

**Dynamic Medical Technologies Inc. and  
Subsidiaries**

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

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Dynamic Medical Technologies Inc.

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

#### Impairment Assessment on Receivables

To assess the impairment of receivables, the management of the Group performed its assessment thereof by taking into consideration the ageing report and the recoverability of receivables. Refer to Notes 4, 5, 11 and 12 to the consolidated financial statements for information on the allowance for receivables. Because the assessment of impairment loss of receivables involves critical accounting estimates, which are subject to the judgment of the management, the assessment of the impairment loss of receivables is deemed to be a key audit matter.

Our main audit procedures in response to the assessment of the impairment of receivables were assessing the reasonableness of the methodology and assumptions used by the management for the impairment assessment of receivables and whether the methodology was adopted consistently, testing the reasonableness of the documentation adopted by the management for assessing the impairment of receivables, and reviewing the accuracy of the calculation of the allowance for receivables.

#### **Other Matter**

We have also audited the parent company only financial statements of Dynamic Medical Technologies Inc. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Ting-Chen Hsu and Ching-Cheng Yang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 9, 2017

Notice to Readers

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

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*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. Also, as stated in Note 4 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

# DYNAMIC MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

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

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 918,807	41	\$ 1,040,863	48
Financial assets at fair value through profit or loss - current (Note 7)	716	-	-	-
Debt investments with no active market - current (Note 10)	340,900	15	110,000	5
Notes receivable (Note 11)	116,047	5	106,976	5
Trade receivables (Note 11)	92,213	4	71,788	3
Finance lease receivables (Note 12)	5,891	-	7,974	-
Trade receivables from related parties (Note 32)	2,671	-	1,088	-
Other receivables from related parties (Note 32)	7,463	-	756	-
Inventories (Note 13)	267,329	12	249,149	12
Other current assets (Notes 17 and 32)	<u>32,962</u>	<u>2</u>	<u>54,851</u>	<u>3</u>
Total current assets	<u>1,784,999</u>	<u>79</u>	<u>1,643,445</u>	<u>76</u>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current (Note 8)	140,173	6	169,707	8
Financial assets measured at cost - non-current (Note 9)	1,682	-	1,682	-
Investments accounted for using equity method (Note 15)	135,971	6	148,294	7
Property, plant and equipment (Note 16)	59,181	3	70,606	3
Computer software	666	-	137	-
Other intangible assets	-	-	175	-
Deferred tax assets (Note 25)	47,711	2	40,768	2
Refundable deposits	61,150	3	68,242	3
Long-term notes receivable (Note 11)	4,859	-	4,786	-
Long-term trade receivables (Note 11)	4,794	-	2,009	-
Long-term finance lease receivables (Note 12)	9,546	-	7,040	1
Net defined benefit assets - non-current (Note 22)	1,862	-	1,526	-
Other financial assets - non-current (Note 33)	16,000	1	6,000	-
Other non-current assets (Note 17)	<u>657</u>	<u>-</u>	<u>817</u>	<u>-</u>
Total non-current assets	<u>484,252</u>	<u>21</u>	<u>521,789</u>	<u>24</u>
<b>TOTAL</b>	<u>\$ 2,269,251</u>	<u>100</u>	<u>\$ 2,165,234</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Notes payable (Note 19)	\$ -	-	\$ 353	-
Trade payables (Note 19)	44,865	2	18,534	1
Trade payables to related parties (Note 32)	92	-	3,257	-
Other payables (Note 20)	148,254	7	123,320	6
Other payables to related parties (Note 32)	10,823	1	524	-
Current tax liabilities (Note 25)	23,592	1	19,505	1
Provisions - current (Note 21)	10,516	-	16,642	1
Collections in advance	304,563	13	250,839	11
Other current liabilities (Note 20)	<u>1,931</u>	<u>-</u>	<u>2,451</u>	<u>-</u>
Total current liabilities	<u>544,636</u>	<u>24</u>	<u>435,425</u>	<u>20</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Note 18)	294,518	13	289,502	13
Provisions - non-current (Note 21)	3,555	-	3,948	-
Deferred tax liabilities (Note 25)	8,610	1	13,167	1
Deposits received	<u>167</u>	<u>-</u>	<u>182</u>	<u>-</u>
Total non-current liabilities	<u>306,850</u>	<u>14</u>	<u>306,799</u>	<u>14</u>
Total liabilities	<u>851,486</u>	<u>38</u>	<u>742,224</u>	<u>34</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital				
Ordinary shares (Note 23)	<u>300,000</u>	<u>13</u>	<u>300,000</u>	<u>14</u>
Capital surplus (Note 23)	<u>625,942</u>	<u>28</u>	<u>625,942</u>	<u>29</u>
Retained earnings (Note 23)				
Legal reserve	111,718	5	99,634	4
Unappropriated earnings	<u>166,795</u>	<u>7</u>	<u>171,514</u>	<u>8</u>
Total retained earnings	<u>278,513</u>	<u>12</u>	<u>271,148</u>	<u>12</u>
Other equity (Note 23)	<u>66,370</u>	<u>3</u>	<u>100,250</u>	<u>5</u>
Total equity attributable to owners of the Company	<u>1,270,825</u>	<u>56</u>	<u>1,297,340</u>	<u>60</u>
<b>NON-CONTROLLING INTERESTS (Note 23)</b>	<u>146,940</u>	<u>6</u>	<u>125,670</u>	<u>6</u>
Total equity	<u>1,417,765</u>	<u>62</u>	<u>1,423,010</u>	<u>66</u>
<b>TOTAL</b>	<u>\$ 2,269,251</u>	<u>100</u>	<u>\$ 2,165,234</u>	<u>100</u>

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

# DYNAMIC MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Note 32)				
Sales	\$ 1,000,898	82	\$ 1,126,372	86
Workshop service	68,361	6	86,542	6
Other operating revenue	<u>145,555</u>	<u>12</u>	<u>101,282</u>	<u>8</u>
Total operating revenue	<u>1,214,814</u>	<u>100</u>	<u>1,314,196</u>	<u>100</u>
OPERATING COSTS (Notes 13, 24 and 32)				
Cost of goods sold	716,679	59	817,358	62
Cost of workshop service	42,400	4	49,908	4
Other operating cost	<u>49,893</u>	<u>4</u>	<u>44,578</u>	<u>3</u>
Total operating costs	<u>808,972</u>	<u>67</u>	<u>911,844</u>	<u>69</u>
GROSS PROFIT	<u>405,842</u>	<u>33</u>	<u>402,352</u>	<u>31</u>
OPERATING EXPENSES (Notes 24 and 32)				
Selling and marketing expenses	111,509	9	147,011	11
General and administrative expenses	<u>99,651</u>	<u>8</u>	<u>98,355</u>	<u>8</u>
Total operating expenses	<u>211,160</u>	<u>17</u>	<u>245,366</u>	<u>19</u>
PROFIT FROM OPERATIONS	<u>194,682</u>	<u>16</u>	<u>156,986</u>	<u>12</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 24 and 32)	7,512	1	5,557	-
Other gains and losses (Note 24)	(2,890)	-	25,942	2
Finance costs (Note 24)	(5,016)	(1)	(4,543)	-
Share of profit or loss of associates	<u>(11,353)</u>	<u>(1)</u>	<u>(26,335)</u>	<u>(2)</u>
Total non-operating income and expenses	<u>(11,747)</u>	<u>(1)</u>	<u>621</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	182,935	15	157,607	12
INCOME TAX EXPENSE (Note 25)	<u>34,371</u>	<u>3</u>	<u>28,069</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>148,564</u>	<u>12</u>	<u>129,538</u>	<u>10</u>

(Continued)

# DYNAMIC MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

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

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (Notes 22 and 25)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	\$ 50	-	\$ (183)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	(9)	-	31	-
Total items that will not be reclassified subsequently to profit or loss	41	-	(152)	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(9,821)	(1)	8,059	1
Unrealized loss on available-for-sale financial assets	(29,534)	(2)	(28,548)	(2)
Income tax relating to items that may be reclassified subsequently to profit or loss	5,475	-	(9,274)	(1)
Total items that may be reclassified subsequently to profit or loss	(33,880)	(3)	(29,763)	(2)
Other comprehensive income (loss) for the year, net of income tax	(33,839)	(3)	(29,915)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 114,725</u>	<u>9</u>	<u>\$ 99,623</u>	<u>8</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 118,454	10	\$ 120,839	9
Non-controlling interests	30,110	2	8,699	1
	<u>\$ 148,564</u>	<u>12</u>	<u>\$ 129,538</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 84,615	7	\$ 90,924	7
Non-controlling interests	30,110	2	8,699	1
	<u>\$ 114,725</u>	<u>9</u>	<u>\$ 99,623</u>	<u>8</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 3.95</u>		<u>\$ 4.05</u>	
Diluted	<u>\$ 3.56</u>		<u>\$ 3.69</u>	

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

(Concluded)



# **DYNAMIC MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES**

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

	Equity Attributable to Owners of the Company							Non-controlling Interests	Total Equity
	Ordinary Shares	Capital Surplus	Retained Earnings		Exchange Differences on Translating Foreign Operations	Other Equity			
			Legal Reserve	Unappropriated Earnings		Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total		
BALANCE, JANUARY 1, 2015	\$ 265,000	\$ 440,170	\$ 88,985	\$ 166,476	\$ 17,762	\$ 112,251	\$ 130,013	\$ 1,090,644	\$ 1,211,952
Appropriation of the 2014 earnings	-	-	10,649	(10,649)	-	-	-	-	-
Legal reserve	-	-	-	(105,000)	-	-	-	(105,000)	-
Cash dividends	-	-	-	-	-	-	-	-	-
Issue of ordinary shares for cash	35,000	174,300	-	-	-	-	-	209,300	209,300
Equity component of convertible bonds	-	11,472	-	-	-	-	-	11,472	11,472
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(4,337)
Net profit for the year ended December 31, 2015	-	-	-	120,839	-	-	-	120,839	129,538
Other comprehensive income (loss) for the year ended December 31, 2015	-	-	-	(152)	6,689	(36,452)	(29,763)	(29,915)	-
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	120,687	6,689	(36,452)	(29,763)	90,924	99,623
BALANCE, DECEMBER 31, 2015	300,000	625,942	99,634	171,514	24,451	75,799	100,250	1,297,340	1,423,010
Appropriation of the 2015 earnings	-	-	12,084	(12,084)	-	-	-	-	-
Legal reserve	-	-	-	(108,900)	-	-	-	(108,900)	-
Cash dividends	-	-	-	-	-	-	-	-	-
Partial acquisition of interests in subsidiaries	-	-	-	(2,230)	-	-	-	(2,230)	(6,300)
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	(4,770)
Net profit for year ended December 31, 2016	-	-	-	118,454	-	-	-	118,454	148,564
Other comprehensive income (loss) for the year ended December 31, 2016	-	-	-	41	(8,152)	(25,728)	(33,880)	(33,839)	-
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	118,495	(8,152)	(25,728)	(33,880)	84,615	114,725
BALANCE, DECEMBER 31, 2016	\$ 300,000	\$ 625,942	\$ 111,718	\$ 166,795	\$ 16,299	\$ 50,071	\$ 66,370	\$ 1,270,825	\$ 1,417,765

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

# DYNAMIC MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

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

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 182,935	\$ 157,607
Adjustments for:		
Depreciation expenses	32,036	40,474
Amortization expenses	1,502	3,157
Impairment loss recognized on receivables	8,306	5,880
Loss on fair value changes of financial assets and financial liabilities at fair value through profit or loss	814	-
Finance costs	5,016	4,543
Interest income	(5,998)	(5,184)
Dividend income	(1,142)	-
Share of loss of associates	11,353	26,335
Gain on disposal of property, plant and equipment	(4,184)	(132)
Gain on disposal of investments	-	(17,190)
Reversal of impairment loss on non-financial assets	(1,525)	(7,318)
Changes in operating assets and liabilities		
Financial assets held for trading	(1,530)	-
Notes receivable	(9,085)	16,282
Trade receivables	(28,559)	529
Trade receivables from related parties	(1,583)	10,997
Other receivables from related parties	(6,707)	9,480
Inventories	(36,598)	56,998
Net defined benefit assets	(286)	(345)
Other current assets	25,994	(27,425)
Other operating assets	6,167	18,556
Notes payable	(353)	345
Trade payables	26,331	(82,625)
Trade payables to related parties	(3,165)	3,305
Other payables	24,934	2,286
Other payables to related parties	10,299	148
Provisions	(6,422)	(896)
Collections in advance	53,724	30,498
Other current liabilities	(520)	1,642
Cash generated from operations	281,754	247,947
Interest received	5,988	5,114
Income tax paid	(40,413)	(45,625)
Net cash generated from operating activities	247,329	207,436

### CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from disposal of available-for-sale financial assets	-	31,651
Purchase of debt investments with no active market	(501,800)	(144,300)
Proceeds from disposal of debt investments with no active market	270,900	78,400
Acquisition of investments accounted for using equity method	-	(76,363)
Net cash inflow on disposal of a subsidiary	-	707

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# DYNAMIC MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

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

	2016	2015
Payments for property, plant and equipment	\$ (15,332)	\$ (6,382)
Proceeds from disposal of property, plant and equipment	8,638	2,374
Increase in refundable deposits	-	(2,185)
Decrease in refundable deposits	7,092	-
Payments for intangible assets	(770)	(11)
Increase in other financial assets	(10,000)	-
Decrease in other financial assets	-	3,000
Increase in other non-current assets	(926)	(341)
Dividends received	<u>1,142</u>	<u>-</u>
Net cash used in investing activities	<u>(241,056)</u>	<u>(113,450)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of bonds	-	300,000
Increase in deposits received	-	79
Decrease in deposits received	(15)	-
Dividends paid to owners of the Company	(108,900)	(105,000)
Proceeds from issue of ordinary shares	-	209,300
Partial acquisition of interests in subsidiaries	(6,300)	-
Dividends paid to non-controlling interests	<u>(4,770)</u>	<u>-</u>
Net cash generated from (used in) financing activities	<u>(119,985)</u>	<u>404,379</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>(8,344)</u>	<u>2,337</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(122,056)</b>	<b>500,702</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u><b>1,040,863</b></u>	<u><b>540,161</b></u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><b>\$ 918,807</b></u>	<u><b>\$ 1,040,863</b></u>

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

(Concluded)

# DYNAMIC MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

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

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### 1. GENERAL INFORMATION

Dynamic Medical Technologies Inc. (the “Company”) was established on October 9, 2003. The Company mainly sells and leases laser medical equipment for beauty treatment and renders related workshop services, and sells the consumables of beauty treatment and cosmetic products.

The Company’s shares have been listed on the Taipei Exchange (TPEX) Mainboard since December 29, 2010.

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 9, 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 and entities controlled by the Company (collectively, the “Group”) should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the IASB and endorsed by the FSC for application starting from 2017.

<b>New, Amended or Revised Standards and Interpretations (the “New IFRSs”)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016

(Continued)

<b>New, Amended or Revised Standards and Interpretations (the “New IFRSs”)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014
	(Concluded)

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

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

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

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

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

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

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

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

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

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

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

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
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 will be retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 will be retrospectively applied for annual periods beginning on or after January 1, 2018.

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

The impairment of financial assets

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

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

## Transition

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

### 2) IFRS 15 “Revenue from Contracts with Customers”

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

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

### 3) IFRS 16 “Leases”

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

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

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

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

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



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the FSC for their oversight purposes.

##### a. Statement of compliance

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

##### b. Basis of presentation

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

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and 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.

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

Current assets include:

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

Current liabilities include:

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company.

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

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

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

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

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

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

See Note 14 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

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

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

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries and associates in other countries that use currency different from the currency of 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. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group'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 an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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

f. Inventories

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

g. Investment in associates

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

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

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

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

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

surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

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

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.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

#### h. Property, plant and equipment

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

Depreciation 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 estimates accounted for on a prospective basis.

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

#### i. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

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

j. Impairment of tangible and intangible assets other than goodwill

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

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

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

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

k. Financial instruments

Financial assets and financial liabilities are recognized when the Group 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 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.

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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 held for trading.

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

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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 notes receivable, trade receivables, lease payments receivable, cash and cash equivalent, debt investments with no active market, refundable deposits, long-term notes receivable, long-term trade receivables, and long-term lease payments receivable) are measured at amortized cost using the effective interest method, less any impairment, except for short-term notes receivable and trade receivables when the effect of discounting is immaterial.

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

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, that the estimated future cash flows of the investment have been affected.

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

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

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

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

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

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

For financial assets that are 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 a financial asset is reduced by impairment loss directly for all financial assets with the exception of notes receivable, trade receivables, lease payments receivable, long-term notes receivable, long-term trade receivables and long-term lease payments receivable where the carrying amount is reduced through the use of an allowance account. When notes receivable, trade receivables, lease payments receivable, long-term notes receivable, long-term trade receivables and long-term lease payments receivable are considered uncollectible, they are 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. Bad debts are written off against the allowance account.

#### c) Derecognition of financial assets

The Group derecognizes a financial asset 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 the Group 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 the Group 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 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 Group 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 - other.

Transaction costs that relate to the issue of the convertible notes 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.



## 5) Derivative financial instruments

The Group enters into derivative financial instruments of stock warrants.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

### l. Provisions

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

### 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.

#### 1) Sale of goods

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

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

#### 2) Rendering of services

Service income is recognized when services are provided.

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

#### 3) Dividend and interest income

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

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

The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

Contingent rents are recognized as income in the period in which they are incurred.

The Group as lessee

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

o. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under 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 benefit expenses in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

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

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3) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

p. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

3) Current tax and deferred tax for the year

Current and deferred taxes 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 taxes are also recognized in other comprehensive income or directly in equity, respectively.

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

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

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

a. Estimated impairment of receivables

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

b. Impairment of property, plant and equipment

The impairment of equipment in relation to the lease 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 price or future cash flows will affect the recoverable amounts of those assets and may lead to recognition of additional impairment losses or reversal of impairment losses.

c. Write-down of inventory

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

d. Provision

The provision for warranties was based on contracts, historical experience and other known reasons estimated obligations may occur in the year. The provision was recognized at the date of sale of the relevant products. The Group regularly reviews the reasonableness of estimates.

e. Income taxes

The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 491	\$ 674
Checking accounts and demand deposits	754,056	940,389
Cash equivalent (investments with original maturity less than 3 months)		
Time deposits	<u>164,260</u>	<u>99,800</u>
	<u>\$ 918,807</u>	<u>\$ 1,040,863</u>

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Bank balance	0.001%-1.35%	0.001%-0.74%

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

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Financial assets at FVTPL - current</u>		
Financial assets held for trading		
Derivative financial assets (not under hedge accounting)		
Stock warrants	\$ <u>716</u>	\$ <u>-</u>

The Group acquired the stock warrants issued by Viveve Medical, Inc. in April 2016. The stock warrants will expire in April 2026.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Non-current</u>		
Domestic investments		
Listed shares	\$ 63,669	\$ 70,806
Foreign investments		
Listed shares	<u>76,504</u>	<u>98,901</u>
	<u>\$ 140,173</u>	<u>\$ 169,707</u>

## 9. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Non-current</u>		
Domestic unlisted shares	\$ <u>1,682</u>	\$ <u>1,682</u>
Financial asset classification		
Available-for-sale financial assets	\$ <u>1,682</u>	\$ <u>1,682</u>

Management believed that the above unlisted equity investments held by the Group have fair value that cannot be reliably measured because 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. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Time deposits with original maturity more than 3 months	\$ <u>340,900</u>	\$ <u>110,000</u>

The market interest rates of the time deposits with original maturity of more than 3 months were 0.64%-1.29% and 1.06%-1.36% per annum as of December 31, 2016 and 2015, respectively.

## 11. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Notes receivable</u>		
Current		
Notes receivable - operating	\$ 116,479	\$ 107,236
Less: Allowance for impairment loss	(250)	(236)
Less: Unrealized interest income	<u>(182)</u>	<u>(24)</u>
	<u>\$ 116,047</u>	<u>\$ 106,976</u>
Non-current		
Notes receivable - operating	\$ 5,000	\$ 4,786
Less: Unrealized interest income	<u>(141)</u>	<u>-</u>
	<u>\$ 4,859</u>	<u>\$ 4,786</u>
<u>Trade receivables</u>		
Current		
Trade receivables	\$ 116,109	\$ 87,467
Less: Allowance for impairment loss	(23,495)	(15,361)
Less: Unrealized interest income	<u>(401)</u>	<u>(318)</u>
	<u>\$ 92,213</u>	<u>\$ 71,788</u>
Non-current		
Trade receivables	\$ 4,927	\$ 2,033
Less: Unrealized interest income	<u>(133)</u>	<u>(24)</u>
	<u>\$ 4,794</u>	<u>\$ 2,009</u>

The average credit period of sales of goods was 90-180 days. Allowance for impairment loss was recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

For the trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable.

The aging of receivables was as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Not past due	\$ 221,590	\$ 184,568
Past due 1-90 days	9,423	10,495
Past due 91-180 days	3,807	268
Past due 181-365 days	420	221
Past due over 365 days	<u>7,275</u>	<u>5,970</u>
	<u>\$ 242,515</u>	<u>\$ 201,522</u>

The above aging schedule was based on the past due days from the end of the credit term.

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Past due 1-90 days	\$ 4,928	\$ 7,914
Past due 91-180 days	<u>-</u>	<u>28</u>
	<u>\$ 4,928</u>	<u>\$ 7,942</u>

The above aging schedule was based on the past due days from the end of the credit term.

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

	<b>Individually Assessed for Impairment</b>	<b>Collectively Assessed for Impairment</b>	<b>Total</b>
Balance at January 1, 2015	\$ 4,909	\$ 5,166	\$ 10,075
Add: Impairment losses recognized on receivables	6,905	-	6,905
Less: Impairment losses reversed	-	(1,025)	(1,025)
Less: Losses written off during the year as uncollectible	(358)	-	(358)
Foreign exchange translation gains and losses	<u>33</u>	<u>(33)</u>	<u>-</u>
Balance at December 31, 2015	11,489	4,108	15,597
Add: Impairment losses recognized on receivables	2,509	10,823	13,332
Less: Impairment losses reversed	(4,436)	(590)	(5,026)
Less: Losses written off during the year as uncollectible	-	(1)	(1)
Foreign exchange translation gains and losses	<u>-</u>	<u>(157)</u>	<u>(157)</u>
Balance at December 31, 2016	<u>\$ 9,562</u>	<u>\$ 14,183</u>	<u>\$ 23,745</u>

At the end of the reporting period, the Group's receivables from sales on installments were as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Current</u>		
Gross amount of receivables	\$ 8,262	\$ 9,554
Unrealized interests revenue	<u>(583)</u>	<u>(342)</u>
	<u>\$ 7,679</u>	<u>\$ 9,212</u>
<u>Non-current</u>		
Gross amount of receivables	\$ 7,901	\$ 2,098
Unrealized interests revenue	<u>(274)</u>	<u>(24)</u>
	<u>\$ 7,627</u>	<u>\$ 2,074</u>

At December 31, 2016, the amounts of the above receivables expected to be recovered during 2017, 2018 and 2019 were \$7,679 thousand, \$6,238 thousand and \$1,389 thousand, respectively.

Refer to Note 31 for details of the factoring agreements for notes receivable.

## 12. FINANCE LEASE RECEIVABLES

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Gross investment in leases</u>		
Not later than 1 year	\$ 6,668	\$ 8,612
Later than 1 year and not later than 5 years	<u>10,238</u>	<u>7,505</u>
	16,906	16,117
Less: Unearned finance income	<u>(1,469)</u>	<u>(1,103)</u>
Present value of minimum lease payments	<u>\$ 15,437</u>	<u>\$ 15,014</u>
<u>Finance lease receivables</u>		
Not later than 1 year	\$ 5,891	\$ 7,974
Later than 1 year and not later than 5 years	<u>9,546</u>	<u>7,040</u>
Finance lease receivables	<u>\$ 15,437</u>	<u>\$ 15,014</u>

The Group entered into finance lease arrangements for certain storage equipment. All leases were denominated in New Taiwan dollars. The average term of finance leases entered into was 2-5 years.

The interest rate inherent in the leases was fixed at the contract date for the entire lease term. The average interest rate inherent in the finance lease was approximately 6.09% and 7.42% per annum as of December 31, 2016 and 2015, respectively.

The finance lease receivables as of December 31, 2016 and 2015 were neither past due nor impaired.



### 13. INVENTORIES

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Medical equipment for beauty treatment	\$ 109,378	\$ 76,145
Medical material and parts for beauty treatment	146,644	165,763
Others	<u>11,307</u>	<u>7,241</u>
	<u>\$ 267,329</u>	<u>\$ 249,149</u>

The cost of inventories recognized as cost of goods sold included inventory write-downs of \$18,331 thousand and \$34,389 thousand for the years ended December 31, 2016 and 2015, respectively.

### 14. SUBSIDIARIES

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

Investor	Investee	Nature of Activities	Proportion of Ownership		Remark
			2016	2015	
The Company	Dynamic Medical Technologies (Hong Kong) Ltd. ("Hong Kong Dynamic", formerly Great China Technology Development Limited)	Retail and wholesale of medical equipment, cosmetic healthcare products, medical herbs and academic training	100.0%	100.0%	-
The Company	Excelsior Beauty Co., Ltd. ("Excelsior Beauty") (Note 1)	Sales of aesthetic medical and cosmetic healthcare products	51.7%	50.1%	In May 2016, the Company acquired 1.6% of the interest of Excelsior Beauty from non-controlling interests; as a result, the Company's ownership increased from 50.1% to 51.7%.
Hong Kong Dynamic	Guangzhou Dynamic Inc. ("Guangzhou Dynamic")	Sales and maintenance of medical equipment	100.0%	100.0%	-
Hong Kong Dynamic	Excelsior Beauty Limited of Hong Kong ("Hong Kong Excelsior Beauty")	Sales of professional weight-loss and cosmetic healthcare products	100.0%	100.0%	-
Hong Kong Dynamic	Beijing Excelsior Beauty Limited ("Beijing Excelsior Beauty")	Sales and maintenance of medical equipment	100.0%	100.0%	-
Excelsior Beauty	Join Fun Co., Ltd. ("Join Fun") (Note 2)	Sales of cosmetic healthcare products	(Note 2)	(Note 2)	In November 2015, Excelsior Beauty disposed of its 32% interest in Join Fun; as a result, Excelsior Beauty's ownership decreased from 51.0% to 19.0%, and Excelsior Beauty lost control of Join Fun.

Note 1: A subsidiary that has material non-controlling interests.

Note 2: The operating profit or loss of the disposed subsidiary for the period from January 1 to the date of disposal was included in the consolidated statement of comprehensive income.

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

Name of Subsidiary	Principal Place of Business	<b>Proportion of Ownership and Voting Rights Held by Non-controlling Interests</b>	
		<b>December 31</b>	
		<b>2016</b>	<b>2015</b>
Excelsior Beauty	New Taipei City	48.3%	49.9%

Name of Subsidiary	Profit (Loss) Allocated to Non-controlling Interests For the Year Ended December 31		Accumulated Non-controlling Interests December 31	
	2016	2015	2016	2015
Excelsior Beauty (excluding non-controlling interests of subsidiaries)	\$ 30,110	\$ 9,102	\$ 146,940	\$ 125,670
Others	<u>-</u>	<u>(403)</u>	<u>-</u>	<u>-</u>
	<u>\$ 30,110</u>	<u>\$ 8,699</u>	<u>\$ 146,940</u>	<u>\$ 125,670</u>

Summarized financial information of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Excelsior Beauty and Excelsior Beauty's subsidiaries:

	December 31	
	2016	2015
Current assets	\$ 279,692	\$ 222,101
Non-current assets	100,842	105,626
Current liabilities	(75,032)	(75,879)
Non-current liabilities	<u>(105)</u>	<u>-</u>
Equity	<u>\$ 305,397</u>	<u>\$ 251,848</u>
Equity attributable to:		
Owners of the Company	\$ 157,768	\$ 126,178
Non-controlling interests of Excelsior Beauty	147,629	125,670
Non-controlling interests of Excelsior Beauty's subsidiaries	<u>-</u>	<u>-</u>
	<u>\$ 305,397</u>	<u>\$ 251,848</u>
	For the Year Ended December 31	
	2016	2015
Revenue	<u>\$ 154,725</u>	<u>\$ 139,053</u>
Profit for the year	\$ 63,417	\$ 17,838
Other comprehensive income for the year	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>\$ 63,417</u>	<u>\$ 17,838</u>
Profit (loss) attributable to:		
Owners of the Company	\$ 32,618	\$ 9,139
Non-controlling interests of Excelsior Beauty	30,799	9,102
Non-controlling interests of Excelsior Beauty's subsidiaries	<u>-</u>	<u>(403)</u>
	<u>\$ 63,417</u>	<u>\$ 17,838</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Total comprehensive income (loss) attributable to:		
Owners of the Company	\$ 32,618	\$ 9,139
Non-controlling interests of Excelsior Beauty	30,799	9,102
Non-controlling interests of Excelsior Beauty's subsidiaries	<u>-</u>	<u>(403)</u>
	<u>\$ 63,417</u>	<u>\$ 17,838</u>
Net cash inflow (outflow) from:		
Operating activities	\$ 70,567	\$ 70,955
Investing activities	(46,209)	(79,600)
Financing activities	<u>(9,867)</u>	<u>-</u>
Net cash inflow (outflow)	<u>\$ 14,491</u>	<u>\$ (8,645)</u>
Dividends paid to non-controlling interests		
Excelsior Beauty	\$ 4,770	\$ -
Excelsior Beauty's subsidiaries	<u>-</u>	<u>-</u>
		(Concluded)

## 15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

### Investments in Associates

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Material associates		
CYJ International Company Limited ("CYJ International")	\$ 121,802	\$ 131,360
Associates that are not individually material	<u>14,169</u>	<u>16,934</u>
	<u>\$ 135,971</u>	<u>\$ 148,294</u>

#### a. Material associates

Name of Associate	Nature of Activities	Principal Place of Business	<b>Proportion of Ownership and Voting Rights</b>	
			<b>December 31</b>	
			<b>2016</b>	<b>2015</b>
CYJ International	Sales of hair treatment, hair regrowth and anti-hair loss products	Hong Kong	50.0%	50.0%

In May 2015, the Group increased its investment in CYJ International by \$76,363 thousand, but the Group's ownership remained at 50.0%.

All the associates are accounted for using the equity method.

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

CYJ International

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Current assets	\$ 218,523	\$ 252,329
Non-current assets	55,611	20,073
Current liabilities	(27,681)	(9,683)
Non-current liabilities	<u>-</u>	<u>-</u>
Equity	246,453	262,719
Non-controlling interests	<u>-</u>	<u>-</u>
	<u>\$ 246,453</u>	<u>\$ 262,719</u>
Proportion of the Group's ownership	50.0%	50.0%
Equity attributable to the Group	\$ 123,227	\$ 131,360
Unrealized gain or loss with associates	<u>(1,425)</u>	<u>-</u>
Carrying amount	<u>\$ 121,802</u>	<u>\$ 131,360</u>
	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Operating revenue	<u>\$ 39,848</u>	<u>\$ 24,799</u>
Net loss for the year	\$ (17,175)	\$ (50,538)
Other comprehensive income (loss) for the year	<u>3,676</u>	<u>(6,113)</u>
Total comprehensive loss for the year	<u>\$ (13,499)</u>	<u>\$ (56,651)</u>
Dividends received from CYJ International	<u>\$ -</u>	<u>\$ -</u>

b. Aggregate information of associates that are not individually material

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
The Group's share of:		
Net loss for the year	\$ (2,765)	\$ (1,066)
Other comprehensive income for the year	<u>-</u>	<u>-</u>
Total comprehensive loss for the year	<u>\$ (2,765)</u>	<u>\$ (1,066)</u>

In 2015, the Group invested \$18,000 thousand (transferred from prepayments for investments) to acquire an associate that is not individually material.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Medical Equipment	Office Equipment	Leasehold Improve- ments	Exhibition Equipment	Lease Equipment	Other Equipment	Property in Construction and Equipment to Be Inspected	Total
<u>Cost</u>								
Balance at January 1, 2015	\$ 15,542	\$ 12,818	\$ 30,257	\$ 109,801	\$ 104,030	\$ 975	\$ -	\$ 273,423
Additions	1,161	764	309	355	545	-	3,248	6,382
Disposals	(1,669)	(5,183)	(776)	(3,554)	(566)	-	-	(11,748)
Transferred to inventories	-	-	-	(15,297)	(30,153)	-	-	(45,450)
Transferred from inventories	-	-	-	9,509	2,431	-	-	11,940
Derecognized on disposal of a subsidiary	-	-	-	(830)	-	-	-	(830)
Reclassification	-	-	2,550	-	-	-	(2,550)	-
Effect of foreign currency exchange differences	-	11	278	54	(8)	-	-	335
Balance at December 31, 2015	<u>\$ 15,034</u>	<u>\$ 8,410</u>	<u>\$ 32,618</u>	<u>\$ 100,038</u>	<u>\$ 76,279</u>	<u>\$ 975</u>	<u>\$ 698</u>	<u>\$ 234,052</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2015	\$ 4,676	\$ 10,256	\$ 12,365	\$ 71,148	\$ 68,197	\$ 671	\$ -	\$ 167,313
Depreciation expense	2,608	1,783	5,422	18,101	12,397	163	-	40,474
Disposals	(992)	(5,183)	(776)	(2,554)	-	-	-	(9,505)
Transferred to inventories	-	-	-	(10,979)	(16,668)	-	-	(27,647)
Derecognized on disposal of a subsidiary	-	-	-	(200)	-	-	-	(200)
Impairment losses reversed	-	-	-	-	(7,318)	-	-	(7,318)
Effect of foreign currency exchange differences	-	(7)	137	159	40	-	-	329
Balance at December 31, 2015	<u>\$ 6,292</u>	<u>\$ 6,849</u>	<u>\$ 17,148</u>	<u>\$ 75,675</u>	<u>\$ 56,648</u>	<u>\$ 834</u>	<u>\$ -</u>	<u>\$ 163,446</u>
Carrying amount at December 31, 2015	<u>\$ 8,742</u>	<u>\$ 1,561</u>	<u>\$ 15,470</u>	<u>\$ 24,363</u>	<u>\$ 19,631</u>	<u>\$ 141</u>	<u>\$ 698</u>	<u>\$ 70,606</u>
<u>Cost</u>								
Balance at January 1, 2016	\$ 15,034	\$ 8,410	\$ 32,618	\$ 100,038	\$ 76,279	\$ 975	\$ 698	\$ 234,052
Additions	3,138	295	311	96	217	-	11,275	15,332
Disposals	(387)	(1,680)	(4,985)	(724)	(2,489)	(975)	-	(11,240)
Transferred to inventories	-	-	-	(18,774)	(13,093)	-	-	(31,867)
Transferred from inventories	-	-	-	16,222	8,246	-	-	24,468
Transferred to financial lease receivables	-	-	-	-	-	-	(9,448)	(9,448)
Reclassification	-	165	2,360	-	-	-	(2,525)	-
Effect of foreign currency exchange differences	-	(230)	(316)	(2,180)	(225)	-	-	(2,951)
Balance at December 31, 2016	<u>\$ 17,785</u>	<u>\$ 6,960</u>	<u>\$ 29,988</u>	<u>\$ 94,678</u>	<u>\$ 68,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,346</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2016	\$ 6,292	\$ 6,849	\$ 17,148	\$ 75,675	\$ 56,648	\$ 834	\$ -	\$ 163,446
Depreciation expense	2,994	1,002	5,773	14,423	7,777	67	-	32,036
Disposals	(101)	(1,258)	(1,473)	(724)	(2,329)	(901)	-	(6,786)
Transferred to inventories	-	-	-	(16,154)	(9,663)	-	-	(25,817)
Impairment losses reversed	-	-	-	-	(1,525)	-	-	(1,525)
Effect of foreign currency exchange differences	-	(207)	(275)	(1,537)	(170)	-	-	(2,189)
Balance at December 31, 2016	<u>\$ 9,185</u>	<u>\$ 6,386</u>	<u>\$ 21,173</u>	<u>\$ 71,683</u>	<u>\$ 50,738</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,165</u>
Carrying amount at December 31, 2016	<u>\$ 8,600</u>	<u>\$ 574</u>	<u>\$ 8,815</u>	<u>\$ 22,995</u>	<u>\$ 18,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,181</u>

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

Medical equipment	3-7 years
Office equipment	2-5 years
Leasehold improvements	2-5 years
Exhibition equipment	2-3 years
Lease equipment	2-7 years
Other equipment	5 years

## 17. OTHER ASSETS

	December 31	
	2016	2015
<u>Current</u>		
Prepayments	\$ 23,089	\$ 50,138
Temporary payments	1,291	750
Others	<u>8,582</u>	<u>3,963</u>
	<u>\$ 32,962</u>	<u>\$ 54,851</u>
<u>Non-current</u>		
Long-term prepayments	<u>\$ 657</u>	<u>\$ 817</u>

## 18. CONVERTIBLE BONDS

	December 31	
	2016	2015
The second domestic secured convertible bonds		
Convertible bonds issued at face value	\$ 300,000	\$ 300,000
Less: Unamortized discount	<u>(5,482)</u>	<u>(10,498)</u>
	294,518	289,502
Less: Current portion	<u>-</u>	<u>-</u>
	<u>\$ 294,518</u>	<u>\$ 289,502</u>

On January 29, 2015, the Company issued the second domestic secured convertible bonds of \$300,000 thousand at face value, with a face interest rate of 0% and a maturity date of January 29, 2018. The bonds are guaranteed by Taiwan Cooperative Bank. The bonds may be converted into ordinary shares of the Company at any time during the period from the day one month after issuance to the day of maturity. The conversion price, which is subject to adjustment according to an agreed formula, was initially NT\$73.5 per share; the conversion price was adjusted to NT\$66.11 per share on August 8, 2016 according to an agreed formula. From the day one month after issuance to the day forty days before maturity, the Company may redeem all of the bonds at face value, provided that the average closing price exceeds the then conversion price by 30% or more for 30 consecutive trading days or the total amount of the outstanding bonds is less than 10% of the total amount of the bonds initial issue. Other than in the case of conversion or redemption mentioned above, the Company shall redeem the bonds by cash on their maturity. As of December 31, 2016, no bondholder had exercised rights to convert bonds.

The second convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - option. The effective interest rate of the liability component was 1.71% per annum on initial recognition.

Proceeds from issue (less transaction costs of \$4,300 thousand)	\$ 295,700
Equity component (less transaction costs allocated to the equity component of \$166 thousand and related tax effect of \$28 thousand)	(11,472)
Deferred tax assets	<u>731</u>
Liability component at the date of issue (less transaction costs allocated to the liability component of \$4,134 thousand and related tax effect of \$703 thousand)	284,959
Interest charged at an effective interest rate of 1.71%	<u>4,543</u>
Liability component at December 31, 2015	289,502
Interest charged at an effective interest rate of 1.71%	<u>5,016</u>
Liability component at December 31, 2016	<u>\$ 294,518</u>

## 19. NOTES PAYABLE AND TRADE PAYABLES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Notes payable</u>		
Notes receivable - operating	<u>\$ -</u>	<u>\$ 353</u>
<u>Trade payables</u>		
Trade payables	<u>\$ 44,865</u>	<u>\$ 18,534</u>

The average credit period of purchases of certain goods was 3 months. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 20. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Current</u>		
Other payables		
Payable for salaries or bonus	\$ 103,990	\$ 89,017
Payable for annual leave	3,512	2,283
Payable for remuneration to directors	5,170	5,803
Payable for employees' compensation or bonus to employees	15,363	12,250
Others	<u>20,219</u>	<u>13,967</u>
	<u>\$ 148,254</u>	<u>\$ 123,320</u>
Other liabilities		
Receipts under custody	\$ 1,253	\$ 1,548
Temporary receipts	<u>678</u>	<u>903</u>
	<u>\$ 1,931</u>	<u>\$ 2,451</u>

## 21. PROVISIONS

		December 31	
		2016	2015
<u>Current</u>			
Warranties (a)		\$ 10,516	\$ 13,674
Sales discounts (b)		<u>-</u>	<u>2,968</u>
		<u>\$ 10,516</u>	<u>\$ 16,642</u>
<u>Non-current</u>			
Warranties (a)		<u>\$ 3,555</u>	<u>\$ 3,948</u>
	<b>Warranties</b>	<b>Sales Discounts</b>	<b>Total</b>
Balance at January 1, 2015	\$ 20,672	\$ 778	\$ 21,450
Additional provisions recognized	20,142	2,568	22,710
Reversing un-usage balances	(23,228)	-	(23,228)
Derecognized on disposal of a subsidiary	-	(378)	(378)
Effect of foreign currency exchange differences	<u>36</u>	<u>-</u>	<u>36</u>
Balance at December 31, 2015	17,622	2,968	20,590
Additional provisions recognized	14,821	-	14,821
Reversing un-usage balances	(18,275)	(2,968)	(21,243)
Effect of foreign currency exchange differences	<u>(97)</u>	<u>-</u>	<u>(97)</u>
Balance at December 31, 2016	<u>\$ 14,071</u>	<u>\$ -</u>	<u>\$ 14,071</u>

- a. The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of other events affecting product quality.
- b. The provision of sales returns and discounts was based on historical experience, management's judgments and other known reasons estimated product discounts may occur in the year. The provision was recognized as a reduction of operating income in the periods of the related goods sold.

## 22. RETIREMENT BENEFIT PLANS

- a. Defined contribution plans

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



b. Defined benefit plans

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

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Present value of funded defined benefit obligation	\$ 2,507	\$ 2,556
Fair value of plan assets	<u>(4,369)</u>	<u>(4,082)</u>
Net defined benefit liabilities (assets)	<u>\$ (1,862)</u>	<u>\$ (1,526)</u>

Movements in net defined benefit liabilities (assets) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities (Assets)</b>
Balance at January 1, 2015	\$ 2,565	\$ (3,929)	\$ (1,364)
Service cost			
Current service cost	-	-	-
Net interest expense (income)	<u>52</u>	<u>(84)</u>	<u>(32)</u>
Recognized in profit or loss	<u>52</u>	<u>(84)</u>	<u>(32)</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(17)	(17)
Actuarial (gain) loss - changes in demographic assumptions	48	-	48
Actuarial (gain) loss - changes in financial assumptions	245	-	245
Actuarial (gain) loss - experience adjustments	<u>(93)</u>	<u>-</u>	<u>(93)</u>
Recognized in other comprehensive income	<u>200</u>	<u>(17)</u>	<u>183</u>
Contributions from the employer	<u>-</u>	<u>(313)</u>	<u>(313)</u>
Benefits paid	<u>(261)</u>	<u>261</u>	<u>-</u>
Balance at December 31, 2015	<u>2,556</u>	<u>(4,082)</u>	<u>(1,526)</u>
Service cost			
Current service cost	-	-	-
Net interest expense (income)	<u>45</u>	<u>(73)</u>	<u>(28)</u>
Recognized in profit or loss	<u>45</u>	<u>(73)</u>	<u>(28)</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities (Assets)</b>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ 44	\$ 44
Actuarial (gain) loss - changes in demographic assumptions	28	-	28
Actuarial (gain) loss - changes in financial assumptions	140	-	140
Actuarial (gain) loss - experience adjustments	(262)	-	(262)
Recognized in other comprehensive income	(94)	44	(50)
Contributions from the employer	-	(258)	(258)
Balance at December 31, 2016	<u>\$ 2,507</u>	<u>\$ (4,369)</u>	<u>\$ (1,862)</u> (Concluded)

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

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

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Discount rates	1.375%	1.750%
Expected rates of salary increase	4.250%	4.250%

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Discount rates		
0.25% increase	\$ (94)	\$ (101)
0.25% decrease	\$ 98	\$ 107
Expected rates of salary increase		
0.25% increase	\$ 94	\$ 102
0.25% decrease	\$ (90)	\$ (98)

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.

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
The expected contributions to the plan for the next year	\$ 257	\$ 256
The average duration of the defined benefit obligation	17 years	18 years

## 23. EQUITY

### Share Capital - Ordinary Shares

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Number of shares authorized (in thousands)	50,000	50,000
Shares authorized	\$ 500,000	\$ 500,000
Number of shares issued and fully paid (in thousands)	30,000	30,000
Shares issued	\$ 300,000	\$ 300,000

On November 6, 2014, the Company's board of directors resolved to issue 3,500 thousand ordinary shares, with a par value of NT\$10, for consideration of NT\$60 per share, which increase the share capital issued to \$300,000 thousand. On December 8, 2014, the above transaction was approved by the FSC, and the subscription base date was January 16, 2015 as determined by the board of directors.

## Capital Surplus

	December 31	
	2016	2015
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (a)		
Arising from issuance of ordinary shares	\$ 575,878	\$ 575,878
May be used only to offset a deficit		
Arising from changes in percentage of ownership interest in subsidiaries (b)	8,477	8,477
Others	30,115	30,115
May not be used for any purpose		
Arising from share warrants	11,472	11,472
	<u>\$ 625,942</u>	<u>\$ 625,942</u>

- a. 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).
- b. Such capital surplus arises from the effect of changes in ownership interest in a subsidiary resulted from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for by using equity method.

## Retained Earnings and Dividend Policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 7, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation and remuneration of directors.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for offsetting losses of previous years (including the adjustment to retained earnings), setting aside as legal reserve 10% of the remaining profit (appropriation of earnings to the legal reserve would not be made if the legal reserve equals the Company's paid-in capital), setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings (including the adjustment to retained earnings) shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors before and after amendment, please refer to f. employee benefits expense in Note 24.

The Company's Articles of Incorporation also stipulate a dividend policy as follows: According to the development plan for the present and the future, the investment environment, the capital requirement, the domestic and overseas competition, and the benefit of shareholders, the Company should distribute dividends and bonus to shareholders not less than 20% of remaining profit (which is the current net profit less losses of previous years, less the adjustment to retained earnings, and less the appropriation of earnings to the legal reserve). Dividends could be distributed in cash or stock, where cash dividends should not be less than 20% of total dividends distributed; or dividends could be totally distributed in stock upon shareholders' resolution in their meeting to support future capital expenditure plan.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The 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.

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

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

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 7, 2016 and June 18, 2015, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Legal reserve	\$ 12,084	\$ 10,649		
Cash dividends	108,900	105,000	\$ 3.63	\$ 3.50

The appropriations of earnings for 2016 had been proposed by the Company's board of directors on March 9, 2017. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 11,845	
Cash dividends	106,800	\$3.56

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

### **Other Equity Items**

- a. Exchange differences on translating the financial statements of foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ 24,451	\$ 17,762
Exchange differences arising on translating the financial statements of the foreign operations	(9,821)	8,059
Related income tax	<u>1,669</u>	<u>(1,370)</u>
Balance at December 31	<u>\$ 16,299</u>	<u>\$ 24,451</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ 75,799	\$ 112,251
Unrealized loss arising on revaluation of available-for-sale financial assets	(29,534)	(11,726)
Related income tax	3,806	(7,904)
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	<u>-</u>	<u>(16,822)</u>
Balance at December 31	<u>\$ 50,071</u>	<u>\$ 75,799</u>

**Non-controlling Interests**

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ 125,670	\$ 121,308
Attributable to non-controlling interests:		
Share of profit for the year	30,110	8,699
Acquisition of non-controlling interests in subsidiaries	(4,070)	-
Cash dividends of subsidiaries distributed to non-controlling interests	(4,770)	-
Decrease in non-controlling interests due to disposal of a subsidiary	<u>-</u>	<u>(4,337)</u>
Balance at December 31	<u>\$ 146,940</u>	<u>\$ 125,670</u>

**24. NET PROFIT**

The following items were included in net profit:

a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Interest income		
Bank deposits	\$ 4,142	\$ 2,562
Receivables	<u>1,856</u>	<u>2,622</u>
	5,998	5,184
Dividends	1,142	-
Others	<u>372</u>	<u>373</u>
	<u>\$ 7,512</u>	<u>\$ 5,557</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Gain on disposal of property, plant and equipment	\$ 4,184	\$ 132
Gain on disposal of available-for-sale financial assets	-	16,822
Gain on disposal of a subsidiary	-	368
Net foreign exchange gains (losses)	(3,512)	9,971
Loss on financial assets and liabilities at fair value through profit or loss	(814)	-
Others	<u>(2,748)</u>	<u>(1,351)</u>
	<u><b>(\$ 2,890)</b></u>	<u><b>\$ 25,942</b></u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Interest on convertible bonds	<u>\$ 5,016</u>	<u>\$ 4,543</u>

d. Impairment losses recognized (reversed) on financial assets

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Notes receivable	\$ 14	\$ (162)
Trade receivables	<u>8,292</u>	<u>6,042</u>
	<u><b>\$ 8,306</b></u>	<u><b>\$ 5,880</b></u>

e. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Property, plant and equipment	\$ 32,036	\$ 40,474
Others	<u>1,502</u>	<u>3,157</u>
	<u><b>\$ 33,538</b></u>	<u><b>\$ 43,631</b></u>
An analysis of depreciation by function		
Operating costs	\$ 17,112	\$ 19,939
Operating expenses	<u>14,924</u>	<u>20,535</u>
	<u><b>\$ 32,036</b></u>	<u><b>\$ 40,474</b></u>
An analysis of amortization by function		
Operating costs	\$ 458	\$ 630
Operating expenses	<u>1,044</u>	<u>2,527</u>
	<u><b>\$ 1,502</b></u>	<u><b>\$ 3,157</b></u>

f. Employee benefit expense

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Post-employment benefits		
Defined contribution plans	\$ 3,931	\$ 5,284
Defined benefit plans (Note 22)	<u>(28)</u>	<u>(32)</u>
	3,903	5,252
Termination benefits	563	1,305
Other employee benefits	<u>145,865</u>	<u>178,324</u>
Total employee benefit expense	<u>\$ 150,331</u>	<u>\$ 184,881</u>
An analysis of employee benefit expense by function		
Operating costs	\$ 38,534	\$ 41,862
Operating expenses	<u>111,797</u>	<u>143,019</u>
	<u>\$ 150,331</u>	<u>\$ 184,881</u>

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

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on June 7, 2016, the Company accrued employees' compensation and remuneration of directors at the rates no less than 1% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 9, 2017 and March 10, 2016, respectively, were as follows:

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Employees' compensation	4.15%	4.15%
Remuneration of directors	3.46%	3.46%

Amount

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 6,201	\$ 6,347
Remuneration of directors	5,170	5,291

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

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



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

2) Bonus to employees and remuneration of directors for 2014

The bonus to employees and remuneration of directors for 2014 which have been approved in the shareholders' meeting on June 18, 2015 were as follows:

	<b>For the Year Ended December 31, 2014</b>
	<b>Cash</b>
Bonus to employees	\$ 5,751
Remuneration of directors	4,792

There was no difference between the amounts of the bonus to employees and the remuneration of directors approved in the shareholders' meeting on June 18, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

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

g. Gain or loss on foreign currency exchange

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Foreign exchange gains	\$ 4,567	\$ 17,928
Foreign exchange losses	<u>(8,079)</u>	<u>(7,957)</u>
	<u>\$ (3,512)</u>	<u>\$ 9,971</u>

h. Impairment losses recognized (reversed) on non-financial assets

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Property, plant and equipment (included in operating costs)	<u>\$ (1,525)</u>	<u>\$ (7,318)</u>
Inventories (included in operating costs)	<u>\$ 18,331</u>	<u>\$ 34,389</u>

## 25. INCOME TAXES

### a. Major components of tax expense (benefit) recognized in profit or loss

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Current tax		
In respect of the current year	\$ 38,742	\$ 36,292
Income tax on unappropriated earnings	9	-
Adjustments for prior years	<u>1,654</u>	<u>(335)</u>
	<u>40,405</u>	<u>35,957</u>
Deferred tax		
In respect of the current year	<u>(6,034)</u>	<u>(7,888)</u>
Income tax expense recognized in profit or loss	<u>\$ 34,371</u>	<u>\$ 28,069</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Profit before tax	<u>\$ 182,935</u>	<u>\$ 157,607</u>
Income tax expense calculated at the statutory rate	\$ 31,722	\$ 26,768
Nondeductible expenses in determining taxable income	4,595	2,530
Tax-exempt income	(4,907)	(3,773)
Unrecognized loss carryforwards	259	3,096
Unrecognized deductible temporary differences	1,039	(217)
Income tax on unappropriated earnings	9	-
Adjustments for prior years' tax	<u>1,654</u>	<u>(335)</u>
Income tax expense recognized in profit or loss	<u>\$ 34,371</u>	<u>\$ 28,069</u>

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

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

### b. Income tax recognized directly in equity

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Deferred tax		
Equity component of convertible bonds	<u>\$ -</u>	<u>\$ (28)</u>
Total income tax benefit recognized directly in equity	<u>\$ -</u>	<u>\$ (28)</u>

c. Income tax recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Deferred tax</u>		
In respect of the current year		
Translation of foreign operations	\$ (1,669)	\$ 1,370
Unrealized gain or loss on available-for-sale financial assets	(3,806)	7,904
Remeasurement on defined benefit plan	<u>9</u>	<u>(31)</u>
Total income tax expense (benefit) recognized in other comprehensive income	<u>\$ (5,466)</u>	<u>\$ 9,243</u>

d. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Current tax assets		
Tax refund receivable (included in other current assets)	<u>\$ 7,758</u>	<u>\$ 3,663</u>
Current tax liabilities		
Income tax payable	<u>\$ 23,592</u>	<u>\$ 19,505</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

<b>Deferred Tax Assets</b>	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Recognized Directly in Equity</b>	<b>Others</b>	<b>Closing Balance</b>
Temporary differences						
Allowance for impaired receivables	\$ 1,892	\$ 1,424	\$ -	\$ -	\$ -	\$ 3,316
Inventory write-downs	9,443	536	-	-	-	9,979
Provision for warranties	2,775	(684)	-	-	-	2,091
Payable for bonus	11,474	3,184	-	-	-	14,658
Unrealized gain on sales	1,917	(1,272)	-	-	-	645
Impairment loss on properties for lease	2,348	(358)	-	-	-	1,990
Recognition of foreign investment loss using equity method	6,657	3,836	-	-	-	10,493
Difference in depreciation of property, plant and equipment	3,348	(430)	-	-	-	2,918
Others	<u>914</u>	<u>501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,415</u>
	40,768	6,737	-	-	-	47,505
Tax losses	<u>-</u>	<u>206</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206</u>
	<u>\$ 40,768</u>	<u>\$ 6,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,711</u>

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Others	Closing Balance
Temporary differences						
Exchange difference on foreign operations	\$ 5,009	\$ -	\$ (1,669)	\$ -	\$ -	\$ 3,340
Unrealized gain on available-for-sale financial assets	7,904	-	(3,806)	-	-	4,098
Defined benefit obligation	254	50	9	-	-	313
Others	-	859	-	-	-	859
	<u>\$ 13,167</u>	<u>\$ 909</u>	<u>\$ (5,466)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,610</u>

For the year ended December 31, 2015

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Others	Closing Balance
Temporary differences						
Allowance for impaired receivables	\$ 1,057	\$ 835	\$ -	\$ -	\$ -	\$ 1,892
Inventory write-downs	5,861	3,582	-	-	-	9,443
Provision for warranties	3,156	(381)	-	-	-	2,775
Payable for bonus	8,757	2,717	-	-	-	11,474
Unrealized gain on sales	2,193	(276)	-	-	-	1,917
Impairment loss on properties for lease	3,592	(1,244)	-	-	-	2,348
Recognition of foreign investment loss using equity method	2,757	3,900	-	-	-	6,657
Difference in depreciation of property, plant and equipment	3,993	(645)	-	-	-	3,348
Others	737	(554)	-	28	703	914
	<u>\$ 32,103</u>	<u>\$ 7,934</u>	<u>\$ -</u>	<u>\$ 28</u>	<u>\$ 703</u>	<u>\$ 40,768</u>

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Others	Closing Balance
Temporary differences						
Exchange difference on foreign operations	\$ 3,639	\$ -	\$ 1,370	\$ -	\$ -	\$ 5,009
Unrealized gain on available-for-sale financial assets	-	-	7,904	-	-	7,904
Defined benefit obligation	239	46	(31)	-	-	254
	<u>\$ 3,878</u>	<u>\$ 46</u>	<u>\$ 9,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,167</u>

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Loss carryforwards		
Expiry in 2017	\$ 7,407	\$ 6,891
Expiry in 2019	5,693	5,745
Expiry in 2020	9,901	16,516
Expiry in 2021	920	-
No expiration date	<u>20,791</u>	<u>18,333</u>
	<u>\$ 44,712</u>	<u>\$ 47,485</u>
Deductible temporary differences	<u>\$ 7,813</u>	<u>\$ 3,878</u>

- g. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2016 comprised of:

<b>Unused Amount</b>	<b>Expiry Year</b>
\$ 7,407	2017
5,693	2019
9,901	2020
920	2021
<u>22,042</u>	No expiration date
<u>\$ 45,963</u>	

- h. Integrated income tax

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Unappropriated earnings of the Company		
Generated on and after January 1, 1998	<u>\$ 166,795</u>	<u>\$ 171,514</u>
Imputation credits account of the Company	<u>\$ 28,799</u>	<u>\$ 35,360</u>

The creditable ratio for distribution of earnings of 2016 and 2015 was 24.89% (expected ratio) and 28.68%, respectively; however, effective from January 1, 2015, the creditable ratio for individual ROC resident shareholders will be half of the original creditable ratio according to the revised Article 66-6 of the Income Tax Law.

- i. Income tax assessments

The Company's and Excelsior Beauty's income tax returns through 2014 have been assessed by the tax authority.

## 26. EARNINGS PER SHARE

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

### Net Profit for the Year

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Earnings used in computation of basic earnings per share	\$ 118,454	\$ 120,839
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	<u>5,016</u>	<u>4,543</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 123,470</u>	<u>\$ 125,382</u>

### Weighted Average Number of Ordinary Shares Outstanding

(In Thousand Shares)

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Weighted average number of ordinary shares in computation of basic earnings per share	30,000	29,856
Effect to potentially dilutive ordinary shares:		
Convertible bonds	4,538	3,959
Employees' compensation	<u>142</u>	<u>139</u>
Weighted average number of ordinary shares in computation of dilutive earnings per share	<u>34,680</u>	<u>33,954</u>

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

## 27. DISPOSAL OF A SUBSIDIARY

On November 30, 2015, the Group disposed of 32.0% interest in Join Fun; as a result, the Group's interest decreased from 51.0% to 19.0%, and control over Join Fun was lost.

### a. Considerations received from the disposal

	<b>Join Fun</b>
Consideration received in cash and cash equivalents	<u>\$ 3,200</u>

b. Analysis of asset and liabilities on the date control was lost

	<b>Join Fun</b>
Current assets	
Cash and cash equivalents	\$ 2,493
Notes receivable	2,418
Trade receivables	1,241
Inventories	4,561
Other current assets	217
Non-current assets	
Property, plant and equipment	630
Refundable deposits	19
Current liabilities	
Trade payables	(1,508)
Other payables	(820)
Other current liabilities	<u>(400)</u>
Net assets disposed of	<u>\$ 8,851</u>

c. Gain on disposal of subsidiary

	<b>Join Fun</b>
Consideration received	\$ 3,200
Net assets disposed of	(8,851)
Non-controlling interests	4,337
Fair value of investment retained	<u>1,682</u>
Gain on disposal	<u>\$ 368</u>

d. Net cash inflow on disposal of subsidiary

	<b>Join Fun</b>
Consideration received in cash and cash equivalents	\$ 3,200
Less: Cash and cash equivalent balances disposed of	<u>2,493</u>
	<u>\$ 707</u>

## 28. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In May 2016, the Group acquired 1.6% of the interest of Excelsior Beauty from non-controlling interests; as a result, the Group's ownership increased from 50.1% to 51.7%.

The above transaction was accounted for as an equity transaction, since the Group did not cease to have control over the subsidiary.

	<b>Excelsior Beauty</b>
Cash consideration paid	\$ (6,300)
The proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	<u>4,070</u>
Differences recognized from equity transaction	<u>\$ (2,230)</u>
<u>Line item adjusted for the equity transaction</u>	
Retained earnings	<u>\$ (2,230)</u>

## 29. OPERATING LEASE ARRANGEMENTS

### a. The Group as lessee

Operating leases relate to leases and subleases of building with lease terms between 1 and 14 years.

The future minimum lease payments for non-cancellable operating lease commitments are as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Not later than 1 year	\$ 27,819	\$ 31,988
Later than 1 year and not later than 5 years	34,567	45,297
Later than 5 years	<u>27,268</u>	<u>9,920</u>
	<u>\$ 89,654</u>	<u>\$ 87,205</u>

The total of future minimum sublease payments expected to be received under non-cancellable subleases at December 31, 2016 and 2015 were \$72,008 thousand and \$43,446 thousand, respectively.

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Minimum lease payment	<u>\$ 37,569</u>	<u>\$ 36,429</u>

### b. The Group as lessor

Operating leases relate to leasing of medical equipment for beauty treatment and subleasing building with lease terms between 1 and 10 years.



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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Not later than 1 year	\$ 13,402	\$ 14,695
Later than 1 year and not later than 5 years	58,563	27,585
Later than 5 years	<u>12,348</u>	<u>3,998</u>
	<u>\$ 84,313</u>	<u>\$ 46,278</u>

In addition to the minimum lease payment receivable, the above building sublease contract also included contingent rental clauses that the lessee should pay contingent rentals based on a specific percentage of monthly operating revenue.

### 30. CAPITAL MANAGEMENT

Key management personnel of the Group regularly review the capital structure. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. In order to balance the overall capital structure and ensure that financial resources are available for working capital and capital expenditures, the Group may adjust the amount of dividends paid to shareholders, the amount of new shares issued, and the amount of new debt issued or existing debt redeemed.

### 31. FINANCIAL INSTRUMENTS

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

#### December 31, 2016

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial liabilities</u>					
Financial liabilities measured at amortized cost					
Convertible bonds	\$ 294,518	\$ -	\$ 297,660	\$ -	\$ 297,660

#### December 31, 2015

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial liabilities</u>					
Financial liabilities measured at amortized cost					
Convertible bonds	\$ 289,502	\$ -	\$ 293,730	\$ -	\$ 293,730

The fair values of the financial liabilities included in the Level 2 category above have been determined in accordance with income approach based on a discounted cash flow analysis.

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

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	\$ -	\$ -	\$ 716	\$ 716
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	\$ 63,669	\$ -	\$ -	\$ 63,669
Securities listed in other countries				
Equity securities	76,504	-	-	76,504
	<u>\$ 140,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,173</u>

December 31, 2015

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	\$ 70,806	\$ -	\$ -	\$ 70,806
Securities listed in other countries				
Equity securities	98,901	-	-	98,901
	<u>\$ 169,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,707</u>

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

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2016

	Financial Assets at Fair Value Through Profit or Loss Derivatives
<u>Financial assets</u>	
Balance at January 1, 2016	\$ -
Recognized in profit or loss (included in other gains and losses)	
Unrealized	(814)
Purchases	1,530
Balance at December 31, 2016	<u>\$ 716</u>

3) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of warrants are determined using option pricing models where the significant unobservable input is historical volatility. An increase in the historical volatility used in isolation would result in an increase in the fair value. As of December 31, 2016, the historical volatility used was 23.69%.

c. Categories of financial instruments

	December 31	
	2016	2015
<u>Financial assets</u>		
Loans and receivables (1)	\$ 1,580,341	\$ 1,427,522
Available-for-sale financial assets (2)	141,855	171,389
<u>Financial liabilities</u>		
Amortized cost (3)	339,642	311,828

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

d. Financial risk management objectives and policies

The Group's major financial instruments included cash and cash equivalents, equity and debt investments, notes receivable, trade receivables, trade payables and bonds payable. The Group's Finance division provides services to the business, monitors and manages the financial risks relating to the operations of the Group through the analysis of exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 35.

Sensitivity analysis

The Group was mainly exposed to USD.

The following table details the Group's sensitivity to a 1% increase and decrease in the respective functional currencies against USD. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period under the assumption of a 1% change in foreign currency rates. The amount below indicates an increase (decrease) in pre-tax profit when the respective functional currencies weakened by 1% against USD. For a 1% strengthening of the respective functional currencies against USD, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	<b>USD Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Profit or loss	\$ 1,494 *	\$ 1,713 *

\* This was mainly attributable to the exposure to outstanding USD bank deposits, trade receivables and trade payables, which were not hedged at the end of the reporting period.

The Group's sensitivity to foreign currency decreased during the current year mainly due to the decrease in USD bank deposits.

b) Interest rate risk

The Group was exposed to interest rate risk because the Group borrowed funds at fixed interest rates. The Group pays attention to changes in market interest rates in order to make plans to manage interest rate risk.

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Fair value interest rate risk		
Financial assets	\$ 551,337	\$ 242,100
Financial liabilities	294,518	289,502

c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities. The Group has appointed a special team to monitor and evaluate the price risk.

Sensitivity analysis

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

If equity price had been 1% higher/lower, the Group's pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would increase/decrease by \$1,402 thousand and \$1,697 thousand, respectively, as a result of the changes in fair values of available-for-sale financial assets.

The Group's sensitivity to equity prices decreased during the current year mainly due to the decrease in the fair values of available-for-sale financial assets.

## 2) Credit risk

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

In order to minimize credit risk, the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

## 3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Group had unused short-term bank loan facilities amounting to \$283,629 thousand and \$361,580 thousand, respectively.

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows.

#### December 31, 2016

	On Demand or Less than 1 Month	1-3 Months	3-6 Months	6 Months to 1 Year	1-2 Years	2+ Years
<u>Non-derivative financial liabilities</u>						
Non-interest bearing	\$ 37,626	\$ 5,672	\$ 1,659	\$ -	\$ -	\$ 167
Fixed interest rate liabilities	-	-	-	-	300,000	-
	<u>\$ 37,626</u>	<u>\$ 5,672</u>	<u>\$ 1,659</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 167</u>

#### December 31, 2015

	On Demand or Less than 1 Month	1-3 Months	3-6 Months	6 Months to 1 Year	1-2 Years	2+ Years
<u>Non-derivative financial liabilities</u>						
Non-interest bearing	\$ 8,989	\$ 10,989	\$ 1,218	\$ 443	\$ 505	\$ 182
Fixed interest rate liabilities	-	-	-	-	-	300,000
	<u>\$ 8,989</u>	<u>\$ 10,989</u>	<u>\$ 1,218</u>	<u>\$ 443</u>	<u>\$ 505</u>	<u>\$ 300,182</u>

e. Transfers of financial assets

Factored notes receivable that were not past due as of December 31, 2016 and 2015 were as follows:

Counterparties	Receivables Sold	Amounts Derecognized	Credit Line	Advances Received	Interest Rates on Advances Received
<u>December 31, 2016</u>					
Hotai Finance Co., Ltd.	<u>\$ 1,250</u>	<u>\$ 1,250</u>	<u>\$ 30,000</u>	<u>\$ 1,250</u>	6.00%-7.75%
<u>December 31, 2015</u>					
Hotai Finance Co., Ltd.	<u>\$ 2,645</u>	<u>\$ 2,645</u>	<u>\$ 30,000</u>	<u>\$ 2,645</u>	6.00%-7.75%

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

Pursuant to the Group's factoring agreements, losses from commercial disputes (such as sales returns and discounts) were borne by the Group, while losses from credit risk were borne by the counterparties.

### 32. TRANSACTIONS WITH RELATED PARTIES

The Company's parent is Excelsior Medical Co., Ltd., which held 38.5% of ordinary shares of the Company as of December 31, 2016 and 2015.

Balances and transactions between the Company and subsidiaries, which were related parties of the Company, had been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties were disclosed below.

a. Operating revenue

Line Items	Related Party Categories	For the Year Ended December 31	
		2016	2015
Sales	Parent entity	\$ -	\$ 96
	Fellow subsidiaries	5,120	1,540
	Associates of parent entity	-	5
	Directors of fellow subsidiaries	-	6
	Associates	504	-
	Subsidiaries of associates	330	190
	Others	-	1
Other operating revenue	Fellow subsidiaries	171	-
	Subsidiaries of associates	<u>2,910</u>	<u>1,488</u>
		<u>\$ 9,035</u>	<u>\$ 3,326</u>

b. Purchases of goods

Related Party Categories	For the Year Ended December 31	
	2016	2015
Parent entity	\$ 17	\$ 40
Fellow subsidiaries	-	25
Associates of parent entity	96	71
Parent entity as one of its directors	57	58
Associates	703	819
Subsidiaries of associates	<u>4,921</u>	<u>3,872</u>
	<u>\$ 5,794</u>	<u>\$ 4,885</u>

c. Receivables from related parties

Line Items	Related Party Categories	December 31	
		2016	2015
Trade receivables from related parties	Fellow subsidiaries	\$ 948	\$ 1,088
	Subsidiaries of associates	1,723	-
Other receivables from related parties	Fellow subsidiaries	-	363
	Associates	731	209
	Subsidiaries of associates	<u>6,732</u>	<u>184</u>
		<u>\$ 10,134</u>	<u>\$ 1,844</u>

d. Payables to related parties

Line Items	Related Party Categories	December 31	
		2016	2015
Trade payables to related parties	Parent entity	\$ 5	\$ 20
	Fellow subsidiaries	-	12
	Associates of parent entity	30	13
	Associates	-	813
	Parent entity as one of its directors	30	-
	Subsidiaries of associates	27	2,399
Other payables to related parties	Parent entity	137	412
	Fellow subsidiaries	-	29
	Joint ventures of parent entity	5	-
	Associates	879	-
	Subsidiaries of associates	<u>9,802</u>	<u>83</u>
		<u>\$ 10,915</u>	<u>\$ 3,781</u>

e. Prepayments (included in other current assets)

Related Party Categories	December 31	
	2016	2015
Parent entity	<u>\$ 60</u>	<u>\$ 107</u>

f. Property, plant and equipment disposal

Related Party Categories	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2016	2015	2016	2015
Subsidiaries of associates	\$ 6,096	\$ -	\$ 1,896	\$ -

g. Other transactions with related parties

Line Items	Related Party Categories	For the Year Ended December 31	
		2016	2015
Rental expenses (included in other operating cost)	Parent entity	\$ 555	\$ 2,825
	Joint ventures of parent entity	2,404	-
		<u>\$ 2,959</u>	<u>\$ 2,825</u>
Rental revenue	Subsidiaries of associates	<u>\$ 372</u>	<u>\$ 372</u>
Other income	Fellow subsidiaries	\$ -	\$ 653
	Associates	-	521
	Subsidiaries of associates	<u>3,924</u>	<u>-</u>
		<u>\$ 3,924</u>	<u>\$ 1,174</u>
Rental expenses (included in operating expenses)	Parent entity	\$ 720	\$ 855
	Fellow subsidiaries	<u>355</u>	<u>60</u>
		<u>\$ 1,075</u>	<u>\$ 915</u>
Service expenses	Parent entity	<u>\$ 2,038</u>	<u>\$ 1,275</u>
Other expenses	Parent entity	\$ 355	\$ 792
	Fellow subsidiaries	-	28
	Associates	12	-
	Subsidiaries of associates	<u>-</u>	<u>23</u>
		<u>\$ 367</u>	<u>\$ 843</u>

The aforementioned transactions were conducted on normal commercial terms

The aforementioned rentals collected or paid quarterly or monthly were based on prevailing market rates.

The outstanding receivables from related parties are unsecured. For the years ended December 31, 2016 and 2015, no impairment loss was recognized for receivables from related parties.

The outstanding payables to related parties are unsecured.



h. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Short-term employee benefits	\$ 24,195	\$ 25,916
Post-employment benefits	<u>263</u>	<u>307</u>
	<u>\$ 24,458</u>	<u>\$ 26,223</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

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

The following assets were provided as collateral for bank letter of guarantees and credit card document receiving service:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Pledged time deposits (included in other financial assets - non-current)	<u>\$ 16,000</u>	<u>\$ 6,000</u>

### 34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

The Group's unused letters of credit were approximately \$16,800 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 Group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 3,683	32.25 (USD:NTD)	\$ 118,761
USD	1,285	7.756 (USD:HKD)	41,279
USD	946	6.937 (USD:RMB)	30,182
RMB	3,983	1.11 (RMB:HKD)	18,516

(Continued)

	Foreign Currencies	Exchange Rate	Carrying Amount
EUR	\$ 1,084	33.90 (EUR:NTD)	\$ 36,754
JPY	50,000	0.276 (JPY:NTD)	<u>13,780</u>
			<u>\$ 259,272</u>
Non-monetary items			
USD	22	7.756 (USD:HKD)	\$ 716
KRW	2,832,450	0.027 (KRW:NTD)	<u>76,504</u>
			<u>\$ 77,220</u>
<u>Financial liabilities</u>			
Monetary items			
USD	628	32.25 (USD:NTD)	\$ 20,264
USD	609	7.76 (USD:HKD)	19,640
USD	30	6.473-6.937 (USD:RMB)	953
EUR	61	33.90 (EUR:NTD)	<u>2,061</u>
			<u>\$ 42,918</u>
			(Concluded)

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 3,193	32.576-32.825 (USD:NTD)	\$ 104,817
USD	2,434	7.751 (USD:HKD)	79,885
USD	945	6.494 (USD:RMB)	30,553
RMB	272	4.995 (RMB:NTD)	1,360
RMB	3,003	1.194 (RMB:HKD)	15,182
EUR	56	35.88-36.08 (EUR:NTD)	<u>1,999</u>
			<u>\$ 233,796</u>
Non-monetary items			
KRW	3,519,000	0.028 (KRW:NTD)	<u>\$ 98,901</u>

Financial liabilities

Monetary items			
USD	50	32.825 (USD:NTD)	\$ 1,648
USD	1,266	7.74 (USD:HKD)	41,502
USD	25	6.494 (USD:RMB)	798
EUR	42	35.88 (EUR:NTD)	<u>1,493</u>
			<u>\$ 45,441</u>

The Group is mainly exposed to USD. The following information was aggregated by the functional currencies of the Group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant realized and unrealized foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
Foreign Currencies	2016		2015	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1 (NTD:NTD)	\$ (1,887)	1 (NTD:NTD)	\$ 5,604
HKD	4.156 (HKD:NTD)	(4,691)	4.235 (HKD:NTD)	2,531
RMB	4.849 (RMB:NTD)	<u>3,066</u>	4.995 (RMB:NTD)	<u>1,836</u>
		<u>\$ (3,512)</u>		<u>\$ 9,971</u>

### 36. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on results of operations by company. The reportable segments are as follows:

- Dynamic segment - the Company.
- Excelsior Beauty segment - Excelsior Beauty and Join Fun.
- Hong Kong Dynamic segment - Hong Kong Dynamic, Guangzhou Dynamic, Hong Kong Excelsior - Beauty and Beijing Excelsior Beauty.

a. The following are the information of the reportable segments:

	Dynamic Segment	Excelsior Beauty Segment	Hong Kong Dynamic Segment	Adjustments and Eliminations	Consolidated
<u>For the year ended December 31, 2016</u>					
Revenue from external customers	\$ 773,675	\$ 154,725	\$ 286,414	\$ -	\$ 1,214,814
Inter-segment revenue	<u>182,389</u>	<u>-</u>	<u>2,102</u>	<u>(184,491)</u>	<u>-</u>
Segment revenue	<u>\$ 956,064</u>	<u>\$ 154,725</u>	<u>\$ 288,516</u>	<u>\$ (184,491)</u>	<u>\$ 1,214,814</u>
Interest income	\$ 3,164	\$ 2,572	\$ 262	\$ -	\$ 5,998
Finance costs	\$ 5,016	\$ -	\$ -	\$ -	\$ 5,016
Depreciation expenses	\$ 13,799	\$ 10,738	\$ 8,730	\$ (1,231)	\$ 32,036
Amortization expenses	\$ 1,057	\$ 445	\$ -	\$ -	\$ 1,502
Other significant non-cash items					
Reversal of impairment loss on assets	<u>\$ 1,525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 1,525</u>
Segment income (loss)	<u>\$ 138,054</u>	<u>\$ 77,474</u>	<u>\$ (21,852)</u>	<u>\$ (10,741)</u>	<u>\$ 182,935</u>
Unallocated amount					<u>-</u>
Profit before income tax					<u>\$ 182,935</u>

(Continued)

	Dynamic Segment	Excelsior Beauty Segment	Hong Kong Dynamic Segment	Adjustments and Eliminations	Consolidated
<u>For the year ended December 31, 2015</u>					
Revenue from external customers	\$ 696,314	\$ 139,019	\$ 478,863	\$ -	\$ 1,314,196
Inter-segment revenue	<u>300,474</u>	<u>33</u>	<u>3,570</u>	<u>(304,077)</u>	<u>-</u>
Segment revenue	<u>\$ 996,788</u>	<u>\$ 139,052</u>	<u>\$ 482,433</u>	<u>\$ (304,077)</u>	<u>\$ 1,314,196</u>
Interest income	<u>\$ 1,992</u>	<u>\$ 2,819</u>	<u>\$ 373</u>	<u>\$ -</u>	<u>\$ 5,184</u>
Finance costs	<u>\$ 4,543</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,543</u>
Depreciation expenses	<u>\$ 17,205</u>	<u>\$ 13,060</u>	<u>\$ 11,863</u>	<u>\$ (1,654)</u>	<u>\$ 40,474</u>
Amortization expenses	<u>\$ 2,684</u>	<u>\$ 372</u>	<u>\$ 101</u>	<u>\$ -</u>	<u>\$ 3,157</u>
Other significant non-cash items					
Reversal of impairment loss on assets	<u>\$ 7,318</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,318</u>
Segment income (loss)	<u>\$ 141,293</u>	<u>\$ 21,805</u>	<u>\$ 26,585</u>	<u>\$ (32,076)</u>	<u>\$ 157,607</u>
Unallocated amount					<u>-</u>
Profit before income tax					<u>\$ 157,607</u> (Concluded)

b. Revenue from major products and services

The Group mainly sells and leases laser medical equipment for beauty treatment and renders related workshop services, and has no other industrial segment.

c. Geographical information

The Group operates in three principal geographical areas - Taiwan, Hong Kong and mainland China.

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

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2016	2015	2016	2015
Taiwan	\$ 928,400	\$ 835,333	\$ 51,589	\$ 54,260
Hong Kong	226,142	386,467	1,493	3,457
Mainland China	<u>60,272</u>	<u>92,396</u>	<u>7,422</u>	<u>14,018</u>
	<u>\$ 1,214,814</u>	<u>\$ 1,314,196</u>	<u>\$ 60,504</u>	<u>\$ 71,735</u>

Non-current assets exclude financial instruments, deferred tax assets and net defined benefit assets.

d. Information about major customers

No individual customer contributed more than 10% of the Group's total revenue for the years ended December 31, 2016 and 2015.