERATING COSTS (Note 11) | 24,184,630 | 68 | 24,678,579 | 69 |
| GROSS PROFIT | 11,258,814 | 32 | 11,302,872 | 31 |
| OPERATING EXPENSES | 10,433,994 | 29 | 10,492,405 | 29 |
| PROFIT FROM OPERATIONS | 824,820 | 3 | 810,467 | 2 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Interest income | 19,984 | - | 25,505 | - |
| Other income | 217,361 | 1 | 189,181 | 1 |
| Gain on sale of investments, net | 8,932 | - | 37,662 | - |
| Foreign exchange gain | 368,318 | 1 | 156,526 | - |
| Interest expense | (229,381) | (1) | (216,533) | (1) |
| Other expense | (125,977) | - | (121,117) | - |
| Loss on disposal of property, plant and equipment | (25,647) | - | (4,795) | - |
| Net loss on fair value change of financial assets and liabilities designated as at fair value through profit or loss | (166,047) | (1) | (2,092) | - |
| Impairment loss | - | - | (9,699) | - |
| Total non-operating income and expenses | 67,543 | - | 54,638 | - |
| PROFIT BEFORE INCOME TAX | 892,363 | 3 | 865,105 | 2 |
| INCOME TAX EXPENSE (Notes 4 and 22) | (216,343) | (1) | (194,620) | - |
| NET PROFIT FOR THE YEAR | 676,020 | 2 | 670,485 | 2 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans | (67,160) | - | (70,940) | - |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations | (137,606) | (1) | (60,353) | - |
| Other comprehensive loss for the year, net of income tax | (204,766) | (1) | (131,293) | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 471,254 | 1 | $ 539,192 | 2 |

(Continued)

# TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| NET PROFIT (LOSS) ATTRIBUTABLE TO: | | | | |
| Owner of the Company | $ 676,029 | 2 | $ 670,509 | 2 |
| Non-controlling interests | (9) | - | (24) | - |
| | $ 676,020 | 2 | $ 670,485 | 2 |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Owner of the Company | $ 471,346 | 1 | $ 540,899 | 2 |
| Non-controlling interests | (92) | - | (1,707) | - |
| | $ 471,254 | 1 | $ 539,192 | 2 |
| EARNINGS PER SHARE (Notes 4 and 23) | | | | |
| Basic | $ 1.33 | | $ 1.32 | |
| Diluted | $ 1.32 | | $ 1.32 | |

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, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | Equity Attributable to Owners of Test-Rite | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | | | Retained Earnings | | | Other Equity | | | | | |
| | Share (In Thousands of Shares) | Amount | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translating Foreign Operations | Unrealized Gain on Available-for-sale Financial Assets | Treasury Shares | Total | Non-controlling Interests | Total Equity |
| BALANCE AT JANUARY 1, 2015 | 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) | | | | | | | | | | | | |
| Cash dividends | - | - | - | - | - | (577,401) | - | - | - | (577,401) | - | (577,401) |
| Legal reserve | - | - | - | 65,538 | - | (65,538) | - | - | - | - | - | - |
| 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 |
| Appropriation of 2015 earnings (Note 20) | | | | | | | | | | | | |
| Legal reserve | - | - | - | 53,888 | - | (53,888) | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | (484,393) | - | - | - | (484,393) | - | (484,393) |
| Net profit for the year ended December 31, 2016 | - | - | - | - | - | 676,029 | - | - | - | 676,029 | (9) | 676,020 |
| Other comprehensive income (loss) for the year ended December 31, 2016 | - | - | - | - | - | (67,160) | (137,523) | - | - | (204,683) | (83) | (204,766) |
| Total comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | 608,869 | (137,523) | - | - | 471,346 | (92) | 471,254 |
| BALANCE AT DECEMBER 31, 2016 | 509,888 | $ 5,098,875 | $ 673,456 | $ 1,049,379 | $ 148,098 | $ 609,465 | $ (166,405) | $ 25 | $ - | $ 7,412,893 | $ 3,390 | $ 7,416,283 |

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, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | $ 892,363 | $ 865,105 |
| Adjustments for: | | |
| Depreciation expenses | 668,072 | 668,155 |
| Amortization expenses | 148,317 | 155,210 |
| Impairment loss recognized on trade receivables | 15,601 | 267 |
| Net loss on fair value change of financial assets and liabilities designated as at fair value through profit or loss | 166,047 | 2,092 |
| Interest expense | 229,381 | 216,533 |
| Interest income | (19,984) | (25,505) |
| Compensation cost of employee share options | - | 5,226 |
| Loss on disposal and impairment of property, plant and equipment | 25,647 | 4,795 |
| Loss on disposal of intangible assets | 117 | - |
| Gain on disposal of investments | (8,932) | (37,662) |
| 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 | 381,031 | 224,548 |
| Notes receivable | (332) | 17,342 |
| Trade receivables | (7,295) | 721,551 |
| Other receivables | 13,704 | 159,272 |
| Inventories | 75,879 | (250,430) |
| Prepayments | 22,197 | 8,035 |
| Other current assets | 19,586 | 82,231 |
| Other financial assets | 328 | (471) |
| Other operating assets | 142,878 | 92,556 |
| Notes payable | 19,017 | (32,519) |
| Trade payables | (38,503) | (697,650) |
| Other payables | 247,492 | (155,207) |
| Advance receipts | 51,893 | 38,088 |
| Other current liabilities | (34,760) | (81,271) |
| Other operating liabilities | (76,155) | (36,245) |
| Cash generated from operations | 2,883,589 | 1,903,745 |
| Interest received | 19,780 | 26,513 |
| Interest paid | (232,989) | (215,309) |
| Income tax paid | (203,831) | (169,967) |
| Net cash generated from operating activities | 2,466,549 | 1,544,982 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of debt investments with no active market | (163,174) | (156,132) |
| Proceeds from sale of debt investments with no active market | 229,548 | 17,458 |
| Purchase of financial assets measured at cost | - | (32,500) |
| Decrease in prepayments of investment | - | 44,404 |
| Net cash outflow on acquisition of subsidiaries | - | (144,602) |

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# TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

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

| | 2016 | 2015 |
|---|---|---|
| Payments for property, plant and equipment | $ (679,255) | $ (1,010,298) |
| Proceeds from disposal of property, plant and equipment | 22,447 | 3,065 |
| Decrease in refundable deposits | 157,161 | 5,668 |
| Payments for intangible assets | (23,105) | (36,295) |
| Net cash used in investing activities | (456,378) | (1,309,232) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments of short-term borrowings | (483,801) | (600,059) |
| Repayments of short-term bills payable | (49,966) | (29,991) |
| Proceeds from long-term borrowings | 6,761,305 | 9,932,056 |
| Repayments of long-term borrowings | (7,299,993) | (9,383,950) |
| (Increase) decrease in guarantee deposits received | (13,262) | 25,173 |
| Dividends paid | (484,393) | (577,401) |
| Proceeds from treasury stock transferred to employees | - | 157,398 |
| Payments for equity transactions with non-controlling interests | - | (55,968) |
| Net cash used in financing activities | (1,570,110) | (532,742) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | (40,903) | (115,730) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 399,158 | (412,722) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 1,903,406 | 2,316,128 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 2,302,564 | $ 1,903,406 |

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

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

## 1. ORGANIZATION AND OPERATIONS

**Information of Parent Company**

Test-Rite International Co., Ltd. ("Test-Rite" or the "Company") 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 Test-Rite's application for stock listing in the Taiwan Stock Exchange in February 1993.

The consolidated financial statements of Test-Rite and its subsidiaries, hereto forth collectively referred to as the "Group", are presented in Test-Rite's functional currency, New Taiwan dollars.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by Test-Rite's board of directors on March 24, 2017.

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

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

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

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

(Continued)

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| 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 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets" | January 1, 2014 |
| Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| IFRIC 21 "Levies" | January 1, 2014 |

(Concluded)

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

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

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

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

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

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

2) Annual Improvements to IFRSs 2010-2012 Cycle

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

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

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

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

3) Annual Improvements to IFRSs 2011-2013 Cycle

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

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

4) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.
The amended IAS 16 "Property, Plant and Equipment" stipulates 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" clarifies there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity's use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

5) 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.

6) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

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

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

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

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

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

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

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

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

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

(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 |
| IFRS 15 “Revenue from Contracts with Customers” | January 1, 2018 |
| Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers” | January 1, 2018 |
| IFRS 16 “Leases” | January 1, 2019 |
| Amendment to IAS 7 “Disclosure Initiative” | January 1, 2017 |
| Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses” | January 1, 2017 |
| Amendments to IAS 40 “Transfers of Investment Property” | January 1, 2018 |
| IFRIC 22 “Foreign Currency Transactions and Advance Consideration” | January 1, 2018 |

(Concluded)

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

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

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

Impairment of financial assets

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

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

Transition

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

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

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

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

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

3) IFRS 16 “Leases”

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

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

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

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

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

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

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

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

### 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, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, 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 12 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 12 months after the reporting period; and

c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

**Basis of Consolidation**

<u>Principles for preparing consolidated financial statements</u>

The consolidated financial statements incorporate the financial statements of Test-Rite and the entities controlled by Test-Rite (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of Test-Rite and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

**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 (i.e. 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 from 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, and in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the Group entities (including subsidiaries in other countries that use a currency different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (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 the 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 item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

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 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 methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

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

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

The 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 equivalents, and 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 equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash, and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

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, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been affected.

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

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

The carrying amount of a financial asset is reduced by its 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 trade receivables are considered uncollectable, they are written off against an 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 uncollectable trade receivables that are written off against the allowance account.

3) Derecognition of financial assets

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

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

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 Group 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 based on past experience and other relevant factors.

a. Sale of goods

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

1) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

2) The Group 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 Group; and

5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The sales of goods that result in awarded credits for customers, under the Group'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 awarded credits is measured by reference to their fair value, which is the amount for which the awarded 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 awarded credits are redeemed and the Group's obligations have been fulfilled.

b. Rendering of services

Service income is recognized when services are provided.

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

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 Group and the amount of income can be measured reliably.

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

**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 Group as lessor

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

b. The Group 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 plan are recognized as an expense when employees have rendered service entitling them to the contributions.

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

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

**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 Group'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 to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

**Estimated Impairment of Trade Receivables**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between 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.

**Impairment of Goodwill**

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

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Cash on hand | $ 52,825 | $ 66,132 |
| Checking accounts and demand deposits | 2,118,330 | 1,702,564 |
| Cash equivalents | 131,409 | 134,710 |
| | $ 2,302,564 | $ 1,903,406 |

The time deposits with original maturities of more than 3 months were $280,968 thousand and $297,342 thousand, respectively, as of December 31, 2016 and 2015 and reclassified to debt investments with no active market (see Notes 9 and 31).

The following time deposits of the Group where pledged as for purchases of raw materials and collaterals warranties of construction and reclassified to refundable deposits paid:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Time deposits | $ 39,537 | $ 68,207 |

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

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Financial assets held for trading - current | | |
| Derivative financial assets | | |
| Foreign exchange forward contracts | $ 63,871 | $ 217,798 |
| Non-derivative financial assets | | |
| Equity securities listed in open market | 52,711 | 51,331 |
| Mutual funds | - | 15,341 |
| Corporate bonds | 32,844 | 76,537 |
| Financial products | 302,401 | 577,947 |
| | $ 451,827 | $ 938,954 |

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

| | Currency | Maturity Period | Contract Amount (In Thousands) |
|---|---|---|---|
| December 31, 2016 | | | |
| Forward exchange contracts - sell | US$/NT$ | 2017.01.03-2017.12.26 | US$357,950/NT$11,554,268 |
| Forward exchange contracts - buy | US$/NT$ | 2017.01.04-2017.12.20 | US$375,000/NT$12,104,625 |
| Forward exchange contracts - sell | EUR/US$ | 2017.01.25 | EUR100/US$106 |
| Forward exchange contracts - buy | EUR/US$ | 2016.10.14-2017.06.27 | US$25,829/EUR22,521 |
| Forward exchange contracts - sell | US$/EUR | 2017.01.27-2017.09.11 | US$4,366/EUR4,056 |
| Forward exchange contracts - sell | GBP/EUR | 2017.06.12 | GBP120/EUR140 |
| December 31, 2015 | | | |
| Forward exchange contracts - sell | US$/NT$ | 2016.01.01-2017.01.03 | 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 |

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

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Domestic investments | | |
| Domestic unlisted common shares | $ 42,120 | $ 42,120 |
| Foreign investments | | |
| Overseas unlisted common shares | 51,655 | 51,891 |
| | $ 93,775 | $ 94,011 |
| Classified according to financial asset measurement categories | | |
| Available-for-sale financial assets | $ 93,775 | $ 94,011 |

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

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Current | | |
| Time deposits with original maturity more than 3 months (Note 6) | $ 175,739 | $ 297,342 |
| Non-current | | |
| Subordinated bond of Ta Chong Bank | $ - | $ 50,000 |
| Time deposits with original maturity more than 12 months (Note 6) | 105,229 | - |
| | $ 105,229 | $ 50,000 |

As of December 31, 2016 and 2015, debt investments with no active market - current of $119,999 thousand and $297,342 thousand, respectively, were pledged as collateral for borrowings and for a retail store (see Note 31).

## 10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Notes receivable | $ 61,825 | $ 61,493 |
| Less: Allowance for impairment loss | - | - |
| | 61,825 | 61,493 |
| Trade receivables | 2,465,786 | 2,440,753 |
| Less: Allowance for impairment loss | (62,645) | (29,306) |
| | 2,403,141 | 2,411,447 |
| | $ 2,464,966 | $ 2,472,940 |

The average credit period of sales of goods was 90 days. In determining the collectability 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 | |
|---|---|---|
| | 2016 | 2015 |
| Not due | $ 2,014,908 | $ 2,047,513 |
| Up to 30 days | 257,788 | 167,066 |
| 31-60 days | 43,541 | 66,521 |
| 61-365 days | 67,537 | 89,560 |
| More than 365 days | 82,012 | 70,093 |
| | $ 2,465,786 | $ 2,440,753 |

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 | |
|---|---|---|
| | 2016 | 2015 |
| Up to 30 days | $ 257,280 | $ 167,066 |
| 31-60 days | 43,211 | 66,258 |
| More than 60 days | 10,722 | 30,689 |
| | $ 311,213 | $ 264,013 |

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

The movements of the allowance for impairment loss were as follows:

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|---|---|---|
| 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 reclassified to overdue receivables | - | (12,936) | (12,936) |
| Foreign exchange differences | - | (99) | (99) |
| Balance at December 31, 2015 | $ 625 | $ 28,681 | $ 29,306 |

(Continued)

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|---|---|---|
| Balance at January 1, 2016 | $ 625 | $ 28,681 | $ 29,306 |
| Add: Impairment loss recognized on receivables | 13,609 | 1,992 | 15,601 |
| Less: Amounts reclassified to overdue receivables | (336) | - | (336) |
| Add: Reclassified | 18,679 | - | 18,679 |
| Foreign exchange differences | (572) | (33) | (605) |
| Balance at December 31, 2016 | $ 32,005 | $ 30,640 | $ 62,645 |

(Concluded)

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 |
|---|---|---|---|---|---|---|---|---|---|
| 2016 | | | | | | | | | |
| Taishin International Bank | $ 15,749 (Note 1) | $ 22,082 (Note 2) | $ 37,831 (Note 3) | $ - | $ - | - | $ - | US$ 3,800,000 | $ - |
| 2015 | | | | | | | | | |
| Taishin International Bank | $ 42,153 (Note 1) | $ 122,975 (Note 2) | $ 148,995 (Note 3) | $ 16,133 (Note 4) | $ - | - | $ - | 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$487,898; US$1,274,819.
Note 2: US$684,103; US$3,719,065.
Note 3: US$1,172,001; US$4,505,986.
Note 4: US$487,898.

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

## 11. INVENTORIES

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Merchandise - retail | $ 4,488,189 | $ 4,284,737 |
| Merchandise - trade | 2,094,915 | 2,235,675 |
| Construction land | 53,131 | - |
| Construction in progress | 6,495 | 198,197 |
| | $ 6,642,730 | $ 6,718,609 |

The cost of inventories recognized as cost of sales for the years ended December 31, 2016 and 2015 was $22,084,954 thousand and $22,296,503 thousand, respectively.

The operating cost includes inventory write-downs in the amount of $55,656 thousand and a loss on physical inventory count in the amount of $59,265 thousand for the year ended December 31, 2016; the operating cost includes inventory write-downs in the amount of $36,851 thousand and a loss on physical inventory count in the amount of $58,895 thousand for the year ended December 31, 2015.

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

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

Construction land includes the balance of inventories of Chung Cin Enterprise.

Construction in progress includes the balance of 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 December 31 | | Remark |
|---|---|---|---|---|---|
| | | | 2016 | 2015 | |
| 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 | |
| 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 |
| Test-Rite International Co., Ltd. | Lih Chiou Co., Ltd. | Investment holding company | 100.00 | 100.00 | |
| 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 | |
| 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 | |
| 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 | |
| Test-Rite Retail | Testrite Brand Agency Co., Ltd. | Sales of furniture, bedclothes, kitchen equipment and fixtures | 100.00 | 100.00 | |
| Test-Rite Retail | Test-Rite C&B Co., Ltd. | Sales of furniture, bedclothes, kitchen equipment and fixtures | 100.00 | 100.00 | |

Note: Test-Rite Vietnam Co., Ltd. decided to undergo dissolution in September 2015 but has yet to be liquidated.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Land | $ 545,512 | $ 545,512 |
| Buildings and improvements | 2,040,142 | 2,138,718 |
| Machinery and equipment | 35,052 | 31,595 |
| Transportation equipment | 17,478 | 22,849 |
| Furniture, fixtures and office equipment | 152,998 | 184,488 |
| Leasehold improvements | 2,739,965 | 2,917,889 |
| Molds and tools | 7,977 | 3,307 |
| Other equipment | 150,537 | 179,551 |
| Prepayments for property, plant and equipment | 152,035 | 387,321 |
| | $ 5,841,696 | $ 6,411,230 |

| | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 ) | - | (117,035 ) |
| 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 |
| Cost | | | | | | | | | | |
| Balance at January 1, 2016 | $ 545,512 | $ 2,784,279 | $ 88,045 | $ 75,091 | $ 883,805 | $ 8,007,220 | $ 9,019 | $ 810,900 | $ 387,321 | $13,591,192 |
| Additions | - | 21,221 | 2,667 | 4,392 | 32,000 | 130,213 | 7,733 | 7,639 | 411,227 | 617,092 |
| Disposals | - | (427 ) | (418 ) | (10,927 ) | (68,323 ) | (51,475 ) | (1,198 ) | (46,457 ) | (7,173 ) | (186,398 ) |
| Reclassified | - | (4,650 ) | 10,958 | (271 ) | 3,586 | 411,570 | - | 29,233 | (638,912 ) | (188,486 ) |
| Effect of foreign currency exchange differences | - | (13,926 ) | (7,070 ) | (4,654 ) | (16,570 ) | (128,037 ) | (85 ) | (11,754 ) | (428 ) | (182,524 ) |
| Balance at December 31, 2016 | $ 545,512 | $ 2,786,497 | $ 94,182 | $ 63,631 | $ 834,498 | $ 8,369,491 | $ 15,469 | $ 789,561 | $ 152,035 | $13,650,876 |
| Accumulated depreciation and impairment | | | | | | | | | | |
| Balance at January 1, 2016 | $ - | $ 645,561 | $ 56,450 | $ 52,242 | $ 699,317 | $ 5,089,331 | $ 5,712 | $ 631,349 | $ - | $ 7,179,962 |
| Depreciation expense | - | 108,154 | 8,014 | 8,360 | 52,972 | 424,043 | 3,028 | 63,501 | - | 668,072 |
| Disposals | - | (342 ) | (529 ) | (10,792 ) | (55,611 ) | (24,906 ) | (1,198 ) | (44,926 ) | - | (138,304 ) |
| Reclassified | - | (5 ) | - | (271 ) | (4,017 ) | 216,318 | - | (2,513 ) | - | 209,512 |
| Effect of foreign currency exchange differences | - | (7,013 ) | (4,805 ) | (3,386 ) | (11,161 ) | (75,260 ) | (50 ) | (8,387 ) | - | (110,062 ) |
| Balance at December 31, 2016 | $ - | $ 746,355 | $ 59,130 | $ 46,153 | $ 681,500 | $ 5,629,526 | $ 7,492 | $ 639,024 | $ - | $ 7,809,180 |
| Carrying amounts at December 31, 2016 | $ 545,512 | $ 2,040,142 | $ 35,052 | $ 17,478 | $ 152,998 | $ 2,739,965 | $ 7,977 | $ 150,537 | $ 152,035 | $ 5,841,696 |

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

| | |
|---|---|
| Buildings 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, 2016 and 2015, the amortization of unrealized gain was $50,000 thousand, which was treated as a reduction of rental cost. As of December 31, 2016 and 2015, the unrealized gain was $50,000 thousand and $100,000 thousand, respectively, which were recorded: The current portion of $50,000 thousand as other current liabilities and the noncurrent portion of $0 thousand and $50,000 thousand, respectively, as other liabilities - deferred credit.

## 14. GOODWILL

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Balance at January 1 | $ 2,342,753 | $ 2,231,278 |
| Additional amounts recognized from business combinations occurring during the year (Note 24) | - | 115,951 |
| Foreign exchange differences | (6,851) | (4,476) |
| Balance at December 31 | $ 2,335,902 | $ 2,342,753 |

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

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Retail | $ 2,118,310 | $ 2,118,928 |
| Trading | 198,199 | 204,432 |
| Others | 19,393 | 19,393 |
| | $ 2,335,902 | $ 2,342,753 |

For the years ended December 31, 2016 and 2015, 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

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Computer software | $ 157,343 | $ 181,650 |
| Others | 78,712 | 88,885 |
| | $ 236,055 | $ 270,535 |

| | Computer Software | Others | Total |
|---|---|---|---|
| Cost | | | |
| 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) |
| Reclassified | 791 | (7,996) | (7,205) |
| Balance at December 31, 2015 | $ 701,511 | $ 102,888 | $ 804,399 |
| Accumulated amortization and impairment | | | |
| 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) |
| Reclassified | (54,981) | 1,057 | (53,924) |
| Balance at December 31, 2015 | $ 519,861 | $ 14,003 | $ 533,864 |
| Carrying amounts at December 31, 2015 | $ 181,650 | $ 88,885 | $ 270,535 |
| Cost | | | |
| Balance at January 1, 2016 | $ 701,511 | $ 102,888 | $ 804,399 |
| Additions | 19,992 | 3,113 | 23,105 |
| Disposals | (135,147) | - | (135,147) |
| Reclassified | 38,092 | 1,580 | 39,672 |
| Foreign exchange translation differences | (3,764) | (4,681) | (8,445) |
| Balance at December 31, 2016 | $ 620,684 | $ 102,900 | $ 723,584 |
| Accumulated amortization and impairment | | | |
| Balance at January 1, 2016 | $ 519,861 | $ 14,003 | $ 533,864 |
| Amortization expense | 138,946 | 9,371 | 148,317 |
| Disposals | (135,030) | - | (135,030) |
| Reclassified | (58,416) | 1,580 | (56,836) |
| Foreign exchange translation differences | (2,020) | (766) | (2,786) |
| Balance at December 31, 2016 | $ 463,341 | $ 24,188 | $ 487,529 |
| Carrying amounts at December 31, 2016 | $ 157,343 | $ 78,712 | $ 236,055 |

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

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

## 16. BORROWINGS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Short-term borrowings | $ 1,799,526 | $ 2,283,327 |
| Short-term bills payable | $ - | $ 49,966 |
| Current portion of long-term borrowings | $ 600,000 | $ 1,603,641 |
| Long-term borrowings | $ 5,571,922 | $ 5,106,969 |

a. Short-term borrowings as of December 31, 2016 and 2015 were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unsecured borrowings | | |
| Line of credit borrowings | $ 1,799,526 | $ 2,283,327 |

The range of weighted average effective interest rate on bank loans was 0.95%-4.5% and 1.058%-4.8% per annum as of December 31, 2016 and 2015, respectively.

b. Short-term bills payable

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Commercial paper | $ - | $ 50,000 |
| Less: Unamortized discount on bills payable | - | (34) |
| | $ - | $ 49,966 |

c. Long-term borrowings

| | December 31 | | |
|---|---|---|---|
| | 2016 | | 2015 |
| | Interest Rate | Amount | Amount |
| First Commercial Bank's Syndicated Loan | | | |
| Unsecured loan from June 24, 2015 to June 24, 2020. Authorized credit line of $5,980 million. Principal due in seven 8-month installments with the first installment due on December 17, 2016. | 1.7895% | $ 3,200,000 | $ 1,500,000 |
| Unsecured loan from June 17, 2015 to June 17, 2020. Authorized credit line of $4,480 million. On July 18, 2016, the Company paid the principal in full in advance. | - | - | 1,000,000 |
| Unsecured loan from June 24, 2015 to June 17, 2020. Authorized credit line of $4,480 million. Principal due on June 17, 2020. | 2.4101%-2.8013% | 742,417 | 661,320 |

(Continued)

| | December 31 | | |
|---|---|---|---|
| | 2016 | | 2015 |
| | Interest Rate | Amount | Amount |
| Unsecured loan from July 27, 2012 to June 24, 2016. Authorized credit line of $4,000 million. Principal due on June 24, 2016. | - | $ - | $ 595,188 |
| First Commercial Bank and Taiwan Business Bank's Syndicated Loan | | | |
| Unsecured loan from July 16, 2012 to July 16, 2019. Authorized credit line of US$29,000 thousand. Principal due in annual installments with the first installment due on July 16, 2017. | 2.68% | 484,185 | 958,914 |
| Unsecured loan from July 16, 2012 to July 16, 2019. Authorized credit line of US$29,000 thousand. Principal due on July 16, 2019. | 2.68% | 193,674 | 462,924 |
| First Commercial Bank | | | |
| Unsecured loan from June 22, 2012 to July 30, 2017. Authorized credit line of $500 million. Principal due in installments with the first installment is due on June 22, 2014. On December 30, 2016, the Company paid the principal in full in advance. | - | - | 350,000 |
| Chang Hwa Bank | | | |
| Unsecured loan from October 1, 2013 to October 1, 2016. Authorized credit line of $300 million. Principal due on October 1, 2016. | - | - | 200,000 |
| Unsecured loan from September 30, 2016 to September 30, 2019. Authorized credit line of $200 million. Principal due on September 30, 2019. | 1.59% | 200,000 | - |
| Taishin International Bank | | | |
| Unsecured loan from October 16, 2015 to January 14, 2016. Authorized credit line of $200 million. Authorized period from May 18, 2015 to May 18, 2017. Principal due on January 14, 2016. | - | - | 200,000 |
| Unsecured loan from December 12, 2016 to March 10, 2017. Authorized credit line of $300 million. Authorized period from May 18, 2015 to May 18, 2017. Principal due on March 10, 2017. | 1.45% | 300,000 | - |
| Taiwan Business Bank | | | |
| Unsecured loan from July 19, 2016 to November 16, 2016. Authorized credit line of $500 million. Authorized period from November 12, 2013 to November 12, 2016. Principal due on November 16, 2016. | - | - | 150,000 |

(Continued)

| | December 31 | | |
|---|---|---|---|
| | 2016 | | 2015 |
| | Interest Rate | Amount | Amount |
| Unsecured loan from June 29, 2016 to October 27, 2016. Authorized credit line of $500 million. Authorized period from November 12, 2013 to November 12, 2016. Principal due on October 27, 2016. | - | $ - | $ 100,000 |
| Unsecured loan from December 22, 2016 to December 22, 2019. Authorized credit line of $600 million. Principal due on December 22, 2019. | 1.598% | 300,000 | - |
| Export-Import Bank of the Republic of China | | | |
| Unsecured loan from November 18, 2013 to November 19, 2018. Authorized credit line of US$4 million. Principal is due in 5 semi-annual installments with the first installment due at the time of the first interest payment after the first 3 years since the initial borrowing. Interest is paid quarterly. | 2.3044% | 51,646 | 132,264 |
| Industrial Bank of Taiwan | | | |
| Unsecured loan from December 29, 2015 to December 29, 2018. Authorized credit line of $200 million. Principal due in four 3-month installments with the first installment due on March 29, 2018. | 1.6906% | 200,000 | 200,000 |
| Unsecured loan from August 29, 2013 to August 15, 2017. Authorized credit line of $100 million. On September 10, 2016, the Company paid the principal in full in advance. | - | - | 100,000 |
| Unsecured loan from September 25, 2013 to August 29, 2017. Authorized credit line of $100 million. On September 19, 2016, the Company paid the principal in full in advance. | - | - | 100,000 |
| Unsecured loan from September 26, 2016 to September 26, 2019. Authorized credit line of $200 million. Principal due in four 3-month installments with the first installment due on January 20, 2019. | 1.6906% | 200,000 | - |
| Unsecured loan from November 15, 2016 to November 15, 2018. Authorized credit line of $300 million. Principal due on November 15, 2018. | 1.50878% | 300,000 | - |
| Less current portion | | (600,000) | (1,603,641) |
| | | $ 5,571,922 | $ 5,106,969 |

(Concluded)

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

1) First Commercial Bank Syndicated Loan

   a) For the Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of no more than 2 to 1.

   b) For the Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of no less than 1 to 1.

   c) For the EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to Interest Expense of greater than 2.5 to 1.

   d) For the Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of no 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 each year ended December 31.

2) First Commercial Bank and Taiwan Business Bank's Syndicated Loan

   a) For the Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of no more than 2 to 1.

   b) For the Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of no less than 1 to 1.

   c) For the EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to Interest Expense of greater than 2.5 to 1.

   d) For the Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of no 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 each year ended December 31.

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

   a) For the Total Liabilities Ratio, Test-Rite Retail shall maintain a ratio of Total Liabilities to Total Assets of no more than 2 to 1.

   b) For the Current Ratio, Test-Rite Retail shall maintain a ratio of Current Assets to Current Liabilities of no less than 1 to 1.

   c) For the EBITDA Ratio, Test-Rite Retail shall maintain a ratio of EBITDA to Interest Expense of greater than 3 to 1.

   d) The calculations of the ratios are based on the parent company only financial statements of Test-Rite Retail for each year ended December 31.

## 17. PROVISIONS

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Decommissioning cost (included in other non-current liabilities) | $ 59,965 | $ 60,494 |
| Sales returns and discounts (included in other payables) | 53,937 | 27,050 |
| Employee benefits (included in other payables) | 8,303 | 12,006 |
| | $ 122,205 | $ 99,550 |
| Current | $ 62,240 | $ 39,056 |
| Non-current | 59,965 | 60,494 |
| | $ 122,205 | $ 99,550 |

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 discounts was based on historical experience, management's judgments and other known reasons. 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

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Accrued expenses | $ 1,279,776 | $ 1,133,704 |
| Payable for purchase of equipment | 24,969 | 87,132 |
| Bonuses payable to employees | 16,782 | 17,970 |
| Bonuses payable to directors and supervisors | 29,520 | 32,143 |
| Allowance of sales returns and discounts | 53,937 | 27,050 |
| Payable for employee benefits | 8,303 | 12,006 |
| Others | 243,800 | 165,361 |
| | $ 1,657,087 | $ 1,475,366 |

## 19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. 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 Group 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 6 months before retirement. The Group 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 Group has no right to influence the investment policy and strategy.

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

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Present value of defined benefit obligation | $ 452,039 | $ 427,231 |
| Fair value of plan assets | (317,413) | (298,840) |
| | 134,626 | 128,391 |
| Defined benefit asset (included in other non-current assets) | 37,636 | 60,321 |
| Net defined benefit liability (included in net defined benefit liabilities - non-current) | $ 172,262 | $ 188,712 |

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

| | **Present Value of the Defined Benefit Obligation** | **Fair Value of the Plan Assets** | **Net Defined Benefit Liability (Asset)** |
|---|---|---|---|
| Balance at January 1, 2015 | $ 339,015 | $ (293,572) | $ 45,443 |
| Business combinations | 38,689 | (13,268) | 25,421 |
| Service cost | | | |
| Current service cost | 4,408 | - | 4,408 |
| Net interest expense (income) | 7,189 | (6,166) | 1,023 |
| Recognized in profit or loss | 11,597 | (6,166) | 5,431 |
| 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 | 22,337 | - | 22,337 |
| Recognized in other comprehensive income | 70,717 | 223 | 70,940 |
| Contributions from the employer | - | (17,406) | (17,406) |
| Benefits paid | (30,330) | 30,330 | - |
| Others | (2,457) | 1,019 | (1,438) |
| Balance at December 31, 2015 | 427,231 | (298,840) | 128,391 |
| Service cost | | | |
| Current service cost | 4,275 | - | 4,275 |
| Net interest expense (income) | 6,782 | (5,031) | 1,751 |
| Recognized in profit or loss | 11,057 | (5,031) | 6,026 |

(Continued)

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|---|---|---|
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | $ - | $ 2,731 | $ 2,731 |
| Actuarial loss - changes in financial assumptions | 23,196 | - | 23,196 |
| Actuarial loss - experience adjustments | 10,920 | - | 10,920 |
| Actuarial loss - changes in demographic assumptions | 30,313 | - | 30,313 |
| Recognized in other comprehensive income | 64,429 | 2,731 | 67,160 |
| Contributions from the employer | - | (66,098) | (66,098) |
| Benefits paid | (48,941) | 48,941 | - |
| Others | (1,737) | 884 | (853) |
| Balance at December 31, 2016 | $ 452,039 | $ (317,413) | $ 134,626 |

(Concluded)

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 | |
|---|---|---|
| | 2016 | 2015 |
| Selling and marketing expenses | $ 6,026 | $ 5,431 |

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:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Discount rate | 1.125%-2.500% | 1.375%-2.500% |
| Expected rate of salary increase | 2.000%-3.000% | 0.000%-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:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Discount rate | | |
| 0.25%-0.5% increase | $ (12,339) | $ (15,631) |
| 0.25%-0.5% decrease | $ 12,858 | $ 16,810 |
| Expected rate of salary increase | | |
| 0.25%-1% increase | $ 14,437 | $ 13,367 |
| 0.25%-1% decrease | $ (13,629) | $ (12,565) |

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

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| The expected contributions to the plan for the next year | $ 12,691 | $ 17,383 |
| The average duration of the defined benefit obligation | 9.80-19.00 years | 9.10-25.44 years |

## 20. EQUITY

a. Share capital

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Number of shares authorized (in thousands) | 750,000 | 750,000 |
| Shares authorized | $ 7,500,000 | $ 7,500,000 |
| Number of shares issued and fully paid (in thousands) | 509,888 | 509,888 |
| Shares issued | $ 5,098,875 | $ 5,098,875 |

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 $5,139,555 thousand. On June 26, 2015, the board of directors decided to retire 4,068 thousand shares of treasury shares. Such retirement of treasury shares resulted in a decrease in share capital of $40,680 thousand. Consequently, as of December 31, 2016, Test-Rite’s share capital decreased to $5,098,875 thousand.

b. Capital surplus

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Additional paid-in capital - issuance of shares in excess of par | $ 673,456 | $ 673,456 |

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

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 shareholders held their regular meeting on June 23, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to Note 27.

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 shareholders' benefits. Distribution is made through share dividends, common shares from capital surplus and cash dividends. Cash dividends shall not be less than 10% of the total distribution. However, if cash dividends per share are less than $0.1, share dividends could be distributed instead of cash dividends.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

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

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 23, 2016 and June 15, 2015, respectively, were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT$) | |
|---|---|---|---|---|
| | For the Year Ended December 31 | | For the Year Ended December 31 | |
| | 2015 | 2014 | 2015 | 2014 |
| Legal reserve | $ 53,888 | $ 65,538 | $ - | $ - |
| Cash dividends | 484,393 | 577,401 | 0.95 | 1.15 |

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

| | Appropriation of Earnings | Dividends Per Share (NT$) |
|---|---|---|
| Legal reserve | $ 60,947 | $ - |
| Special reserve | 18,282 | - |
| Cash dividends | 525,184 | 1.03 |

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

d. Others equity items

1) Exchange differences on translating the financial statements of 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 a foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve were reclassified to profit or loss on the disposal of foreign operations.

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

Unrealized gains (loss) on available-for-sale financial assets represents the cumulative gains and losses arising on the revaluation of available-for-sale 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, 2016 and 2015 were summarized as follows (in shares):

| Purpose | January 1, 2015 | Increase | Decrease | December 31, 2015 |
|---|---|---|---|---|
| To transfer to employees | 11,868,000 | - | 11,868,000 | - |

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 treasury shares amounting to $157,398 thousand in April 2015. Based on the Transferring Way of Purchased Back Treasury Stock for Transfer to Employees issued by Test-Rite, employee stock options granted during the year ended December 31, 2015 was priced using the Black-Scholes model, and compensation cost of $5,226 thousand (recorded as salary expense) was recognized in 2015. Such transactions of treasury shares resulted in decrease in retained earnings by $481 thousand in the year ended December 31, 2015.

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.

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 was 11,688 thousand shares. The total amount was $248,171 thousand pursuant to the law.

As of December 31, 2016 and 2015, information regarding Test-Rite's share-based payment was summarized below:

a. As of December 31, 2016 and 2015, 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 | - | - |

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 |

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. Major components of tax expense (income) recognized in profit or loss:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| In respect of the current year | $ 262,156 | $ 259,457 |
| Adjustments to deferred tax assets | (46,639) | (68,032) |
| Adjustments for prior periods | 826 | - |
| | $ 216,343 | $ 194,620 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit before tax | | |
| Income tax expense calculated at the statutory rate | $ 460,849 | $ 405,845 |
| Decrease in tax resulting from other adjustments of permanent differences | | |
| Tax-exempt income | (198,693) | (146,388) |
| Adjustments to deferred tax assets | (46,639) | (68,032) |
| Adjustments for prior periods | 826 | 3,195 |
| Income tax expense recognized in profit or loss | $ 216,343 | $ 194,620 |

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 | |
|---|---|---|
| | 2016 | 2015 |
| Unappropriated earnings | | |
| Unappropriated earnings generated on and after January 1, 1998 | $ 609,465 | $ 538,877 |
| Imputation credits account | $ 648,860 | $ 613,083 |

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 (Expected) | 2015 |
| Creditable ratio for distribution of earnings | 20.48% | 20.48% |

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, 2016 and 2015, the amounts of earnings per share were calculated as follows:

| | 2016 | | |
|---|---|---|---|
| | Amounts (Numerator) | | EPS (NT$) |
| | Parent Co. Shareholders Income After Tax | Shares (Denominator) (In Thousands) | Parent Co. Shareholders Income After Tax |
| Basic earnings per share | | | |
| Net income to shareholders of common shares | $ 676,029 | 509,888 | $ 1.33 |
| The effects of dilutive potential common shares | | | |
| Bonus to employees | - | 420 | |
| Diluted earnings per share | | | |
| Net income to shareholders of common shares and the effects of potential common shares | $ 676,029 | 510,308 | $ 1.32 |

| | 2015 | | |
|---|---|---|---|
| | Amounts (Numerator) | | EPS (NT$) |
| | Parent Co. Shareholders Income After Tax | Shares (Denominator) (In Thousands) | Parent Co. Shareholders Income After Tax |
| Basic earnings per share | | | |
| Net income to shareholders of common shares | $ 670,509 | 507,288 | $ 1.32 |
| The effects of dilutive potential common shares | | | |
| Bonus to employees | - | 504 | |
| Diluted earnings per share | | | |
| Net income to shareholders of common shares and the effects of potential common shares | $ 670,509 | 507,792 | $ 1.32 |

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 bonuses 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 | $ 240,056 |

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 | 2,271 |
| | $ 242,327 |

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 | (29,113) |
| | $ 242,327 |

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 | (95,454) |
| | $ 144,602 |

## 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 | (22,333) |
| Differences arising from equity transaction | $ 33,635 |

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

## 26. OPERATING LEASE ARRANGEMENTS

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

| Period | Amount |
|---|---|
| 2017-2021 | $ 8,588,068 |
| Later than 2021 (present values of $3,328,069 thousand) | 3,840,176 |
| | $ 12,428,244 |

## 27. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2016 and 2015 were summarized as follows:

| Function / Expense Item | 2016 Operating Costs | 2016 Operating Expenses | 2016 Total | 2015 Operating Costs | 2015 Operating Expenses | 2015 Total |
|---|---|---|---|---|---|---|
| Personnel expenses | | | | | | |
| Salaries | $ 28,246 | $ 3,305,562 | $ 3,333,808 | $ 24,906 | $ 3,467,910 | $ 3,492,816 |
| Labor insurance and health insurance | 2,224 | 246,551 | 248,775 | 2,200 | 243,841 | 246,041 |
| Pension cost | 1,218 | 209,531 | 210,749 | 1,179 | 216,073 | 217,252 |
| Others | 2,096 | 316,795 | 318,891 | 2,159 | 354,493 | 356,652 |
| Depreciation expenses | 89,336 | 578,736 | 668,072 | 78,334 | 589,821 | 668,155 |
| Amortization expenses | 8 | 148,309 | 148,317 | 25 | 155,185 | 155,210 |

As of December 31, 2016 and 2015, Test-Rite and its subsidiaries had 6,397 and 6,105 employees, respectively.

a. Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting in June 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 1% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015, which have been approved by the Company's board of directors on March 24, 2017 and March 25, 2016, respectively, were as follows:

Accrual rate

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Employees' compensation | 1.0% | 1.0% |
| Remuneration of directors and supervisors | 1.5% | 1.5% |

Amount

| | For the Year Ended December 31 | |
|---|---|---|
| | **Cash** | **Cash** |
| Employees' compensation | $ 6,709 | $ 7,380 |
| Remuneration of directors and supervisors | 10,063 | 11,070 |

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

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

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

b. Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 15, 2015 were as follows:

| | For the Year Ended December 31, 2014 |
|---|---|
| | **Cash** |
| Bonus to employees | $ 5,898 |
| Remuneration of directors and supervisors | 11,297 |

The bonus to employees and the remuneration of directors and supervisors for 2014 approved in the shareholders' meeting on June 15, 2015 and the amounts recognized in the financial statements were as follows:

| | For the Year Ended December 31, 2014 | |
|---|---|---|
| | **Bonus to Employees** | **Remuneration of Directors and Supervisors** |
| Amounts approved in shareholders' meeting | $ 5,898 | $ 11,297 |
| Amounts recognized in annual financial statements | $ 5,500 | $ 11,100 |

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

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at 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 the Company 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 | |
| | **2016** | **2015** |
| Others | $ 318,405 | $ 311,009 |

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 | |
| | **2016** | **2015** |
| Others | $ 125,000 | $ 125,000 |

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

b. Equity transaction

See Note 24.

c. Property lease

The future minimum lease payments for the Company and others (Tsai Wang, Li Xiong and Judy Lee) of non-cancellable operating lease commitments were as follows:

| Period | Amount |
|---|---|
| 2017-2020 | $ 374,658 |

d. Endorsements or guarantees

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

As of December 31, 2016, short-term borrowings of $73,610 thousand were guaranteed by others (Tony Ho and Judy Lee), short-term borrowings of $170,554 thousand were guaranteed by others (Judy Lee), short-term borrowings of $448,000 thousand were guarantee by others (Tony Ho).

As of December 31, 2016, long-term borrowings of $677,859 thousand were guaranteed by others (Tony Ho and Judy Lee), long-term borrowings of $3,994,063 thousand were guaranteed by others (Judy Lee), and long-term borrowings of $1,500,000 thousand were guaranteed by others (Tony Ho).

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) and short-term borrowings of $250,000 thousand were guaranteed 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).

e. Compensation of key management personnel

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Short-term employee benefits | $ 176,238 | $ 187,146 |
| Post-employment benefits | 10,109 | 38,665 |
| | $ 186,347 | $ 225,811 |

The remuneration of directors and key executives was determined by the remuneration committee based on 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, 2016 and 2015, the carrying amounts approximate their fair value.

b. Fair value measurements recognized in the consolidated balance sheets

December 31, 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Derivatives financial assets | $ - | $ 63,871 | $ - | $ 63,871 |
| Non-derivative financial assets | $ 387,956 | $ - | $ - | $ 387,956 |
| Financial liabilities at FVTPL | | | | |
| Derivatives financial assets | $ - | $ 51,019 | $ - | $ 51,019 |

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 |

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.

| | **Currency USD Impact** | | **Currency EUR Impact** | |
|---|---|---|---|---|
| | **For the Year Ended December 31** | | **For the Year Ended December 31** | |
| | **2016** | **2015** | **2016** | **2015** |
| Equity | $ (51,156) | $ (63,645) | $ 1,040 | $ 5,682 |

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:

| | **December 31** | |
|---|---|---|
| | **2016** | **2015** |
| Fair value interest rate risk | | |
| Financial assets | $ 451,916 | $ 500,259 |
| Financial liabilities | 7,971,448 | 8,993,937 |

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, 2016 and 2015 would have been higher by $75,195 thousand and $84,937 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, 2016 | | | |
|---|---|---|---|---|
| | **1 Year** | **1-3 Years** | **3+ Years** | **Total** |
| Non-derivative financial liabilities | | | | |
| Non-interest bearing | $ 7,462,047 | $ - | $ 237,375 | $ 7,699,422 |
| Variable interest rate liabilities | 2,399,526 | 2,076,646 | 3,495,276 | 7,971,448 |
| | $ 9,861,573 | $ 2,076,646 | $ 3,732,651 | $ 15,670,870 |

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

## 31. PLEDGED ASSETS

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Time deposits (see Notes 6 and 9) | $ 159,536 | $ 365,549 |

## 32. COMMITMENTS AND CONTINGENCIES

### Letter of Credit

Test-Rite's, Test-Rite Retail's and Testrite Brand Agency's outstanding letters of credit not reflected in the accompanying financial statements as of December 31, 2016 were US$1,441 thousand and EUR178 thousand.

Test-Rite's and Test-Rite Retail'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.

Endorsements/guarantees provided: As of December 31, 2016 and 2015, endorsements or guarantees that the Company provided to its business related legal entities and subsidiaries were summarized as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Endorsements | | |
| TR Products | US$ 23,000 | US$ 23,080 |
| 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$ 6,500 |
| Test-Rite Business Development | US$ 5,000 | US$ 5,000 |
| Hola Shanghai Retail & Trading | US$ 5,000 | US$ 5,000 |
| TR Pte. | US$ 1,000 | US$ 1,500 |
| Subsidiary of TR Development | EUR 7,000 | EUR 7,000 |
| TRGI & Subsidiary of TR Development | EUR 1,000 | EUR 1,000 |
| TR Canada | CAD 30 | CAD 60 |
| Test-Rite C&B | NT$ 45,000 | NT$ 45,000 |

As of December 31, 2016 and 2015 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 $140,844 thousand and $86,960 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, 2016 and 2015 was summarized as follows:

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

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | | | **2015** | | |
| | **Foreign Currencies** | **Exchange Rate** | **New Taiwan Dollars** | **Foreign Currencies** | **Exchange Rate** | **New Taiwan Dollars** |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | $ 95,778 | 32.279 | $ 3,091,618 | $ 112,546 | 33.066 | $ 3,721,446 |
| EUR | 437 | 34.1107 | 14,906 | 1,956 | 35.8952 | 70,211 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD | 111,626 | 32.279 | 3,603,176 | 131,794 | 33.066 | 4,357,900 |
| EUR | 132 | 34.1107 | 4,503 | 373 | 35.8952 | 13,389 |

For the years ended December 31, 2016 and 2015, realized and unrealized net foreign exchange gains (losses) were $368,318 thousand and $156,526 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, 2016 and 2015 was as follows:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | A Segment | B Segment | C Segment | Adjustment and Elimination | Total |
| Operating revenue | $ 21,847,126 | $ 15,912,175 | $ 2,181,307 | $ (4,497,164) | $ 35,443,444 |
| Operating costs | (14,130,521) | (12,081,418) | (1,878,887) | 3,906,196 | (24,184,630) |
| Gross profit | 7,716,605 | 3,830,757 | 302,420 | (590,968) | 11,258,814 |
| Operating expenses | (7,458,805) | (3,607,420) | (106,764) | 738,995 | (10,433,994) |
| Profit from operations | $ 257,800 | $ 223,337 | $ 195,656 | $ 148,027 | 824,820 |
| Nonoperating income and expenses | | | | | 67,543 |
| Profit before income tax | | | | | $ 892,363 |

| | 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 | (13,949,876) | (16,236,048) | (1,233,437) | 6,740,782 | (24,678,579) |
| Gross profit | 7,818,817 | 3,994,329 | 302,420 | (812,694) | 11,302,872 |
| Operating expenses | (7,561,017) | (3,800,401) | (177,023) | 1,046,036 | (10,492,405) |
| Profit from operations | $ 257,800 | $ 193,928 | $ 125,397 | $ 233,342 | 810,467 |
| Nonoperating income and expenses | | | | | 54,638 |
| Profit before income tax | | | | | $ 865,105 |

All intercompany transactions have been eliminated upon consolidation for the years ended December 31, 2016 and 2015.

**Segment Assets and Liabilities**

The analysis of the Company's assets and liabilities by reportable segment as of December 31, 2016 and 2015 was as follows:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | A Segment | B Segment | C Segment | Adjustment and Elimination | Total |
| Assets | $ 12,699,604 | $ 15,699,913 | $ 1,831,809 | $ (5,914,028) | $ 24,317,298 |
| Liabilities | $ 9,419,568 | $ 7,391,494 | $ 501,517 | $ (411,564) | $ 16,901,015 |

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

All intercompany transactions have been eliminated upon consolidation for the years ended December 31, 2016 and 2015.

**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 | |
| | 2016 | 2015 | 2016 | 2015 |
| Asia | $ 29,158,412 | $ 29,740,071 | $ 9,992,816 | $ 10,488,184 |
| America | 4,253,207 | 4,412,729 | - | - |
| Europe | 2,028,938 | 1,826,901 | 146,100 | 230,610 |
| Australia and others | 2,887 | 1,750 | - | - |
| | $ 35,443,444 | $ 35,981,451 | $ 10,138,916 | $ 10,718,794 |

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 2016 and 2015.