

Les Enphants Co., Ltd.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Les Enphants Co., Ltd.

Opinion

We have audited the accompany financial statements of Les Enphants Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Company 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 financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Inventories

As of December 31, 2016, the balance of inventories amounted to NT\$850,152 thousand. It's significant as it comprises 18% of the Company's total assets. Refer to Notes 4, 5 and 11 to the accompanying financial statements for the related accounting policies, estimation uncertainty, and detailed disclosures.

Inventories are stated at the lower of cost or net realizable value. The net realizable value was based on major judgments and accounting estimates made by management, so the valuation of inventories has been identified as a key audit matter in the audit of for the year ended December 31, 2016.

Our main audit procedures performed in respect of above key audit matter included obtaining the estimated data of inventories stated at the lower of cost or net realizable value by management; sampling recent sales data to verify the rationality of the net realizable value; observing the annual physical count of inventory; and obtaining the inventory aging report provided by management to assess the reasonableness of the allowance for inventory impairment.

Impairment Assessment of Property, Plant and Equipment

As of December 31, 2016, the balance of property, plant and equipment amounted to NT\$652,344 thousand. It is significant as it comprises 14% of the Company's total assets. Refer to Notes 4, 5 and 13 to the accompanying financial statements for the related accounting policies, estimation uncertainty, and detailed disclosures.

At the end of each reporting period, the Company is required to assess whether there is any indication that any items of property, plant and equipment may be impaired. If any such indication exists, it is necessary to estimate the recoverable amount of such assets. The recoverable amount is based on major judgments and accounting estimates made by management, so the impairment assessment of property, plant and equipment has been identified as a key audit matter in the audit of for the year ended December 31, 2016.

In response to this key audit matter, we understood the Company's method of performing the impairment assessment of property, plant and equipment and the design, implementation and operation of the related controls by performing internal control testing. We also performed the following audit procedures:

1. Obtaining the report of impairment indication of assets provided by management.
2. Evaluating the reasonableness of the impairment indication report provided by management; evaluating the professional qualifications and competencies of the external independent evaluators appointed by the Company and whether their employed methodologies complied with the relevant regulations; and furthermore verifying the independence of the external evaluators to confirm that there was no matter affecting their objectivity and limiting the scope of their work.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the 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 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 Shu-chuan Yeh and Ching-pin Shih.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 23, 2017

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. 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 financial statements shall prevail.

LES ENPHANTS CO., LTD.

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 242,361	5	\$ 105,215	2
Financial assets at fair value through profit or loss - current (Notes 7 and 33)	-	-	20,524	-
Available-for-sale financial assets - current (Notes 8 and 22)	282	-	1,047	-
Notes receivable (Note 10)	943	-	1,441	-
Accounts receivable, net (Note 10)	216,301	5	213,047	4
Trade receivables from related parties (Note 32)	83,184	2	97,015	2
Other receivables, net (Notes 10 and 33)	35,584	1	24,572	1
Current tax assets (Note 25)	4,456	-	-	-
Inventories (Note 11)	850,152	18	910,526	18
Prepayments	19,680	-	10,905	-
Other current assets	419	-	661	-
Total current assets	<u>1,453,362</u>	<u>31</u>	<u>1,384,953</u>	<u>27</u>
NONCURRENT ASSETS				
Financial assets measured at cost - noncurrent (Note 9)	7,838	-	9,947	-
Investments accounted for using the equity method (Notes 12, 22 and 27)	2,405,108	51	2,798,098	54
Property, plant and equipment (Notes 13 and 33)	652,344	14	747,926	15
Investment properties (Notes 14 and 33)	125,706	2	97,825	2
Intangible assets (Note 15)	12,698	-	18,390	-
Deferred tax assets (Note 25)	43,604	1	69,605	1
Refundable deposits	46,494	1	47,317	1
Total noncurrent assets	<u>3,293,792</u>	<u>69</u>	<u>3,789,108</u>	<u>73</u>
TOTAL	<u>\$ 4,747,154</u>	<u>100</u>	<u>\$ 5,174,061</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ 280,000	6	\$ -	-
Notes payable (Note 19)	2,166	-	7,614	-
Accounts payable (Note 19)	294,404	6	245,454	5
Trade payables to related parties (Note 32)	9,253	-	7,367	-
Other payables (Note 20)	177,498	4	156,439	3
Current tax liabilities (Note 25)	487	-	2,248	-
Deferred revenue (Note 20)	5,399	-	6,205	-
Advance receipts (Note 32)	52,485	1	52,534	1
Current portion of bonds payable (Note 17)	-	-	599,738	12
Other current liabilities (Note 20)	2,135	-	2,088	-
Total current liabilities	<u>823,827</u>	<u>17</u>	<u>1,079,687</u>	<u>21</u>
NONCURRENT LIABILITIES				
Long-term borrowings (Notes 18 and 33)	650,000	14	440,000	9
Deferred tax liabilities (Note 25)	153,730	3	221,476	4
Net defined benefit liability - noncurrent (Note 21)	224,793	5	377,030	7
Guarantee deposits received (Note 32)	1,890	-	1,388	-
Total noncurrent liabilities	<u>1,030,413</u>	<u>22</u>	<u>1,039,894</u>	<u>20</u>
Total liabilities	<u>1,854,240</u>	<u>39</u>	<u>2,119,581</u>	<u>41</u>
EQUITY				
Ordinary shares	2,043,248	43	2,053,778	40
Capital surplus	891,306	19	894,188	17
Retained earnings				
Legal reserve	177,552	4	177,552	4
Special reserve	63,206	1	63,206	1
Accumulated deficit	(199,096)	(4)	(191,873)	(4)
Total retained earnings	<u>41,662</u>	<u>1</u>	<u>48,885</u>	<u>1</u>
Other equity	(83,302)	(2)	71,041	1
Treasury shares	-	-	(13,412)	-
Total equity	<u>2,892,914</u>	<u>61</u>	<u>3,054,480</u>	<u>59</u>
TOTAL	<u>\$ 4,747,154</u>	<u>100</u>	<u>\$ 5,174,061</u>	<u>100</u>

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

LES ENPHANTS CO., LTD.

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 23 and 32)	\$ 2,972,568	100	\$ 3,086,870	100
OPERATING COSTS (Notes 11, 21, 24 and 32)	<u>1,600,595</u>	<u>53</u>	<u>1,636,364</u>	<u>53</u>
GROSS PROFIT	1,371,973	47	1,450,506	47
UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	-	-	(1,004)	-
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	<u>1,220</u>	<u>-</u>	<u>-</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>1,373,193</u>	<u>47</u>	<u>1,449,502</u>	<u>47</u>
OPERATING EXPENSES (Notes 21, 24, 27 and 32)				
Selling and marketing expenses	1,146,808	39	1,206,313	39
General and administrative expenses	<u>216,765</u>	<u>7</u>	<u>232,051</u>	<u>7</u>
Total operating expenses	<u>1,363,573</u>	<u>46</u>	<u>1,438,364</u>	<u>46</u>
PROFIT FROM OPERATIONS	<u>9,620</u>	<u>1</u>	<u>11,138</u>	<u>1</u>
NONOPERATING INCOME AND EXPENSES (Notes 24 and 32)				
Other income	25,913	1	27,443	1
Other gains and losses	126,289	4	803	-
Finance costs	(17,417)	-	(17,445)	(1)
Share of profit or loss of subsidiaries and associates	<u>(168,464)</u>	<u>(6)</u>	<u>(100,545)</u>	<u>(3)</u>
Total nonoperating income and expenses	<u>(33,679)</u>	<u>(1)</u>	<u>(89,744)</u>	<u>(3)</u>
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS	(24,059)	-	(78,606)	(2)
INCOME TAX BENEFIT (Note 25)	<u>2,732</u>	<u>-</u>	<u>12,684</u>	<u>-</u>
NET LOSS FOR THE YEAR	<u>(21,327)</u>	<u>-</u>	<u>(65,922)</u>	<u>(2)</u>

(Continued)

LES ENPHANTS CO., LTD.

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

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
(Notes 21, 22 and 25)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ 17,219	-	\$ (37,746)	(1)
Share of the other comprehensive loss of subsidiaries and associates accounted for using the equity method	(188)	-	(819)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>(2,927)</u>	<u>-</u>	<u>6,417</u>	<u>-</u>
	<u>14,104</u>	<u>-</u>	<u>(32,148)</u>	<u>(1)</u>
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on available-for-sale financial assets	979	-	(550)	-
Share of the other comprehensive loss of subsidiaries and associates accounted for using the equity method	(187,010)	(6)	(61,464)	(2)
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>31,688</u>	<u>1</u>	<u>10,423</u>	<u>-</u>
	<u>(154,343)</u>	<u>(5)</u>	<u>(51,591)</u>	<u>(2)</u>
Other comprehensive loss for the year, net of income tax	<u>(140,239)</u>	<u>(5)</u>	<u>(83,739)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (161,566)</u>	<u>(5)</u>	<u>\$ (149,661)</u>	<u>(5)</u>
LOSS PER SHARE (NEW TAIWAN DOLLARS; Note 26)				
Basic	<u>\$ (0.10)</u>		<u>\$ (0.32)</u>	

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

(Concluded)

LES ENPHANTS CO., LTD.

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

	Share Capital (Note 22)	Capital Surplus (Note 22)	Retained Earnings (Notes 22, 24 and 25)			Other Equity (Note 22)		Treasury Shares (Note 22)	Total Equity
			Legal Reserve	Special Reserve	Accumulated Deficit	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for- sale Financial Assets		
BALANCE AT JANUARY 1, 2015	\$ 2,112,958	\$ 942,435	\$ 177,552	\$ 63,206	\$ (93,803)	\$ 125,468	\$ (2,836)	\$ -	\$ 3,324,980
Change in equity interests in subsidiaries and associates accounted for using the equity method	-	(23,272)	-	-	-	-	-	-	(23,272)
Net loss in 2015	-	-	-	-	(65,922)	-	-	-	(65,922)
Other comprehensive loss in 2015, net of income tax	-	-	-	-	(32,148)	(51,041)	(550)	-	(83,739)
Total comprehensive loss for the year ended December 31, 2015	-	-	-	-	(98,070)	(51,041)	(550)	-	(149,661)
Buyback of ordinary shares	-	-	-	-	-	-	-	(97,567)	(97,567)
Cancellation of treasury shares	(59,180)	(24,975)	-	-	-	-	-	84,155	-
BALANCE AT DECEMBER 31, 2015	2,053,778	894,188	177,552	63,206	(191,873)	74,427	(3,386)	(13,412)	3,054,480
Net loss in 2016	-	-	-	-	(21,327)	-	-	-	(21,327)
Other comprehensive income (loss) in 2016, net of income tax	-	-	-	-	14,104	(155,322)	979	-	(140,239)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(7,223)	(155,322)	979	-	(161,566)
Cancellation of treasury shares	(10,530)	(2,882)	-	-	-	-	-	13,412	-
BALANCE AT DECEMBER 31, 2016	<u>\$ 2,043,248</u>	<u>\$ 891,306</u>	<u>\$ 177,552</u>	<u>\$ 63,206</u>	<u>\$ (199,096)</u>	<u>\$ (80,895)</u>	<u>\$ (2,407)</u>	<u>\$ -</u>	<u>\$ 2,892,914</u>

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

LES ENPHANTS CO., LTD.

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		
Loss before income tax	\$ (24,059)	\$ (78,606)
Adjustments for:		
Depreciation expenses	71,675	77,503
Amortization expenses	7,896	8,621
Impairment loss recognized (reversed) on accounts receivable	56	(654)
Net loss on fair value change of financial assets designated as at fair value through profit or loss	524	833
Finance costs	17,417	17,445
Interest income	(285)	(2,558)
Dividend income	(211)	(440)
Compensation cost of employee share options	524	454
Share of loss of subsidiaries and associates	168,464	100,545
(Gain) loss on disposal of property, plant and equipment	(124,721)	1,316
Net loss (gain) on disposal of investments	492	(775)
Unrealized gain on the transactions with subsidiaries and associates	-	1,004
Realized gain on the transactions with subsidiaries and associates	(1,220)	-
Changes in operating assets and liabilities		
Financial assets held for trading	20,546	7,810
Notes receivable	498	(271)
Accounts receivable	(3,254)	(5,148)
Trade receivables from related parties	13,831	(11,597)
Other receivables	(11,001)	30,084
Inventories	60,374	(70,590)
Prepayments	(8,775)	518
Other current assets	242	72
Notes payable	(5,448)	52
Accounts payable	48,950	(6,919)
Trade payables to related parties	1,886	(2,271)
Other payables	6,692	(3,302)
Advance receipts	(49)	(417)
Other current liabilities	47	(74)
Net defined benefit liability	(135,018)	2,652
Deferred revenue	(806)	75
Cash generated from operations	105,267	65,362
Interest received	218	2,558
Interest paid	(16,731)	(7,126)
Income tax paid	(16,469)	(1,759)
Net cash generated from operating activities	<u>72,285</u>	<u>59,035</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	706	-
Capital return of financial assets measured at cost	2,109	2,637
Payments for property, plant and equipment	(27,514)	(49,561)

(Continued)

LES ENPHANTS CO., LTD.

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

	2016	2015
Proceeds from disposal of property, plant and equipment	\$ 162,204	\$ 482
Increase in refundable deposits	-	(319)
Decrease in refundable deposits	823	-
Decrease in trade receivables from related parties - short-term financing	-	30,725
Payments for intangible assets	(2,204)	(6,529)
Decrease in other noncurrent assets	-	42,048
Dividends received	<u>38,235</u>	<u>3,742</u>
Net cash generated from investing activities	<u>174,359</u>	<u>23,225</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	769,000	-
Repayments of short-term borrowings	(489,000)	(50,000)
Repayments of bonds payable	(600,000)	-
Proceeds from long-term borrowings	1,250,000	1,151,000
Repayments of long-term borrowings	(1,040,000)	(1,225,000)
Proceeds from guarantee deposits received	502	-
Refund of guarantee deposits received	-	(240)
Payments for buyback of ordinary shares	<u>-</u>	<u>(97,567)</u>
Net cash used in financing activities	<u>(109,498)</u>	<u>(221,807)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137,146	(139,547)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>105,215</u>	<u>244,762</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 242,361</u>	<u>\$ 105,215</u>

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

(Concluded)

LES ENPHANTS CO., LTD.

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

1. GENERAL INFORMATION

Les Enphants Co., Ltd. (the “Company”) was established in 1971. The Company’s shares have been listed on the Taiwan Stock Exchange. The Company mainly manufactures and sells clothes and toys for children and infants.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 23, 2017.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS 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 Company 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
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
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

(Continued)

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
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 Company’s accounting policies, except for the following:

1) Amendment to IFRS 2 “Share-Based Payment”

IFRS 2 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to change the definitions of “vesting condition” and “market condition” and add definitions of “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Company or another entity in the same group or the market price of the equity instruments of the Company or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Company as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Company, but also of other entities outside the Company. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

2) Amendments to IFRS 13 “Fair Value Measurement”

The basis for conclusions of IFRS 13 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that when the amendment 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. Otherwise, the material effect of discounting will be adjusted retrospectively.

IFRS 13 was also amended by the Annual Improvements to IFRSs: 2011-2013 Cycle to clarify that 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 includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

3) Amendment to IAS 36 “Impairment of Assets”

The amendment “Disclosures for Non-financial Assets” 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 Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within [Level 2/Level 3], the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

4) 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 Company 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 Company has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Company’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.

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the application of IFRSs in 2017 had no material effect on the Company’s assets, liabilities, equity, comprehensive income, and cash flows.

As of the date the financial statements were authorized for issue, the Company 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 Company’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 Company 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 financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

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

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

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

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

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

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

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

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

4) IFRS 16 “Leases”

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

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

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

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

5) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the “Regulations”).

b. Basis of preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values.

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:

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

When preparing its parent company only financial statements, the Company used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using the equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

c. Classification of current and noncurrent assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as noncurrent.

d. Foreign currencies

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

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

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

For the purposes of presenting parent company only financial statements, the assets and liabilities of the Company's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

e. Inventories

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

f. Investment in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

Subsidiary is an entity (including structured entity) that is controlled by the Company.

Under the equity method, investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full in the parent company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized in the parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Company uses the equity method to account for its investments in associates.

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

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

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

When the Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the parent company only financial statements only to the extent of interests in the associate that are not related to the Company.

h. Property, plant and equipment

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

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

Depreciation on property, plant and equipment is recognized using the straight line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

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

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

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization 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.

2) Derecognition of intangible assets

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

k. Impairment of tangible and intangible assets other than goodwill

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

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

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

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

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

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 31.

ii. Available-for-sale financial assets

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

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

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

iii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

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

4) Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

m. Revenue recognition

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

1) Sale of goods

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

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

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

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

2) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement.

3) Dividend and interest income

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

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

n. Leasing

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

1) The Company as lessor

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

2) The Company as lessee

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

o. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

q. Share-based payment arrangements

Employee share options granted to employee by subsidiary

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

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

r. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Valuation of inventories

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

b. Impairment assessment of property, plant and equipment

The impairment of equipment in relation to the production of handsets was based on the recoverable amounts of those assets, which is the higher of their fair value less costs of disposal and their value in use. Any changes in the market prices or future cash flows will affect the recoverable amounts of those assets and may lead to the recognition of additional impairment losses or reversal of impairment losses.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	\$ 6,238	\$ 4,911
Checking accounts and demand deposits	<u>236,123</u>	<u>100,304</u>
	<u>\$ 242,361</u>	<u>\$ 105,215</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets held for trading</u>		
Non-derivative financial assets		
Mutual funds	\$ -	\$ 20,000
Valuation adjustments of financial assets	<u>-</u>	<u>524</u>
	<u>\$ -</u>	<u>\$ 20,524</u>

Refer to Note 33 for information relating to financial assets at FVTPL pledged as collateral or security.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Domestic investments</u>		
Depository receipt	\$ 2,689	\$ 2,811
Listed shares	<u>-</u>	<u>1,622</u>
	2,689	4,433
Unrealized loss on financial assets	<u>(2,407)</u>	<u>(3,386)</u>
	<u>\$ 282</u>	<u>\$ 1,047</u>

9. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Domestic unlisted ordinary shares	<u>\$ 7,838</u>	<u>\$ 9,947</u>

On May 3, 2016, the capital reduction of WK Technology Fund (WKTF) was approved at the meeting of the board of directors, and the Company received a capital return of \$2,109 thousand in June 2016.

On May 12, 2015, the capital reduction of WK Technology Fund (WKTF) was approved at the meeting of the board of directors, and the Company received a capital return of \$2,637 thousand in July 2015.

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.

10. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Notes receivable</u>		
Notes receivable - operating	\$ 943	\$ 1,441
<u>Accounts receivable</u>		
Accounts receivable	\$ 216,313	\$ 213,059
Allowance for impairment loss	<u>(12)</u>	<u>(12)</u>
	<u>\$ 216,301</u>	<u>\$ 213,047</u>
<u>Other receivables</u>		
Restricted assets	\$ 32,173	\$ 20,361
Others	<u>3,864</u>	<u>4,608</u>
	36,037	24,969
Allowance for impairment loss	<u>(453)</u>	<u>(397)</u>
	<u>\$ 35,584</u>	<u>\$ 24,572</u>

a. Accounts receivable

The average credit period on sales of goods was 60 days. In determining the recoverability of an accounts receivable, the Company considered any change in the credit quality of the accounts receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss were recognized against accounts receivable based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

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

The aging of accounts receivable was as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
0-60 days	\$ 216,301	\$ 212,634
61-180 days	-	413
181 days-1 year	-	-
Over 1 year	<u>12</u>	<u>12</u>
	<u>\$ 216,313</u>	<u>\$ 213,059</u>

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

The aging of accounts receivable that were past due but not impaired was as follow:

	<u>December 31</u>	
	2016	2015
61-180 days	\$ <u> -</u>	\$ <u> 34</u>

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

The movements of the allowance for doubtful accounts receivable were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2015	\$ -	\$ -	\$ -
Impairment losses recognized on receivables	<u> 12</u>	<u> -</u>	<u> 12</u>
Balance at December 31, 2016 and 2015	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 12</u>

The age of individually impaired accounts receivable was as follows:

	<u>December 31</u>	
	2016	2015
More than 1 year	<u>\$ 12</u>	<u>\$ 12</u>

The above aging of accounts receivable before deducting the allowance for impairment loss was presented based on the past due days from invoice date.

b. Other receivable

The aging of other receivables was as follows:

	<u>December 31</u>	
	2016	2015
0-60 days	\$ 2,131	\$ 4,181
61-90 days	100	30
91-150 days	1,342	32
151 days-1 year	83	164
Over 1 year	<u> 208</u>	<u> 201</u>
	<u>\$ 3,864</u>	<u>\$ 4,608</u>

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

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

	<u>December 31</u>	
	2016	2015
61-90 days	\$ 100	\$ 30
91-150 days	<u> 1,180</u>	<u> -</u>
	<u>\$ 1,280</u>	<u>\$ 30</u>

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

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2015	\$ -	\$ 1,063	\$ 1,063
Impairment losses reversed	<u>-</u>	<u>(666)</u>	<u>(666)</u>
Balance at December 31, 2015	-	397	397
Impairment losses recognized on receivables	<u>-</u>	<u>56</u>	<u>56</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 453</u>	<u>\$ 453</u>

Refer to Note 33 for information relating to other receivables pledged as collateral.

11. INVENTORIES

	December 31	
	2016	2015
Merchandise	\$ 713,715	\$ 784,099
Finished goods	110,816	100,643
Work in progress	13,181	13,818
Raw materials	8,545	9,019
Supplies	<u>3,895</u>	<u>2,947</u>
	<u>\$ 850,152</u>	<u>\$ 910,526</u>

The cost of inventories recognized as cost of goods sold were \$1,551,319 thousand for the year ended December 31, 2016 and \$1,588,533 thousand for the year ended December 31, 2015.

The cost of goods sold for the year ended December 31, 2016 included \$14,158 thousand arising from inventory disposal, \$808 thousand arising from reversal of inventories write-downs, and a loss of \$1,404 thousand on physical inventory.

The cost of goods sold for the year ended December 31, 2015 included \$10,663 thousand arising from inventory disposal, \$3,138 thousand arising from inventories write-downs, and a loss of \$2,398 thousand on physical inventory.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2016	2015
Investments in subsidiaries	\$ 2,313,346	\$ 2,713,482
Investments in associates	<u>91,762</u>	<u>84,616</u>
	<u>\$ 2,405,108</u>	<u>\$ 2,798,098</u>

a. Investments in subsidiaries

	<u>December 31</u>	
	2016	2015
L.E. Capital Enterprise Co., Ltd.	\$ 2,269,924	\$ 2,668,947
Mike & Friends Co., Ltd.	<u>43,422</u>	<u>44,535</u>
	<u>\$ 2,313,346</u>	<u>\$ 2,713,482</u>
	<u>Percentage of Ownership and Voting Rights</u>	
	<u>December 31</u>	
	2016	2015
L.E. Capital Enterprise Co., Ltd.	100.00	100.00
Mike & Friends Co., Ltd.	100.00	100.00

The investment in subsidiaries accounted for by the equity method and the share of profit or loss and other comprehensive income of the investments for the years ended December 31, 2016 and 2015 was based on the subsidiaries' financial statements audited by the auditors for the same years.

b. Investments in associates

	<u>December 31</u>	
	2016	2015
Material associates		
Genius Toy Taiwan Co., Ltd.	\$ 65,362	\$ 56,766
Komphort Royal of Life Co., Ltd.	<u>26,400</u>	<u>27,850</u>
	<u>\$ 91,762</u>	<u>\$ 84,616</u>
	<u>Percentage of Ownership and Voting Rights</u>	
	December 31, 2016	December 31, 2015
Genius Toy Taiwan Co., Ltd.	20.00	20.00
Komphort Royal of Life Co., Ltd.	48.00	48.00

Refer to Table 5 "Information on Investees" following the Notes to Financial Statements for the nature of activities, principal place of business and country of incorporation of the associates.

The Company increased its investment by \$50,000 thousand in Genius Toy Taiwan Co., Ltd. to obtain 20% of ownership in October 2012. The differences between the acquisition cost and the equity calculated by its percentage of ownership in Genius Toy Taiwan Co., Ltd. are fair value of land in excess of book value for \$11,473 thousand, fair value of building in excess of book value for \$1,746 thousand and goodwill for \$26,376 thousand.

The differences between the investment cost recognized and the equity calculated by its percentage of ownership were due to amortized assets and due to non-amortized assets.

Movement in the amortized assets and non-amortized assets in 2016 and 2015 were as follow:

	Beginning of the Year	Amortization	End of the Year
<u>2016</u>			
Non-amortized assets	\$ 37,849	\$ -	\$ 37,849
Amortized assets	<u>642</u>	<u>368</u>	<u>274</u>
	<u>\$ 38,491</u>	<u>\$ 368</u>	<u>\$ 38,123</u>
<u>2015</u>			
Non-amortized assets	\$ 37,849	\$ -	\$ 37,849
Amortized assets	<u>1,010</u>	<u>368</u>	<u>642</u>
	<u>\$ 38,859</u>	<u>\$ 368</u>	<u>\$ 38,491</u>

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 was based on the associates' financial statements audited by the auditors for the same years.

The Company measured the above associates by using the equity method.

Summarized financial information in respect of each of the Company's material associates is set out below:

Genius Toy Taiwan Co., Ltd.

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Current assets	\$ 166,456	\$ 115,494
Noncurrent assets	78,287	80,462
Current liabilities	(77,600)	(70,258)
Noncurrent liabilities	<u>(23,368)</u>	<u>(22,533)</u>
Equity	<u>\$ 143,775</u>	<u>\$ 103,165</u>
Percentage of the Company's ownership	20.00%	20.00%
Equity attributable to the Company	\$ 28,755	\$ 20,633
Unrealized loss on the investment in associates	(1,516)	(2,358)
Goodwill	26,376	26,376
Other adjustments	<u>11,747</u>	<u>12,115</u>
Carrying amount	<u>\$ 65,362</u>	<u>\$ 56,766</u>

	For the Year Ended December 31	
	2016	2015
Operating revenue	<u>\$ 408,710</u>	<u>\$ 374,450</u>
Net profit for the year	\$ 51,329	\$ 53,382
Other comprehensive loss	<u>(1,344)</u>	<u>(1,814)</u>
Total comprehensive income for the year	<u>\$ 49,985</u>	<u>\$ 51,568</u>
Dividends received	<u>\$ 9,375</u>	<u>\$ 4,556</u>

Komphort Royal of Life Co., Ltd.

	December 31	
	2016	2015
Current assets	\$ 44,977	\$ 66,787
Noncurrent assets	21,627	2,032
Current liabilities	(10,805)	(9,998)
Noncurrent liabilities	<u>(800)</u>	<u>(800)</u>
Equity	<u>\$ 54,999</u>	<u>\$ 58,021</u>
Percentage of the Company's ownership	48.00%	48.00%
Equity attributable to the Company	<u>\$ 26,400</u>	<u>\$ 27,850</u>
Carrying amount	<u>\$ 26,400</u>	<u>\$ 27,850</u>

	For the Year Ended December 31	
	2016	2015
Operating revenue	<u>\$ 30,567</u>	<u>\$ 41,943</u>
Net profit (loss) for the year	\$ (3,022)	\$ 3,988
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income (loss) for the year	<u>\$ (3,022)</u>	<u>\$ 3,988</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Leasehold Improvements	Other Equipment	Property Under Construction	Total
<u>Cost</u>						
Balance at January 1, 2015	\$ 411,485	\$ 350,649	\$ 280,313	\$ 37,320	\$ 1,831	\$ 1,081,598
Additions	-	-	19,304	13,251	10,246	42,801
Disposals	-	-	(46,542)	(7,243)	-	(53,785)
Reclassified	<u>(11,195)</u>	<u>(7,911)</u>	<u>7,805</u>	<u>-</u>	<u>(7,805)</u>	<u>(19,106)</u>
Balance at December 31, 2015	<u>\$ 400,290</u>	<u>\$ 342,738</u>	<u>\$ 260,880</u>	<u>\$ 43,328</u>	<u>\$ 4,272</u>	<u>\$ 1,051,508</u>

(Continued)

	Land	Buildings	Leasehold Improvements	Other Equipment	Property Under Construction	Total
<u>Accumulated depreciation</u>						
Balance at January 1, 2015	\$ -	\$ 112,501	\$ 148,010	\$ 20,817	\$ -	\$ 281,328
Depreciation expense	-	6,466	62,527	7,628	-	76,621
Disposals	-	-	(45,254)	(6,733)	-	(51,987)
Effect of foreign currency exchange differences	-	(2,380)	-	-	-	(2,380)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 116,587</u>	<u>\$ 165,283</u>	<u>\$ 21,712</u>	<u>\$ -</u>	<u>\$ 303,582</u>
Carrying amounts at December 31, 2015	<u>\$ 400,290</u>	<u>\$ 226,151</u>	<u>\$ 95,597</u>	<u>\$ 21,616</u>	<u>\$ 4,272</u>	<u>\$ 747,926</u>
<u>Cost</u>						
Balance at January 1, 2016	\$ 400,290	\$ 342,738	\$ 260,880	\$ 43,328	\$ 4,272	\$ 1,051,508
Additions	-	-	21,259	11,114	9,084	41,457
Disposals	(25,931)	(18,134)	(113,432)	(10,867)	-	(168,364)
Reclassified	(19,590)	(13,844)	12,461	-	(12,461)	(33,434)
Balance at December 31, 2016	<u>\$ 354,769</u>	<u>\$ 310,760</u>	<u>\$ 181,168</u>	<u>\$ 43,575</u>	<u>\$ 895</u>	<u>\$ 891,167</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2016	\$ -	\$ 116,587	\$ 165,283	\$ 21,712	\$ -	\$ 303,582
Depreciation expense	-	6,097	55,404	9,027	-	70,528
Disposals	-	(9,376)	(110,960)	(10,545)	-	(130,881)
Reclassified	-	(4,406)	-	-	-	(4,406)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 108,902</u>	<u>\$ 109,727</u>	<u>\$ 20,194</u>	<u>\$ -</u>	<u>\$ 238,823</u>
Carrying amounts at December 31, 2016	<u>\$ 354,769</u>	<u>\$ 201,858</u>	<u>\$ 71,441</u>	<u>\$ 23,381</u>	<u>\$ 895</u>	<u>\$ 652,344</u>

(Concluded)

Depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

Buildings	9-60 years
Leasehold improvements	3-5 years
Other equipment	3-10 years

In December 2016, the Company sold land and buildings for \$169,681 thousand and recognized a disposal gain of \$127,408 thousand after deducting the cost of \$34,795 thousand and related direct expenses and taxes of \$7,478 thousand.

Refer to Note 33 for property, plant and equipment pledged as collateral for bank borrowings.

14. INVESTMENT PROPERTIES

	Investment Properties
<u>Cost</u>	
Balance at January 1, 2015	\$ 94,541
Reclassified	<u>19,106</u>
Balance at December 31, 2015	<u>\$ 113,647</u>

(Continued)

	Investment Properties
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2015	\$ 12,560
Depreciation expense	882
Reclassified	<u>2,380</u>
Balance at December 31, 2015	<u>\$ 15,822</u>
Carrying amounts at December 31, 2015	<u>\$ 97,825</u>
<u>Cost</u>	
Balance at January 1, 2016	\$ 113,647
Reclassified	<u>33,434</u>
Balance at December 31, 2016	<u>\$ 147,081</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2016	\$ 15,822
Depreciation expense	1,147
Reclassified	<u>4,406</u>
Balance at December 31, 2016	<u>\$ 21,375</u>
Carrying amounts at December 31, 2016	<u>\$ 125,706</u> (Concluded)

The investment properties were depreciated using the straight-line method over 50 to 60 years of their estimated useful lives.

The determination of fair value was performed by independent qualified professional valuers and the fair value was measured by using Level 3 inputs; and then a calculation was made to determine the ratio of the assessment amount to the total rental of all the investment properties. The sales comparison approach and the income approach were used in investment properties in R.O.C.

The significant assumptions and fair value as appraised were as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Fair value	<u>\$ 365,105</u>	<u>\$ 302,927</u>
Discount rate	1.29%-1.94%	1.31%-1.83%

The carrying amount of investment properties pledged by the Company to secure borrowings were shown in Note 33.

15. INTANGIBLE ASSETS

	Patents	Computer Software	Total
<u>Cost</u>			
Balance at January 1, 2015	\$ 26,853	\$ 19,712	\$ 46,565
Additions	<u>1,530</u>	<u>4,999</u>	<u>6,529</u>
Balance at December 31, 2015	<u>\$ 28,383</u>	<u>\$ 24,711</u>	<u>\$ 53,094</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2015	\$ 18,577	\$ 7,506	\$ 26,083
Amortization expense	<u>1,665</u>	<u>6,956</u>	<u>8,621</u>
Balance at December 31, 2015	<u>\$ 20,242</u>	<u>\$ 14,462</u>	<u>\$ 34,704</u>
Carrying amounts at December 31, 2015	<u>\$ 8,141</u>	<u>\$ 10,249</u>	<u>\$ 18,390</u>
<u>Cost</u>			
Balance at January 1, 2016	\$ 28,383	\$ 24,711	\$ 53,094
Additions	2,204	-	2,204
Disposal	<u>(13,216)</u>	<u>(7,314)</u>	<u>(20,530)</u>
Balance at December 31, 2016	<u>\$ 17,371</u>	<u>\$ 17,397</u>	<u>\$ 34,768</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2016	\$ 20,242	\$ 14,462	\$ 34,704
Amortization expense	1,704	6,192	7,896
Disposal	<u>(13,216)</u>	<u>(7,314)</u>	<u>(20,530)</u>
Balance at December 31, 2016	<u>\$ 8,730</u>	<u>\$ 13,340</u>	<u>\$ 22,070</u>
Carrying amounts at December 31, 2016	<u>\$ 8,641</u>	<u>\$ 4,057</u>	<u>\$ 12,698</u>

The above items of intangible assets were depreciated on a straight-line basis over the estimated useful lives as follows:

Patents	10 years
Computer software	3-5 years

16. SHORT-TERM BORROWINGS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Unsecured bank loans	<u>\$ 280,000</u>	<u>-</u>

At the end of the reporting period, the interest rate on the short-term loans was as follows:

	<u>December 31</u>	
	2016	2015
Unsecured bank loans	1.23%-1.38%	-

17. BONDS PAYABLE

	<u>December 31</u>	
	2016	2015
Unsecured domestic convertible bonds	\$ -	\$ 600,000
Less: Unamortized discount on convertible bonds	<u>-</u>	<u>262</u>
	-	599,738
Less: Current portion	<u>-</u>	<u>599,738</u>
	<u>\$ -</u>	<u>\$ -</u>

On January 9, 2013, the Company issued three-year unsecured domestic convertible bonds for the first time, which had a total amount of \$600,000 thousand and a face value of \$100 thousand per bond and were issued at 100.5% of face value, a coupon rate of 0% and convertible price at NT\$23.5 per share.

At any time between February 10, 2013 and December 31, 2015 (10 days before the expiry date), bondholders may request the Company's transfer agent, via the securities broker, to notify the Taiwan Depository & Clearing Corporation of the conversion of the bonds into the Company's ordinary shares in accordance with the conversion terms, with the conversion disallowed in all the following periods:

- a. The book closure period for ordinary shares, as stipulated by law;
- b. 15 business days before the book closure date for the issuance of bonus shares, the distribution of cash dividends or the subscription for new shares resulting from a capital increase, to the record date of the distribution of entitlements; and
- c. The period starting from the record date of the reverse split to the day before the bondholders' date of request for actual reverse split and share conversion.

When the Company issues new shares or converts earnings into capital, the Company should adjust the exchange price using a formula on the basis of the rules of bond issuance. However, adjustments should always be downward, never upward.

On the bond issue date, the Company bifurcated the bonds into options and liabilities and recognized these options as equities. For some of the bonds, the option component amount of \$29,107 thousand was calculated by deducting from the proceeds of bond issue the fair value of the liability component transaction cost, the equity component transaction cost of \$253 thousand and the tax effects on the transaction cost amounting to \$43 thousand. The bond issue proceeds net of the transaction costs of liability and of options were recognized as "capital surplus - share options." The original effective interest rate was 1.7352%, and the recognized liability component amount of \$569,577 thousand was net of the transaction costs of \$4,947 thousand and the tax effects on the transaction cost amounting to \$841 thousand.

18. LONG-TERM BORROWINGS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Unsecured bank loans	\$ 200,000	\$ 340,000
Secured bank loans	<u>450,000</u>	<u>100,000</u>
	<u>\$ 650,000</u>	<u>\$ 440,000</u>

At the end of the reporting period, the interest rate on long-term loans was as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Unsecured bank loans	1.38%-1.69%	1.50%-1.85%
Secured bank loans	1.57%-1.95%	1.41%-1.50%

The secured bank loans of the Company from Mega Bank and First Bank, secured by land and buildings, will be due in January 2019 and March 2019, respectively.

The balances of bank loans as of December 31, 2016 and 2015 were \$650,000 thousand and \$440,000 thousand, respectively. The Company signed medium and long-term loan contracts with financial institutions, which allowed the extension of the repayment deadlines for these loans; thus, these loans were recognized as long-term loans.

19. NOTES PAYABLE AND ACCOUNTS PAYABLE

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Notes payable</u>		
Notes payable - operating	<u>\$ 2,166</u>	<u>\$ 7,614</u>
<u>Accounts payable</u>		
Accounts payable - operating	<u>\$ 294,404</u>	<u>\$ 245,454</u>

20. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Other payables		
Payable for salaries	\$ 88,360	\$ 91,001
Payable for purchases of equipment	16,333	2,390
Payable for insurance	11,522	11,344
Payable for business tax	10,988	11,890
Payable for advertisement	10,350	8,858

(Continued)

	December 31	
	2016	2015
Payable for freight	\$ 9,711	\$ 5,814
Payable for interest	410	-
Others	<u>29,824</u>	<u>25,142</u>
	<u>\$ 177,498</u>	<u>\$ 156,439</u>
Deferred revenue		
Arising from customer loyalty program	<u>\$ 5,399</u>	<u>\$ 6,205</u>
Other liabilities		
Others	<u>\$ 2,135</u>	<u>\$ 2,088</u>

(Concluded)

21. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 10% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the parent company only balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 324,813	\$ 383,769
Fair value of plan assets	<u>(100,020)</u>	<u>(6,739)</u>
Net defined benefit liability	<u>\$ 224,793</u>	<u>\$ 377,030</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2015	<u>\$ 348,965</u>	<u>\$ (12,333)</u>	<u>\$ 336,632</u>
Service cost			
Current service cost	7,753	-	7,753
Net interest expense (income)	<u>6,924</u>	<u>(227)</u>	<u>6,697</u>
Recognized in profit or loss	<u>14,677</u>	<u>(227)</u>	<u>14,450</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(192)	(192)
Actuarial (gain) loss - changes in demographic assumptions	31	-	31
Actuarial (gain) loss - changes in financial assumptions	33,196	-	33,196
Actuarial (gain) loss - experience adjustments	<u>4,711</u>	<u>-</u>	<u>4,711</u>
Recognized in other comprehensive income	<u>37,938</u>	<u>(192)</u>	<u>37,746</u>
Contributions from the employer	-	(9,436)	(9,436)
Benefits paid	<u>(17,811)</u>	<u>15,449</u>	<u>(2,362)</u>
Balance at December 31, 2015	<u>383,769</u>	<u>(6,739)</u>	<u>377,030</u>
Service cost			
Current service cost	7,993	-	7,993
Past service cost and loss (gain) on settlement	(190)	-	(190)
Net interest expense (income)	<u>4,733</u>	<u>(53)</u>	<u>4,680</u>
Recognized in profit or loss	<u>12,536</u>	<u>(53)</u>	<u>12,483</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(573)	(573)
Actuarial (gain) loss - changes in demographic assumptions	(1)	-	(1)
Actuarial (gain) loss - experience adjustments	<u>(16,645)</u>	<u>-</u>	<u>(16,645)</u>
Recognized in other comprehensive income	<u>(16,646)</u>	<u>(573)</u>	<u>(17,219)</u>
Contributions from the employer	-	(145,856)	(145,856)
Benefits paid	<u>(54,846)</u>	<u>53,201</u>	<u>(1,645)</u>
Balance at December 31, 2016	<u>\$ 324,813</u>	<u>\$ (100,020)</u>	<u>\$ 224,793</u>

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

	For the Year Ended December 31	
	2016	2015
Operating costs	\$ 1,798	\$ 1,782
Selling and marketing expenses	8,752	9,804
General and administrative expenses	<u>1,933</u>	<u>2,864</u>
	<u>\$ 12,483</u>	<u>\$ 14,450</u>

Through the defined benefit plans under the Labor Standards Law, the Company 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(s)	1.25%	1.25%
Expected rate(s) of salary increase	2.00%	2.00%
Turnover rate	0.59%	0.59%

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 decrease/increase as follows:

	December 31	
	2016	2015
Discount rate(s)		
0.25% increase	<u>\$ (9,646)</u>	<u>\$ (11,545)</u>
0.25% decrease	<u>\$ 10,067</u>	<u>\$ 12,059</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 9,967</u>	<u>\$ 11,938</u>
0.25% decrease	<u>\$ (9,599)</u>	<u>\$ (11,489)</u>
Turnover rate		
110% of default turnover rate	<u>\$ (269)</u>	<u>\$ (405)</u>
90% of default turnover rate	<u>\$ 270</u>	<u>\$ 407</u>

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

	December 31	
	2016	2015
The expected contributions to the plan for the next year	<u>\$ 2,906</u>	<u>\$ 5,131</u>
The average duration of the defined benefit obligation	11 years	12 years

22. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Numbers of shares authorized (in thousands)	<u>300,000</u>	<u>300,000</u>
Shares authorized	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>204,325</u>	<u>205,378</u>
Shares issued	<u>\$ 2,043,248</u>	<u>\$ 2,053,778</u>

The issued shares decreased by 5,918 and 1,053 thousand shares because of the cancellation of treasury shares in November 2015 and in February 2016, respectively.

Ordinary shares issued had a par value of NT\$10, and holders have the right to vote and receive dividends.

Of the Company's authorized shares, 30,000 thousand shares and 5,000 thousand shares had been reserved for the issuance of convertible bonds and employee share options, respectively.

b. Capital surplus

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note)</u>		
Arising from issuance of ordinary shares	\$ 837,196	\$ 841,510
Arising from treasury share transactions	25,003	23,571
Other	29,107	-
<u>May not be used for any purpose</u>		
Arising from employee share options	<u>-</u>	<u>29,107</u>
	<u>\$ 891,306</u>	<u>\$ 894,188</u>

Note: Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

On the cancellation of 5,918 thousand treasury shares in November 2015, the Company wrote off a capital surplus of 24,249 thousand arising from the issuance of ordinary shares and a capital surplus of 726 thousand arising from treasury share transactions, which is the difference between the carrying amount of treasury shares and the sum of par value and capital surplus arising from the issuance of ordinary shares.

On the cancellation of 1,053 thousand treasury shares in February 2016, the Company wrote off a capital surplus of 4,314 thousand arising from the issuance of ordinary shares and recognized a capital surplus of 1,432 thousand arising from treasury share transactions, which is the difference between the carrying amount of treasury shares and the sum of par value and capital surplus arising from the issuance of ordinary shares.

c. Retained earnings and dividend policy

Under the Company’s Articles of Incorporation, the Company should make appropriations from its net income in the following order:

- 1) Offset of prior years’ deficit against the current year’s net income;
- 2) Legal reserve at 10% of the earnings balance;
- 3) Special reserve based on a directive by the Securities and Futures Bureau;
- 4) From any remaining balance, an appropriation based on a resolution passed at the shareholders’ meeting.

The Company prefers to balance the distribution of share dividends and cash dividends, and share dividends are issued only when the Company has no earnings available for distribution. For cash dividends, the Company considers its operating scale and future cash capital requirements; for cash dividends, the amount should be at least 10% of total dividends.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The consequential amendments to the Company’s Articles of Incorporation had been proposed by the Company’s board of directors on March 17, 2016 and are subject to the resolution of the shareholders in their meeting to be held on June 22, 2016. For information about the accrual basis of the employees’ compensation and remuneration to directors and supervisors and the actual appropriations, refer to employee benefits expense in Note 25e.

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs”, the Company should appropriate to or reverse from a special reserve.

Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company’s paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-R.O.C. 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 offset of the deficit for the years ended December 31, 2016 and 2015 was approved in the shareholders’ meetings on June 22, 2016 and June 22, 2015.

The offset of the deficit for the year ended December 31, 2016 was proposed at the board of directors’ meeting on March 23, 2017. This proposal will be presented at the shareholders’ meeting on June 22, 2017 for approval.

d. Special reserve

	For the Year Ended December 31	
	2016	2015
Balance at January 1 and December 31	<u>\$ 63,206</u>	<u>\$ 63,206</u>

The increase in retained earnings that resulted from all IFRSs adjustments was not enough for this appropriation; therefore, the Company appropriated for special reserve an amount of \$63,206 thousand, the increase in retained earnings that resulted from all IFRSs adjustments on transitions to IFRSs.

A proportionate share of the special reserve relating to exchange differences arising from the translation of the financial statements of foreign operations (including the subsidiaries of the Company) will be reversed on the Company's disposal of foreign operations; on the Company's loss of significant influence, however, the entire special reserve will be reversed. Additional special reserve should be appropriated for the amount equal to the difference between net debit balance reserves and the special reserve appropriated on the first-time adoption of IFRSs. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 74,427	\$ 125,468
Share of exchange differences of subsidiaries/associates accounted for using the equity method	(187,010)	(61,464)
Related income tax	<u>31,688</u>	<u>10,423</u>
Balance at December 31	<u>\$ (80,895)</u>	<u>\$ 74,427</u>

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

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ (3,386)	\$ (2,836)
Unrealized loss on revaluation of available-for-sale financial assets	(59)	(550)
Cumulative loss reclassified to profit or loss on sale of available-for-sale financial assets	<u>1,038</u>	<u>-</u>
Balance at December 31	<u>\$ (2,407)</u>	<u>\$ (3,386)</u>

f. Treasury shares

Purpose of Buyback	Maintaining the Credibility of the Company (In thousands)
Number of shares at January 1, 2015	-
Increase during the year	6,971
Decrease during the year	<u>(5,918)</u>
Number of shares at December 31, 2015	1,053
Decrease during the year	<u>(1,053)</u>
Number of shares at December 31, 2016	<u>-</u>

In their meeting on June 22, 2015, the board of directors approved the buyback of the Company's shares in the open market to maintain the Company's credibility. Within the buyback period from June 23, 2015 to August 21, 2015, the Company bought back 5,918 thousand shares for \$84,155 thousand. On November 12, 2015, the board of directors approved the cancellation of 5,918 thousand shares, and the record date used for this reduction was November 13, 2015.

On September 21, 2015, the board of directors approved the buyback of the Company's shares in the open market to maintain the Company's credibility. Within the buyback period from September 22, 2015 to November 20, 2015, the Company bought back 1,053 thousand shares for \$13,412 thousand. On February 18, 2016, the board of directors approved the cancellation of 1,053 thousand shares, and the record date used for this reduction was February 19, 2016.

Under the Securities and Exchange Act, the Company should neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

23. REVENUE

	For the Year Ended December 31	
	2016	2015
Revenue from the sale of goods	\$ 2,901,528	\$ 3,017,346
Revenue from the warehouse storage	<u>71,040</u>	<u>69,524</u>
	<u>\$ 2,972,568</u>	<u>\$ 3,086,870</u>

24. NET PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

Net Profit (Loss)

a. Other income

	For the Year Ended December 31	
	2016	2015
Royalty income	\$ 18,248	\$ 18,779
Rental income		
Operating lease rental income		
Investment properties	7,169	5,666
Interest income	285	2,558
Dividends	<u>211</u>	<u>440</u>
	<u>\$ 25,913</u>	<u>\$ 27,443</u>

b. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Net gain (loss) on disposal of property, plant and equipment	\$ 124,721	\$ (1,316)
Depreciation expense from investment properties	(1,147)	(882)
Direct operating expenses from investment properties	(860)	(552)
Net loss on financial assets designated as at FVTPL	(524)	(833)
(Loss) gain on disposal of investments	(492)	775
Net foreign exchange loss	(363)	(865)
Other revenue	5,639	4,502
Other expenses	<u>(685)</u>	<u>(26)</u>
	<u>\$ 126,289</u>	<u>\$ 803</u>

c. Finance costs

	For the Year Ended December 31	
	2016	2015
Interest on bank loans	\$ 17,142	\$ 7,126
Interest on convertible bonds	262	10,310
Other interest expense	<u>13</u>	<u>9</u>
Total interest expense for financial liabilities measured at amortized cost	<u>\$ 17,417</u>	<u>\$ 17,445</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	\$ 70,528	\$ 76,621
Investment properties	1,147	882
Intangible assets	<u>7,896</u>	<u>8,621</u>
	<u>\$ 79,571</u>	<u>\$ 86,124</u>
An analysis of deprecation by function		
Operating costs	\$ 1,821	\$ 2,060
Operating expenses	68,707	74,561
Other gains and losses	<u>1,147</u>	<u>882</u>
	<u>\$ 71,675</u>	<u>\$ 77,503</u>
An analysis of amortization by function		
Operating costs	\$ 81	\$ 184
Operating expenses	<u>7,815</u>	<u>8,437</u>
	<u>\$ 7,896</u>	<u>\$ 8,621</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Short-term benefits	<u>\$ 504,470</u>	<u>\$ 516,621</u>
Post-employment benefits		
Defined contribution plans	22,980	23,093
Defined benefit plans (see Note 21)	<u>12,483</u>	<u>14,450</u>
	<u>35,463</u>	<u>37,543</u>
Share-based payments		
Equity-settled	<u>524</u>	<u>454</u>
Other employee benefits	<u>77,473</u>	<u>79,500</u>
Total employee benefits expense	<u>\$ 617,930</u>	<u>\$ 634,118</u>

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 approved by the shareholders in their meeting on June 22, 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates of 5%-7% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. However, the Company should offset a deficit first when the Company has accumulated a deficit. For the years ended December 31, 2016 and 2015, the accumulated deficit of the Company was \$199,096 thousand and \$191,873 thousand, respectively. The Company had no earnings available for distribution, so the employees' compensation and remuneration of directors and supervisors were not estimated.

If there is a change in the amounts after the annual 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 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

For the year ended December 31, 2014, the accumulated deficit of the Company was \$93,803 thousand. The Company had no earnings available for distribution, so the bonus to employees and the remuneration of directors and supervisors were not estimated.

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.

25. INCOME TAXES

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

	<u>For the Year Ended December 31</u>	
	2016	2015
Current tax		
In respect of the current year	\$ 1,899	\$ 8,866
Land value increment tax	8,172	-
Adjustments for prior years	<u>181</u>	<u>(298)</u>
	<u>10,252</u>	<u>8,568</u>
Deferred tax		
In respect of the current year	(12,943)	(21,352)
Adjustments for prior years	<u>(41)</u>	<u>100</u>
	<u>(12,984)</u>	<u>(21,252)</u>
Income tax benefit recognized in profit or loss	<u>\$ (2,732)</u>	<u>\$ (12,684)</u>

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

	For the Year Ended December 31	
	2016	2015
Loss before tax from continuing operations	<u>\$ (24,059)</u>	<u>\$ (78,606)</u>
Income tax benefit calculated at the statutory rate	\$ (4,090)	\$ (13,363)
Nondeductible expenses in determining taxable income	1,023	1,202
Tax exempt income	(24,216)	-
Unrecognized deductible temporary differences/loss carryforwards	14,340	(325)
Land value increment tax	8,172	-
Foreign income tax expense	1,899	-
Adjustments for prior years' current tax	181	(298)
Adjustments for prior years' deferred tax	<u>(41)</u>	<u>100</u>
Income tax benefit recognized in profit or loss	<u>\$ (2,732)</u>	<u>\$ (12,684)</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company in the R.O.C.

b. Income tax recognized directly in equity

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Equity component of convertible bonds	<u>\$ (1)</u>	<u>\$ (14)</u>

c. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
<u>Deferred tax</u>		
In respect of the current year		
Translation of foreign operations	\$ 31,688	\$ 10,423
Remeasurement on defined benefit plans	<u>(2,927)</u>	<u>6,417</u>
Total income tax recognized in other comprehensive income	<u>\$ 28,761</u>	<u>\$ 16,840</u>

d. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax assets		
Tax refund receivable	<u>\$ 4,456</u>	<u>\$ -</u>
Current tax liabilities		
Income tax payable	<u>\$ 487</u>	<u>\$ 2,248</u>

e. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Reclassified from Equity to Profit or Loss	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit obligation	\$ 63,943	\$ (22,913)	\$ (2,927)	\$ -	\$ 38,103
Payable for annual leave	1,818	346	-	-	2,164
Deferred revenue	1,055	(137)	-	-	918
Unrealized gross profit on sales	1,209	(207)	-	-	1,002
Provision for loss on inventories	1,126	(138)	-	-	988
Allowance for impaired receivables	425	-	-	-	425
Liability component of convertible bonds issued	7	(7)	-	-	-
Equity component of convertible bonds issued	1	-	-	(1)	-
Unrealized exchange loss	21	(17)	-	-	4
	<u>\$ 69,605</u>	<u>\$ (23,073)</u>	<u>\$ (2,927)</u>	<u>\$ (1)</u>	<u>\$ 43,604</u>

Deferred tax liabilities

Temporary differences					
Share of profit or loss of subsidiaries and associates	\$ 176,311	\$ (36,058)	\$ -	\$ -	\$ 140,253
Exchange difference on foreign operation	45,165	-	(31,688)	-	13,477
	<u>\$ 221,476</u>	<u>\$ (36,058)</u>	<u>\$ (31,688)</u>	<u>\$ -</u>	<u>\$ 153,730</u>

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Reclassified from Equity to Profit or Loss	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit obligation	\$ 57,175	\$ 351	\$ 6,417	\$ -	\$ 63,943
Payable for annual leave	1,747	71	-	-	1,818
Deferred revenue	1,042	13	-	-	1,055
Unrealized gross profit on sales	1,038	171	-	-	1,209
Provision for loss on inventories	592	534	-	-	1,126
Allowance for impaired receivables	425	-	-	-	425
Liability component of convertible bonds issued	292	(285)	-	-	7
Equity component of convertible bonds issued	15	-	-	(14)	1
Unrealized exchange loss	-	21	-	-	21
	<u>\$ 62,326</u>	<u>\$ 876</u>	<u>\$ 6,417</u>	<u>\$ (14)</u>	<u>\$ 69,605</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Reclassified from Equity to Profit or Loss	Closing Balance
<u>Deferred tax liabilities</u>					
Temporary differences					
Share of profit or loss of subsidiaries and associates	\$ 196,062	\$ (19,751)	\$ -	\$ -	\$ 176,311
Exchange difference on foreign operation	55,588	-	(10,423)	-	45,165
Unrealized exchange profit	<u>639</u>	<u>(639)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 252,289</u>	<u>\$ (20,390)</u>	<u>\$ (10,423)</u>	<u>\$ -</u>	<u>\$ 221,476</u> (Concluded)

- f. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2016	2015
Loss carryforwards		
Expire in 2026	<u>\$ 82,689</u>	<u>\$ -</u>
Deductible temporary differences	<u>\$ 16,796</u>	<u>\$ 15,346</u>

- g. Integrated income tax

	December 31	
	2016	2015
Imputation credits accounts	<u>\$ 30,461</u>	<u>\$ 26,659</u>

The Company had no earnings available for distribution for the years ended December 31, 2016 and 2015.

- h. Income tax assessments

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

26. LOSS PER SHARE

	Unit: NT\$ Per Share	
	2016	2015
Basic loss per share	<u>\$ (0.10)</u>	<u>\$ (0.32)</u>

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

Net Loss for the Years

	2016	2015
Net loss for the period attributable to owners of the Company	<u>\$ (21,327)</u>	<u>\$ (65,922)</u>

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

	2016	2015
Weighted average number of ordinary shares outstanding in computation of basic loss per share	<u>204,325</u>	<u>208,477</u>

For the years ended December 31, 2016 and 2015, the convertible bonds were potential common shares; however, because the Company had net losses for the years ended December 31, 2016 and 2015, these bonds were excluded from the computation of diluted loss per share.

27. SHARE-BASED PAYMENT ARRANGEMENT

a. Employee share option plan

Qualified employees of the Company and its subsidiaries were granted 2,830 options of L.E. Cayman Co., Ltd. on August 21, 2012. Each option entitles the holder to subscribe for one ordinary share of L.E. Cayman Co., Ltd. The options granted are valid for 9.59 years and exercisable at certain percentages after the first anniversary year from the grant date. The options were granted at an exercise price equal to US\$0.296 per ordinary share. For any subsequent changes in L.E. Cayman Co., Ltd.'s share capital, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

	2016		2015	
	Number of Options (In Thousands)	Weighted Average Exercise Price (US\$)	Number of Options (In Thousands)	Weighted Average Exercise Price (US\$)
Balance at January 1	2,254	\$0.296	2,384	\$0.296
Options granted	-	-	-	-
Options forfeited	-	-	-	-
Options exercised	-	-	-	-
Options expired	<u>(26)</u>	-	<u>(130)</u>	-
Balance at December 31	<u>2,228</u>	0.296	<u>2,254</u>	0.296
Options exercisable, end of period	<u>-</u>		<u>-</u>	
Weighted-average fair value of options granted (\$)	<u>\$ -</u>		<u>\$ -</u>	

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

	December 31	
	2016	2015
Range of exercise price (US\$)	\$0.296	\$0.296
Weighted-average remaining contractual life (years)	5.64	6.22

Options granted in August 2012 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

Grant-date share price (US\$)	\$0.282
Exercise price (US\$)	\$0.296
Expected volatility	43.84%
Expected life (years)	8.15
Expected dividend yield	0.00%
Risk-free interest rate	1.46%

Compensation costs recognized were \$524 thousand and \$454 thousand for years ended December 31, 2016 and 2015, respectively.

b. Restricted share plan for employees

On March 26, 2015, the board of directors' meeting approved a restricted share plan for employees with a total amount of \$20,000 thousand, consisting of 2,000 shares, whose par value and issue price were \$10 and \$0, respectively. Until March 23, 2017, the Company does not issue any restricted shares for employees.

28. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

Operating leases relate to leases of land and buildings with lease terms between 1 and 5 years. The Company does not have a bargain purchase option to acquire the leased land and buildings at the expiration of the lease periods.

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

	December 31	
	2016	2015
Not later than 1 year	\$ 171,793	\$ 171,102
Later than 1 year and not later than 5 years	257,850	171,809
Later than 5 years	<u>-</u>	<u>-</u>
	<u>\$ 429,643</u>	<u>\$ 342,911</u>

The lease payments and sublease payments recognized in profit or loss for the current period were as follows:

	For the Year Ended December 31	
	2016	2015
Minimum lease payment	<u>\$ 209,719</u>	<u>\$ 219,165</u>

b. The Company as lessor

Operating leases relate to investment properties owned by the Company with lease terms between 1 to 5 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Not later than 1 year	\$ 6,947	\$ 5,502
Later than 1 year and not later than 5 years	4,832	5,955
Later than 5 years	<u>-</u>	<u>-</u>
	<u>\$ 11,779</u>	<u>\$ 11,457</u>

29. SEASONAL OPERATIONS

The Company mainly manufactures and sells apparel for children. Spring and summer apparel sells from April to August, and fall and winter apparel sells from September to March. Usually, the second quarter is generally a low season. The Company's inventory quantities at year-end are higher than those at quarter-end because of the high demand during the Chinese New Year.

30. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged in recent year.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, capital surplus, retained earnings and other equity).

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

Key management personnel of the Company review the capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

31. FINANCIAL INSTRUMENTS

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

Management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

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

- Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Depositary receipts	<u>\$ 282</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282</u>

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Non-derivative financial assets held for trading	\$ 20,524	\$ -	\$ -	\$ 20,524
Available-for-sale financial assets				
Securities listed in R.O.C.	\$ 623	\$ -	\$ -	\$ 623
Depository receipts	424	-	-	424
	<u>\$ 1,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,047</u>

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

c. Categories of financial instruments

	<u>December 31</u>	
	2016	2015
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ -	\$ 20,524
Loans and receivables		
Cash and cash equivalents	242,361	105,215
Notes receivable	943	1,441
Accounts receivable - net	216,301	213,047
Trade receivables from related parties	83,184	97,015
Other receivables - net	35,584	24,572
Refundable deposits	46,494	47,317
Available-for-sale financial assets	282	1,047
Financial assets measured at cost	7,838	9,947
<u>Financial liabilities</u>		
Amortized cost		
Short-term loans	280,000	-
Notes payable	2,166	7,614
Accounts payable	294,404	245,454
Trade payables to related parties	9,253	7,367
Other payables	177,498	156,439
Bonds payable	-	599,738
Long-term loans	650,000	440,000
Guarantee deposits received	1,890	1,388

d. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, accounts receivable, accounts payable, bonds payable, borrowings and bills payable. 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 (primarily to the, interest rate risk), credit risk and liquidity risk.

The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports to the Company's risk management committee, and the internal auditors also review the implementation of the policies constantly.

1) Market risk

The Company's activities expose the Company primarily to the financial risk of changes in interest rates (see (a) below). The risk is managed by the Company by maintaining an appropriate mix of fixed- and floating-rate borrowings.

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

a) Interest rate risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix of fixed and floating 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	\$ -	\$ -
Financial liabilities	280,000	599,738
Cash flow interest rate risk		
Financial assets	70,517	44,594
Financial liabilities	650,000	440,000

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. The rate of a 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2016 and 2015 would have decreased/increased by \$705 thousand and \$446 thousand, respectively, which would have been mainly attributable to the Company's exposure to interest rates on its variable-rate financial assets.

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2016 and 2015 would have increased/decreased by \$6,500 thousand and \$4,400 thousand, respectively, which would have been mainly attributable to the Company's exposure to interest rates on its variable-rate financial liabilities.

The Company's sensitivity to interest rates increased during the current period mainly due to the increase in variable rate debt instruments.

b) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities and beneficiary certificate.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% lower, the fair value of FVTPL and available for sale financial assets for the years ended December 31, 2016 and 2015 would have decreased by \$14 thousand and \$1,079 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that a 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:

- a) The carrying amount of the respective recognized financial assets as stated in the parent company only balance sheets; and
- b) The amount of contingent liabilities in relation to financial guarantee issued by the Company.

The Company adopted a policy of dealing only with creditworthy counterparties, which were mostly reputable department stores and shopping malls; the Company's exposure and the operating performance of its counterparties are continuously monitored. From historical experience, the Company considers that the possibility of facing a credit-related risk is low.

The Company provided endorsements/guarantees only to subsidiaries within the Company to help them get loans from financial institutions. The loans is evaluated on the basis of their actual needs, and this evaluation and all related procedures and processes are in accordance with the policies and regulations of the Company. Further approval of the loans by the Company's board of directors is also required. Under this approval system, the possibility of default on endorsed/guaranteed loans is rather limited/low.

3) Liquidity risk

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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate cash, reserves and using variety of equity and liability instruments, and continuously monitoring forecast and actual cash flows as well as matching the maturity profiles of financial assets and liabilities.

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

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

To the extent that interest flows are floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2016

	Less Than 1 Year	1-5 Years
<u>Non-derivative financial liabilities</u>		
Non-interest bearing	\$ 483,321	\$ 1,890
Variable interest rate liabilities	10,196	662,296
Fixed interest rate liabilities	<u>280,610</u>	<u>-</u>
	<u>\$ 774,127</u>	<u>\$ 664,186</u>

December 31, 2015

	Less Than 1 Year	1-5 Years
<u>Non-derivative financial liabilities</u>		
Non-interest bearing	\$ 416,874	\$ 1,388
Variable interest rate liabilities	-	440,000
Fixed interest rate liabilities	<u>599,738</u>	<u>-</u>
	<u>\$ 1,016,612</u>	<u>\$ 441,388</u>

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

32. TRANSACTIONS WITH RELATED PARTIES

Besides as disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Sales of goods

Line Item	Related-Party Type	For the Year Ended December 31	
		2016	2015
Revenue from sale of goods	Subsidiaries	\$ 218,247	\$ 217,208
	Associates	<u>22</u>	<u>-</u>
		<u>\$ 218,269</u>	<u>\$ 217,208</u>
Revenue from the warehouse storage	Subsidiaries	<u>\$ 39,344</u>	<u>\$ 37,453</u>

b. Purchases of goods

Related-Party Type	For the Year Ended December 31	
	2016	2015
Subsidiaries	\$ 19,558	\$ 17,458
Associates	<u>56</u>	<u>2,903</u>
	<u>\$ 19,614</u>	<u>\$ 20,361</u>

c. Operating expenses

Related-Party Type	For the Year Ended December 31	
	2016	2015
Subsidiaries	<u>\$ 164</u>	<u>\$ 225</u>

d. Allocation of advertising expenses

Related-Party Type	For the Year Ended December 31	
	2016	2015
Subsidiaries	<u>\$ 194</u>	<u>\$ 194</u>

e. Royalty income

Related-Party Type	For the Year Ended December 31	
	2016	2015
Subsidiaries	<u>\$ 18,248</u>	<u>\$ 18,779</u>

f. Rental income

Related-Party Type	For the Year Ended December 31	
	2016	2015
Subsidiaries	\$ 2,309	\$ 1,966
Associates	<u>171</u>	<u>343</u>
	<u>\$ 2,480</u>	<u>\$ 2,309</u>

g. Other income

Related-Party Type	For the Year Ended December 31	
	2016	2015
Subsidiaries	\$ 360	\$ 409
Associates	<u>174</u>	<u>84</u>
	<u>\$ 534</u>	<u>\$ 493</u>

h. Receivables from related parties (excluding loans to related parties)

Line Item	Related-Party Type	December 31	
		2016	2015
Trade receivables from related parties	Subsidiaries	\$ 83,184	\$ 96,989
	Associates	<u>-</u>	<u>26</u>
		<u>\$ 83,184</u>	<u>\$ 97,015</u>

i. Payables to related parties (excluding loans from related parties)

Line Item	Related-Party Type	December 31	
		2016	2015
Trade payables to related parties	Subsidiaries	\$ 9,226	\$ 7,345
	Associates	<u>27</u>	<u>22</u>
		<u>\$ 9,253</u>	<u>\$ 7,367</u>

j. Advanced receipts

Line Item	Related-Party Type	December 31	
		2016	2015
Advanced rental receipts	Subsidiaries	<u>\$ 22</u>	<u>\$ -</u>

k. Guarantee deposits received

Related-Party Type	December 31	
	2016	2015
Subsidiaries	<u>\$ 6</u>	<u>\$ 6</u>

The Company sold its own products to Les Champions Co., Ltd. at 40% to 45% of retail price but reserves the right to change these ratios depending on market conditions.

The Company bought products from Les Champions Co., Ltd. and Genius Toy Taiwan Co., Ltd. at 45% to 60% of retail price under normal terms.

The collection and payment periods for Les Champions Co., Ltd. were 90 days; the payment period for Genius Toy Taiwan Co., Ltd. was 90 days, for others, the collection period was 45 to 60 days and the payment period was 60 to 120 days.

Except for the above pricing terms, the terms for related-party transactions were conducted under normal terms.

Under an agreement with Shanghai Les Enphants Children Articles Co., Ltd. (LESC) approved by overseas authorities and valid until December 31, 2018, the LESC acquired the right to use the Company's logo. For this right, LESC paid the Company royalty fees of RMB1,000 thousand every quarter.

The Company rented out houses to its related parties under operating lease contracts. The rentals were based on local rates and were paid by month.

The outstanding trade receivables from related parties are unsecured. No expense was recognized for the years ended December 31, 2016 and 2015 for allowance for impaired trade receivables with respect to the amounts owed by related parties.

The outstanding trade payables to related parties are unsecured.

l. Endorsements and guarantees

Refer to Table 1 following the Notes to Financial Statements for information on endorsements and guarantees.

m. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 29,149	\$ 30,532
Post-employment benefits	1,943	1,601
Share-based payments	<u>255</u>	<u>221</u>
	<u>\$ 31,347</u>	<u>\$ 32,354</u>

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

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The Company's assets pledged as collateral for electronic gift certificates and long-term borrowings were as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Financial assets at fair value through profit or loss - current	\$ -	\$ 20,524
Other receivables - restricted deposits	32,173	20,361
Property, plant and equipment	556,627	626,434
Investment properties	<u>125,706</u>	<u>97,825</u>
	<u>\$ 714,506</u>	<u>\$ 765,144</u>

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company were as follows:

- a. The Company signed a brand licensing contract with Oshkosh Co., Ltd., effective until December 31, 2017. Under this agreement, the Company should pay the higher of a percentage of net sales of certain licensed products or minimum royalty fees. Royalty fees were \$1,240 thousand for the year ended December 31, 2016 and \$2,940 thousand for the year ended December 31, 2015.
- b. The Company signed a brand licensing agreement with Familiar Ltd., effective until January 31, 2019, and should pay royalty fees at a percentage of net sales of certain licensed products (basic royalty fees were ¥10,000 thousand every year). Royalty fees were ¥12,714 thousand for the year ended December 31, 2016 and ¥10,164 thousand for the year ended December 31, 2015.
- c. The Company signed a brand licensing contract with The Walt Disney Company (Taiwan) Ltd. ("Walt Disney") for Disney and PE logo, effective until March 31, 2017. Under those agreement, the Company should pay royalty fees at a percentage of net sales of certain licensed products. Royalty fees were \$18,326 thousand for the year ended December 31, 2016 and \$16,829 thousand for the year ended December 31, 2015.
- d. As of December 31, 2016, unused letters of credit of the Company amounted to US\$19 thousand.

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

(In Thousands)

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 542	32.25 (USD:NTD)	\$ 17,465
RMB	1,858	4.617 (RMB:NTD)	8,580
JPY	358	0.2756 (JPY:NTD)	99
HKD	376	4.158 (HKD:NTD)	1,565
EUR	2	33.90 (EUR:NTD)	52

(In Thousands)

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 62	32.825 (USD:NTD)	\$ 2,027
RMB	1,517	4.995 (RMB:NTD)	7,777
JPY	262	0.2727 (JPY:NTD)	71
HKD	383	4.235 (HKD:NTD)	1,624
EUR	9	35.88 (EUR:NTD)	322

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

	For the Year Ended December 31			
	2016	Net Foreign Exchange Gain (Loss)	2015	Net Foreign Exchange Gain (Loss)
Foreign Currencies	Exchange Rate		Exchange Rate	
USD	32.25 (USD:NTD)	\$ 270	32.825 (USD:NTD)	\$ (22)
RMB	4.617 (RMB:NTD)	(262)	4.995 (RMB:NTD)	(70)
JPY	0.2756 (JPY:NTD)	(9)	0.2727 (JPY:NTD)	(3)
HKD	4.158 (HKD:NTD)	(17)	4.235 (HKD:NTD)	11
EUR	33.90 (EUR:NTD)	(10)	35.88 (EUR:NTD)	(42)
		<u>\$ (28)</u>		<u>\$ (126)</u>

36. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees

- 1) Financing provided to others. None.
- 2) Endorsements/guarantees provided. (Table 1).
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 2).
- 4) Marketable securities acquired and disposed of at costs or prices at least NT\$300 million or 20% of the paid-in capital. None.
- 5) Acquisition of individual real estate at costs of at least NT \$300 million or 20% of the paid-in capital. None.
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. None.
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3).
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4).
- 9) Trading in derivative instruments. None.
- 10) Information on investees. (Table 5).

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 6).
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

- e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
- f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

LES ENPHANTS CO., LTD.

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

No.	Endorsement/ Guarantee Provider	Counterparty		Limit on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)
		Name	Nature of Relationship							
0	Les Enphants Co., Ltd. (the "Company")	Shanghai Les Enphants Children Articles Co., Ltd.	Subsidiary of L.E Venture Co., Ltd.	\$ 578,583	US\$ 150,000 thousand	US\$ 150,000 thousand	\$ 483,750 (US\$ 15,000 thousand)	\$ -	17	\$ 1,446,457
		Les Enphants (Thailand) Co., Ltd.	Subsidiary of L.E. International Co., Ltd.	578,583	US\$ 720 thousand	US\$ 720 thousand		-	1	1,446,457

Note 1: The limit of endorsement/guarantee amount for each counterparty should not exceed 20% of the Company's net worth as shown in the latest financial statements.

Note 2: The maximum endorsement/guarantee amount should not exceed 50% of the Company's net worth as shown in the latest financial statements.

LES ENPHANTS CO., LTD.

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016

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

Holding Company	Type and Issuer of Marketable Security	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares/Units	Carrying Amount	Percentage of Ownership	Fair Value	
Les Enphants Co., Ltd.	<u>Depository receipts</u> Dukang Distillers Holdings Limited	-	Available for sale financial assets - current	143,000	\$ 282	-	\$ 282	(Note 1)
	<u>Stocks</u> WK Technology Fund	-	Financial assets measured at cost - noncurrent	843,776	7,838	0.85	-	(Note 2)
Shanghai Les Enphants Children Articles Co., Ltd.	<u>Stock warrant</u> Shanghai Holyca E-Business Co., Ltd.	-	Financial assets measured at cost - noncurrent	-	-	14.27	-	(Note 3)

Note 1: The fair values of the investment were determined at the net asset value of the mutual funds on the last trading day or the closing price on December 31, 2016.

Note 2: The capital reduction of WK Technology Fund was approved at the board of directors' meeting on May 3, 2016, and \$2,109 thousand was returned to the Company in June 2016.

Note 3: In September 2015, Shanghai Les Enphants Children Articles Co., Ltd. lost significant influence on Shanghai Holyca E-Business Co., Ltd. and therefore recognized the investment under financial assets measured at cost - noncurrent. The carrying amount shown above is net of impairment loss.

Note 4: Refer to Tables 5 and 6 for information relating to investments in subsidiaries and associates.

LES ENPHANTS CO., LTD.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Company Name	Related Party	Nature of Relationship	Transaction				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Term	Unit Price	Payment Term	Ending Balance	% to Total	
Les Enphants Co., Ltd. (the "Company")	Les Champions Co., Ltd.	Subsidiary	Sale	\$ 218,192	7	Monthly 90 days	At 40%-45% of retail prices	Monthly 90 days	Accounts receivables \$ 20,972	9	-
									Notes receivable 54,222	98	
Les Champions Co., Ltd.	Les Enphants Co., Ltd.	Parent company	Purchase	218,192	48	Monthly 90 days	At 40%-45% of retail prices	Monthly 90 days	Accounts payables (20,972)	(22)	-
									Notes payable (54,222)	(85)	
Shanghai Les Enphants Children Articles Co., Ltd.	Beijing Les Enphants Children Articles Co., Ltd.	Subsidiary	Sale	435,256	13	60-90 days	At 110% of cost	60-90 days	Accounts receivables 106,548	23	-
Beijing Les Enphants Children Articles Co., Ltd.	Shanghai Les Enphants Children Articles Co., Ltd.	Parent company	Purchase	435,256	100	60-90 days	At 110% of cost	60-90 days	Accounts payables (106,548)	(98)	-

Note: Transactions between the Company and its subsidiaries were excluded from the consolidated financial statements.

LES ENPHANTS CO., LTD.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2016

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance (Foreign Currencies in Thousands)	Turnover Days	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Shanghai Les Enphants Children Articles Co., Ltd.	Beijing Les Enphants Children Articles Co., Ltd.	Subsidiary	\$ 106,548	3	\$ -	-	\$ 80,798	\$ -

LES ENPHANTS CO., LTD.

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Original Investment Amount		As of December 31, 2016			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
Les Enphants Co., Ltd. (the "Company")	L.E. Capital Enterprise Co., Ltd.	British Virgin Islands	Holding company	\$ 1,411,298	\$ 1,411,298	41,562,373	100.00	\$ 2,269,924	\$ (180,097)	\$ (180,097)	Subsidiary
	Mike & Friends Co., Ltd.	Taipei, Taiwan	Manufacture and distribution of children's clothes and supplies	70,000	70,000	4,500,000	100.00	43,422	2,343	2,343	Subsidiary
	Genius Toy Taiwan Co., Ltd.	Taichung, Taiwan	Distribution of children's clothes and supplies	50,000	50,000	625,000	20.00	65,362	51,329	10,740	Equity-method investee (Note 1)
	Komphort Royal of Life Co., Ltd.	Taipei, Taiwan	Postpartum care center	43,200	43,200	4,320,000	48.00	26,400	(3,022)	(1,450)	Equity-method investee
L.E. Capital Enterprise Co., Ltd.	L.E. Cayman Co., Ltd.	Cayman Islands	Holding company	1,107,084	1,107,084	383,024,450	100.00	2,221,400	RMB (36,643) thousand		Subsidiary
	L.E. International Co., Ltd.	British Virgin Islands	Holding company	180,323	180,323	5,555,700	100.00	80,920	312		Subsidiary
Mike & Friends Co., Ltd.	Les Champions Co., Ltd.	Taipei, Taiwan	Distribution of children's clothes and supplies	32,657	32,657	3,592,248	34.59	47,372	3,490		Subsidiary
Les Champions Co., Ltd.	L.E. Genius Co., Ltd.	British Virgin Islands	Holding company	15,150	15,150	510,000	51.00	15,995	1,735		Subsidiary
L.E. Cayman Co., Ltd.	L.E. Venture Co., Ltd.	British Virgin Islands	Holding company	1,107,084	1,107,084	38,302,445	100.00	RMB 482,614 thousand	RMB (36,643) thousand		Subsidiary
L.E. International Co., Ltd.	PT Les Enphants (Indonesia) Co., Ltd.	Bandung, Indonesia	Manufacture and distribution of children's clothes and supplies	153,131	153,131	3,250	100.00	18,923	IDR(2,388,479) thousand		Subsidiary
	Les Enphants (Thailand) Co., Ltd.	Bangkok, Thailand	Manufacture and distribution of children's clothes and supplies	19,085	19,085	166,600	49.00	36,611	THB 12,152 thousand		Subsidiary
	Les Enphants Thailand Marketing Co., Ltd.	Bangkok, Thailand	Distribution of children's clothes and supplies	7,436	7,436	98,000	49.00	23,521	THB 1,710 thousand		Subsidiary
	Les Enphants (S) Marketing Pte. Ltd.	Singapore	Distribution of children's clothes and supplies	21,553	21,553	-	26.08	791	SGD (35) thousand		Subsidiary
PT Les Enphants (Indonesia) Co., Ltd.	Les Enphants (S) Marketing Pte. Ltd.	Singapore	Distribution of children's clothes and supplies	36,781	36,781	-	73.92	IDR 922,814 thousand	SGD (35) thousand		Subsidiary
	PT Les Enphants Mitraprima	Jakarta, Indonesia	Distribution of children's clothes and supplies	41,805	41,805	-	98.45	IDR 1,878,402 thousand	IDR (119,234) thousand		Subsidiary
Les Enphants (Thailand) Co., Ltd.	Les Enphants Thailand Marketing Co., Ltd.	Bangkok, Thailand	Distribution of children's clothes and supplies	6,687	6,687	82,000	41.00	THB 21,746 thousand	THB 1,710 thousand		Subsidiary

Note 1: The difference between an investee's net income and the Company's net income from investment was a deferred unrealized gain (loss) from upstream and downstream transactions of the investee.

Note 2: Refer to Table 6 for information relating to investment in mainland China.

LES ENPHANTS CO., LTD.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Note 7)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2016	Accumulated Repatriation of Investment Income as of December 31, 2016
					Outflow	Inflow						
Shanghai Les Enphants Children Articles Co., Ltd.	a. Manufacture and distribution of children's clothes, toys, bedding and pillows, etc. b. Development of business in mainland China	\$ 1,425,450 (US\$ 44,200 thousand)	Indirect	\$ 975,828	\$ -	\$ -	\$ 975,828	\$ (186,175) (RMB (37,967) thousand)	100% indirect investment	\$ (186,175) (RMB (37,967) thousand)	\$ 1,867,996 (RMB 404,591 thousand)	\$ -
Shanghai Lead Han Trading Co., Ltd.	Distribution of children's clothes and supplies	147,744 (RMB 32,000 thousand)	Indirect	-	-	-	-	2,888 (RMB 679 thousand)	100% indirect investment	6,268 (RMB 1,368 thousand)	40,922 (RMB 8,863 thousand)	-
Beijing Les Enphants Children Articles Co., Ltd.	Distribution of children's clothes and supplies	46,170 (RMB 10,000 thousand)	Indirect	-	-	-	-	(17,752) (RMB (3,750) thousand)	100% indirect investment	(11,743) (RMB (2,535) thousand)	137,947 (RMB 29,878 thousand)	-
Suzhou Les Enphants Logist Co., Ltd. (Note 2)	Warehousing, transportation and distribution services	322,500 (US\$ 10,000 thousand)	Indirect	131,256	-	-	131,256	5,249 (RMB 1,084 thousand)	100% indirect investment	5,249 (RMB 1,084 thousand)	339,826 (RMB 73,603 thousand)	-
Shanghai L.E. Genius Co., Ltd. (Note 3)	Distribution of children's toys and supplies	32,250 (US\$ 1,000 thousand)	Indirect	15,101	-	-	15,101	1,735 (RMB 387 thousand)	27.44% indirect investment	476 (RMB 106 thousand)	8,606 (RMB 1,864 thousand)	-

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amount Approved by the Investment Commission, MOEA	Maximum Allowable Investment
\$1,107,084	\$1,479,142	\$ - (Note 4)

Note 1: Amount was recognized on the basis of audited financial statements.

Note 2: The investment by Les Enphants Co., Ltd. (the "Company") of \$131,256 thousand in Suzhou Les Enphants Logist Co., Ltd. ("LES Logist") was made through a company located in a third area, and the other investments by the Company in LES Logist were through the Company's investees based in the mainland.

Note 3: The investment in Shanghai L.E. Genius Co., Ltd. was made through the subsidiary, L.E. Champions Co., Ltd.

Note 4: There was no limit on the amounts of the Company's investments in China, and these investments had been approved by the Investment Commission (as shown in approval reference No. 10320421221) under Taiwan's Ministry of Economic Affairs.

Note 5: The exchange rates for US\$1 and RMB1 were NT\$32.25 and NT\$4.617, respectively.