Stock Code：8436

大江生醫股份有限公司

TCI Co.,Ltd

# 2018 Annual Report

# TCI Co., Ltd.
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# I. Letter to Shareholders

Dear Shareholders:

We would like to thank our shareholders for your support to TCI Co., Ltd. in 2018 and express our sincere gratitude to you. TCI Co., Ltd. devotes all efforts to healthy corporate governance, smooth execution by the Board of Directors, and financial transparency. Integrity, creativity, and intelligence are the commitments we made for our management and strictly followed since we started our business. We have been ranked in top 20% in Corporate Governance Evaluation of Listed Companies (collaboratively conducted by Taiwan Stock Exchange and Taipei Exchange) among 1,500 listed companies for the 4th consecutive years since 2015. We have concluded our operational results in 2018 and operational highlights in 2019 to our shareholders as follows:

1. Analysis of 2018 Operational Results

(1) Analysis of Financial Performance

Unit : NT$ 1,000

| TCI Co., Ltd. | | | | |
|---|---|---|---|---|
| Consolidated Income Statement | | | | |
| Item | 2018 | 2017 | Difference | % |
| Net Revenue | 8,098,414 | 4,072,168 | 4,026,246 | 98.87 |
| Cost of Revenue | 4,581,462 | 2,417,769 | 2,163,693 | 89.49 |
| Gross Profit | 3,516,952 | 1,654,399 | 1,862,553 | 112.58 |
| Operating Expenses | 1,480,029 | 774,949 | 705,080 | 90.98 |
| Income from Operations | 2,036,923 | 879,450 | 1,157,473 | 131.61 |
| Other Operating Income and Expenses | 169,614 | 11,041 | 158,573 | 1436.22 |
| Income before Income Tax | 2,206,537 | 890,491 | 1,316,046 | 147.79 |
| Income Tax Expenses | 399,158 | 169,667 | 229,491 | 135.26 |
| Net Income | 1,807,379 | 720,824 | 1,086,555 | 150.74 |

(2) Overview of Operating Results

A. In 2018, our net revenue totaled NT$8.098 billion, an increase of 99 percent over NT$4.072 billion in 2017. It shows the continuous growth of operational activities made by TCI. Co., Ltd.

B. In 2018, revenue growth by geography, based mainly on China was NT$6.6 billion, an increase of 154 percent over NT$2.6 billion in 2017. Net revenue from Asia (China and Taiwan excluded) was NT$0.7 billion, an increase of 17 percent over NT$0.6 billion in 2017. Net revenue from Taiwan was NT$0.4 billion, a same level as the net revenue in 2017. Because the transfer from previous customers to new customers takes time to execute it, net revenue from Europe, North America and other regions was NT$0.4 billion, a decrease of 20 percent behind NT$0.5 billin in 2017.

C. In 2018, gross profit margin was 43.43 percent compared with 40.63 percent in 2017. A slight increase was mainly caused by the implementation of manufacturing automaton which decreased the total payroll in the Golden Hill Park and the Rock Park. Another main cause was the effectiveness of strategic procurement which helped us manage to reduce the cost in the event of the gobal shortage of collagen materials.

D. In 2018, profit margin was 22.32 percent compared with 17.7 percent in 2017. A slight increase was mainly caused by the decreased percent of marketing expenses and employee benefit from 19.03% to 18.27% despite the amount was almost doubled. It represented the effectiveness of cost control.

E. In 2018, earnings per share was NT$17.79, an increase of 148.81 percent over NT$7.15 in 2017 (please refer to note 1 below).

Note 1: Earning per share in 2017 was retroactively adjusted after the capital increase out of earnings/capital reserve.

2. 2019 Operational Highlights

(1) Improved Global Sales Strategy, Increased R&D Investment, Linked All Value Chains

To achieve the growth objectives for 2019, TCI Co., Ltd. will expand our global sales team into the new markets such as India, Europe, and South America to develop the overseass production capacities, materials, and brands. It will provide new energy to achieve our growth objective for global market: 100 percent growth. We have been expanding business to new customers around the world and implementing localization concepts and domestic service which targets the profitable materials, technologies, and equipment around the world. And we have been performed two-way trading actively to facilitate the mutuality of production capacities, materials, and brands between domestic market and global market and built up the brand-new industrial value chains of TCI Co., Ltd.

We have been expanding the recruitment of R&D personnel and increasing the investment of the equipment for molecular structure identification. We are actively seeking the natural effective ingredients by our “Bio Resource Data Mining” and extract these effective ingredients for our products. Through developed methods of automated production, cloud management and globalization, we discover those natural materials automatically by artificial intelligence (AI). And then we identify those effective ingredients to develop them into specific products. Relevant intellectual property rights for these ingredients and processes are rapidly established and protected. R&D technologies are the core and the backbone of the industrial value chains of TCI Co., Ltd.

(2) Artificial Intelligence System, Dance

We will put all efforts to build up the artificial intelligence system, DANCE by our global network of linkages. The DANCE system will improve the capabilities of precise iManufacturing (PiM) which covers several functionalities like the linkages and management of automated warehouses, order management, recipe control, preparing materials by electronic equipment, batch control, collecting data from production equipment, production real-time monitoring on crucial parameters, implementing equipment in laboratories, quality monitoring during manufacturing process, and produce traceability etc. We further provide external information such as market information and supply chain information to our DANCE system to make our global network of linkages be connected with external environment. The DANCE system will distribute the decision-making authority to speed up our decision-making processes.

(3) Sustainable Management: CSR

TCI Co., Ltd. has become the first enterprise who is named on the list of RE100 (RE100 is the organization which accelerates the scale-up of 100% renewable power among global countries in compliance with Carbon Disclosure Project, CDP). And we promise that we will use 100% renewable power comprehensively by 2030.

We will persist with our energy principle of 100% green power in 2019. We have set “technologies provide values & aim-oriented principle” as our competitive advantages in the future. We devote all efforts to using 100% green power and becoming a zero carbon enterprise as our ultimate goals. We would like to become one of the most “sustainable” enterprises in the world.

TCI Co., Ltd. will persist with our core spirit: “based on consumer needs”. We keep developing high-performance products by Integrated Bioscience Design (IBD) process. We are chasing our unchangeable creed “Join and Delight Consumer’s Life” to reach our goal of globalization.

We would like to thank our shareholders for your support to TCI Co., Ltd. We are striving to live up to your expectations and support unstoppably.

Chairman: Yung-Hsiang Lin　CEO: Yung-Hsiang Lin　Accounting Manager: Jui-Yi Wu

**II. Company Profile**

1. Date of Incorporation

August 22, 1980

2. Brief history of the Company

| Year | Milestone |
| --- | --- |
| 2011 | ♦ TCI (Taiwan) PABP BRANCH started its business.<br>♦ TCI Co., Ltd. passed the selection of Taiwan Intellectual Property Management System (TIPS) held by the Institute for Information Industry, R.O.C. (Taiwan).<br>♦ (Febuary) One of TCI's affiliates, First Tek Corp., which name had been revised as TCI Firstek Corp.<br>♦ (July) Aftert the capitalization of retained earnings transferred to capital of NT$ 45,000,000 had been implemented, and the capitalization of employee bonuses transferred tocapital of NT$ 5,420,000. The paid-in capital had become NT$ 200,420,000.<br>♦ (July) TCI Gene Inc. had been established by TCI. Co., Ltd.<br>♦ (August) TCI Co., Ltd. filed for registration of a case of initial public issuance of stock and received the approval from the Taipei Exchange (TPEx).<br>♦ (September) One of TCI's affiliates, BioScience, Shanghai BioTech Group, had been established by BioTrade, Shanghai BioTech Group.<br>♦ (September) TCI (Taiwan) PABP BRANCH obtained the ISO 22000:2005 certification.<br>♦ (October) The E.V.E. Lab obtained the ISO17025:2005-TAF Certification.<br>♦ (October) TCI (Taiwan) PABP BRANCH obtained the GMP certification managed by TQF (Taiwan Quality Food) Association.<br>♦ (December) Aftert the capital increased by cash of NT$ 26,000,000, the paid-in capital had become NT$ 226,420,000. |
| 2012 | ♦ (February) TCI Co., Ltd. started its emerging stock on the Taipei Exchange (TPEx).<br>♦ (May) One of TCI's affiliates, BioFunction, Shanghai BioTech Group, had been established by TCI. Co., Ltd.<br>♦ (July) After the issuance of employee stock option certificates of 365,000 shares, the paid-in capital had become NT$ 230,070,000.<br>♦ (August) Aftert the capitalization of retained earnings transferred to capital of NT$ 67,926,000 had been implemented, the paid-in capital had become NT$ 299,996,000.<br>♦(December) One of TCI's affiliates, BioFunction, BioCosme, |

| Year | Milestone |
| --- | --- |
| | Shanghai BioTech Group, had been established by BioTrade, Shanghai BioTech Group. |
| 2013 | ♦ (January) One of TCI's affiliates, TCI HK LIMITED had been established by TCI Co., Ltd, and GeNext HK LIMITED had been established by TCI HK LIMITED after the establishment of TCI HK LIMITED.<br>♦ (January) TCI Co., Ltd. started the industry-academia collaboration project with China Medical University, Taiwan.<br>♦ (February) The S1 factory obtained the FSSC22000 certification.<br>♦ (February) TCI (Taiwan) PABP BRANCH obtained the FSSC22000 certification.<br>♦ (April) One of TCI's affiliates, GeNext HK LIMITED, which name had been revised as GLUX HK LIMITED.<br>♦ After the issuance of employee stock option certificates of 680,000 shares, the paid-in capital had become NT$ 305,796,000.<br>♦ (August) After the capitalization of retained earnings transferred to capital of NT$ 89,438,000 had been implemented, the paid-in capital had become NT$ 394,234,000.<br>♦ (September) TCI Co., Ltd. started its initial listing on the Taipei Exchange (TPEx). After the capital increased by cash prior to the initial listing, the paid-in capital had become NT$ 438,804,000.<br>♦ (October) TCI Co., Ltd. obtained the 22$^{th}$ National Award of Outstanding SMEs held by the Small and Medium Enterprise Administration, Ministry of Economics Affairs. |
| 2014 | ♦ (April) TCI Co., Ltd. signed the memorandum of understanding (MOU) with DAIDO Pharmaceutical Corp.<br>♦ (April) TCI Co., Ltd. obtained 2 gold medals, 1 silver medal, and 2 bronze medals, and 1 special prize at the Geneva International Exhibition of Inventions.<br>♦ (July) The S7 factory, the facial mask factory of BioCosme, Shanghai BioTech Group, started its operation.<br>♦ (August) After the issuance of employee stock option certificates of 562,000 shares and the capitalization of retained earnings transferred to capital of NT$ 65,821,000 had been implemented, the paid-in capital had become NT$ 510,244,000.<br>♦ (October) After the capital increased by private replacement of NT$ 46,000,000, the paid-in capital had become NT$ 556,244,000. |
| 2015 | ♦ (April) TCI Co., Ltd. obtained 2 gold medals, 2 silver medals, and the Best Invention of the Far East award at the Invention & New Product Exposition (INPEX).<br>♦ (May) TCI Co., Ltd. obtained the Meiyi award by our Cell Young® Snowlotus Bio-cellulose Mask.<br>♦ (August) After the issuance of employee stock option certificates of |

Year Milestone

16,000 shares and the capitalization of retained earnings transferred to capital of NT$ 55,624,000 had been implemented, the paid-in capital had become NT$ 612,028,800.

- ♦ (September) The S9 factory, our second factory in the Pingtung Agricultural Biotechnology Park, started its operation.
- ♦ TCI Co., Ltd. was named on the list of $3^{rd}$ mittelstand firms recognized by the Ministry of Economic Affairs.
- ♦ Our general manager, Yung-Hsiang Lin, was recognized as one of the $53^{th}$ Ten Oustanding Young Persons in Taiwan.
- ♦ The S5 factory obtained the NSF/BRC certification and the Sedex certification.
- ♦ The S7 factory obtained the ISO 9001 certification, the ISO 14001 certification, and the OHSAS 18001 certification.
- ♦ TCI Co., Ltd. obtained the Innovation Prize for personal care and cosmetic products in China (classified in the category: anti-aging materials).
- ♦ TCI Co., Ltd. obtained 1 bronze medal and 1 special prize at the iENA Nuremberg.
- ♦ TCI Co., Ltd. obtained iF Design Award 2015 by the beverage display carrier box for AQUAGEN.

2016

- ♦ (February) TCI Co., Ltd. obtained the Innovation Prize for personal care and cosmetic products in China (classified in the category: functional materials).
- ♦ (April) The S8 factory, the functional beverage factory of BioFunction, Shanghai BioTech Group, started its operation.
- ♦ (April) TCI Co., Ltd. was named on the top 20% list of the $2^{nd}$ Corporate Governance Evaluation for TWSE/TAPEX Listed Companies (1,447 companies joined this evaluation).
- ♦ (May) TCI Co., Ltd. was named on the list of Taiwan Top 2000 recognized by the Common Wealth Magazine: ranked $49^{th}$ in the annual growth rate of annual revenue; ranked $216^{th}$ in the net profit margin; and ranked $932^{th}$ in the annual revenue.
- ♦ (August) After the issuance of employee stock option certificates of 329,539 shares and the capitalization of retained earnings transferred to capital of NT$ 78,332,000 had been implemented, the paid-in capital had become NT$ 75,370,000.
- ♦ (November) Our general manager, Yung-Hsiang Lin, obtained the EY Entrepreneur Of The Year Taiwan (Excellence in Innovation)
- ♦ TCI Co., Ltd. obtained 2 gold medals, 2 silver medals and 1 excellence prize at the $44^{th}$ Geneva International Exhibition of Inventions.
- ♦ TCI Co., Ltd. obtained 2 gold medals, 1 silver medal and 1 special prize at the $31^{th}$ Invention & New Product Exposition (INPEX).
- ♦ TCI Co., Ltd. obtained 1 gold medal, 1 silver medal and 1 special prize at the $30^{th}$ World Genius Convention and Education Expo.
- ♦ TCI Co., Ltd. obtained 2 gold medals, 1 silver medal and 1 special prize at the Seoul International Invention Fair (SIIF).
- ♦ TCI Co., Ltd. obtained 2 Meiyi awards.

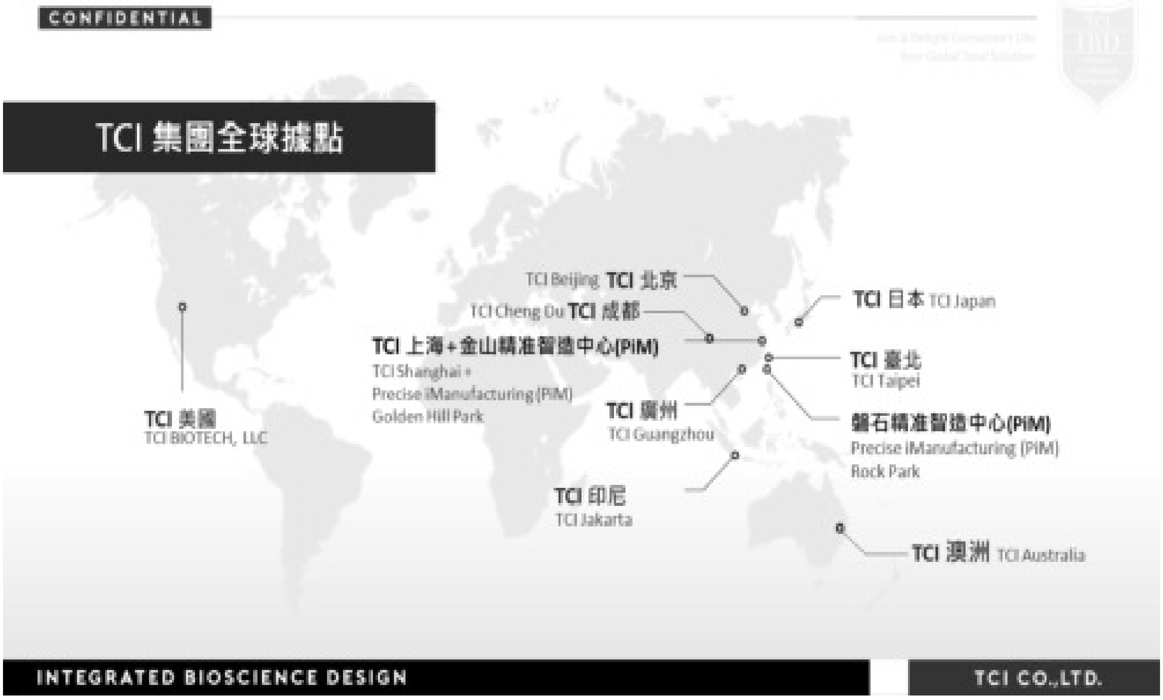
2017

- ♦ (April) TCI Co., Ltd. was named on the top 20% list of the $3^{rd}$ Corporate Governance Evaluation for TWSE/TAPEX Listed Companies (1,496 companies joined this evaluation).
- ♦ (May) TCI Co., Ltd., BioCosme PABP BRANCH had been

| Year | Milestone |
|---|---|
| | established.<br>♦ (July) After the issuance of employee stock option certificates of 16,000 shares and the capitalization of retained earnings transferred to capital of NT$ 113,432,000 had been implemented, the paid-in capital had become NT$ 870,117,000.<br>♦ (October) The S11 factory started its operation.<br>♦ TCI Co., Ltd. obtained 2 gold medals, 2 silver medals, and 2 special prizes at the 2017 Geneva International Exhibition of Inventions.<br>♦ TCI Co., Ltd. obtained 1 gold medal and 3 silver medals at the Concours Lépine International Paris 2017.<br>♦ TCI Co., Ltd. obtained 1 gold medal and 1 special prize at the 2017 Invention & New Product Exposition (INPEX).<br>♦ TCI Co., Ltd. obtained 1 gold medal and 2 silver medals at the 2017 XIX Moscow International Salon of Inventions and Innovative Technologies (Archimedes).<br>♦ TCI Co., Ltd. obtained 1 gold medal, 1 silver medal and 1 special prize at the 31$^{th}$ World Genius Convention and Education Expo.<br>♦ The Indonesia Office of TCI Co., Ltd. started its operation.<br>♦ The branch company of TCI Co., Ltd. had been established in the Utah State, the United States.<br>♦ Shanghai BioTech Group was recognized as one of the most influential enterprises at the Healthplex Expo and Natural & Nutraceutical Products China 2017 (HNC).<br>♦ TCI Co., Ltd. obtained the best award for biotechnology companies in Taiwan: the Oustanding Company of the Year.<br>♦ TCI Co., Ltd. is first on the Forbes Asia's 200 Best Under A Billion List.<br>♦ TCI Co., Ltd. obtained the 4$^{th}$ Taiwan Mittelstand Award held by the Ministry of Economic Affairs. |
| 2018 | ♦ The S11 factory obtained the ECOCERT - COSMOS® ORGANIC certification.<br>♦ (April) TCI Co., Ltd. was named on the top 20% list of the 4$^{th}$ Corporate Governance Evaluation for TWSE/TAPEX Listed Companies (1,539 companies joined this evaluation).<br>♦ (August) After the capitalization of retained earnings transferred to capital of NT$ 130,518,000 had been implemented, the paid-in capital had become NT$ 1,001,219,000.<br>♦ TCI Co., Ltd. obtained 2 gold medals, 2 silver medals, and 1 special prize at the 2018 Geneva International Exhibition of Inventions.<br>♦ TCI Co., Ltd. obtained 1 gold medal, 2 silver medals, and 1 special prize at the 2018 Silicon Valley International Invention Festival.<br>♦ TCI Co., Ltd. obtained 2 gold medals, 2 silver medals and 1 special prize at the 2018 World Genius Convention and Education Expo. |

# III. Company Profile

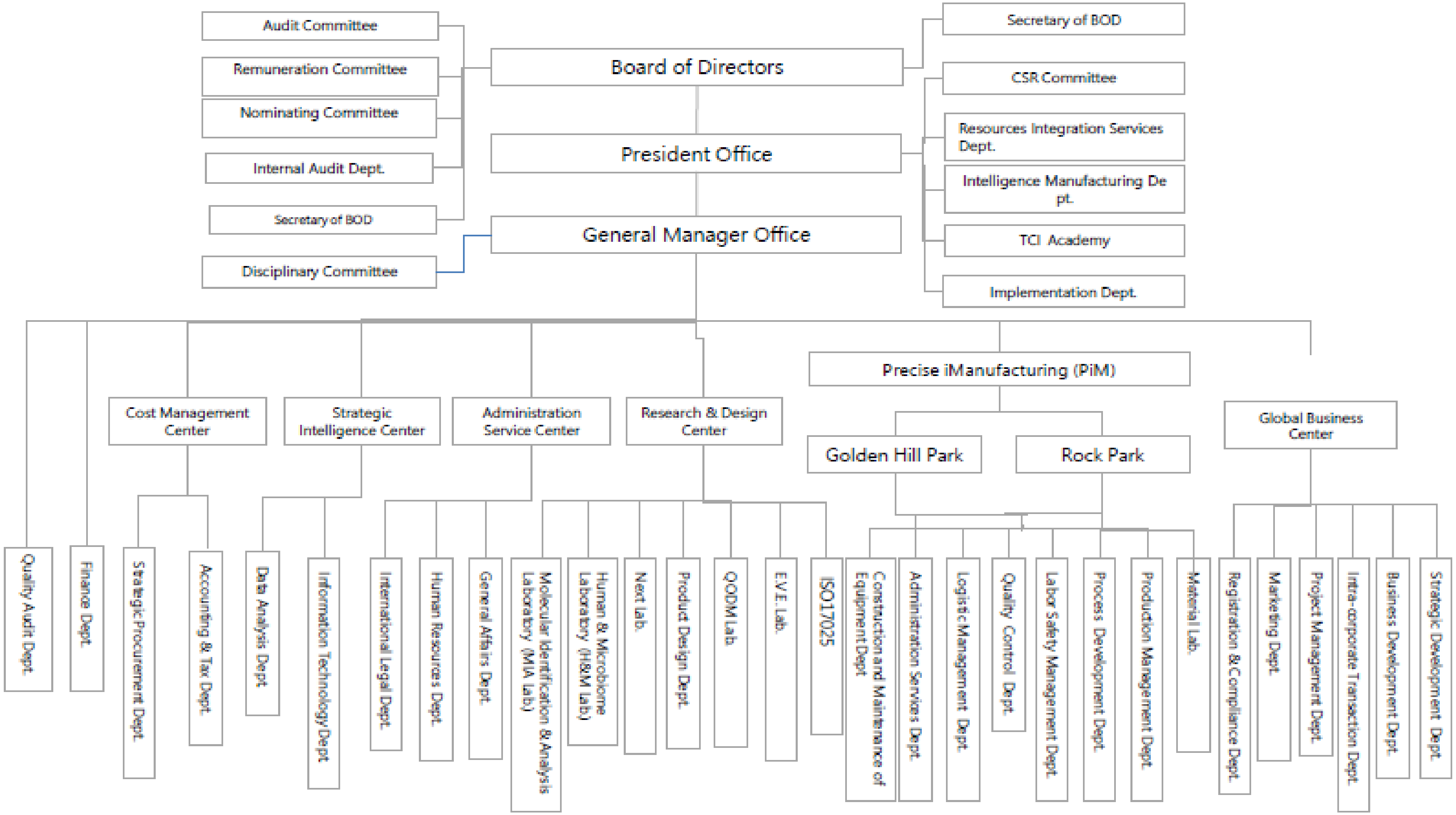
1. Organizational System



# IV. Coroporate Government Report

1. Organization

(1). Organizational Chart



(2) Information of Directors,the President, Vice Presidents, Assistane Vice Presidents, and Heads of Departments and Branch Offices

A. Information Regarding Board Members and Supervisors

As of 03/18/2019
Unit: share; %

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Education and Experience | Selected Current Positions at TCI and Other Companies | Other Heads, Directors,or Supervisors as Spouse or Kin within the Second Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relationship |
| Chairman | R.O.C. | Yung-Chiang Investment Co., Ltd. | — | 2017 5.19 | 3 years | 2017.5 | 2,345,745 | 2.70% | 3,102,385 | 3.02% | — | — | — | — | None | None | — | — | — |
| | | Authorized Representative: Yung-Hsiang Lin | Male | 2017 5.19 | 3 years | 2017.5 | 77,845 | 0.10% | 803,179 | 0.78% | 32,887 | 0.03% | — | — | Bachelor Degree in Botany, National Chung Hsing University<br><br>Former Deputy General Manager, TCI Co., Ltd.<br>Former Manager, Biomedical Department, Ta Chiang International Co., Ltd.<br>Former Deputy Manager, Marketing Department, Hsin-Fa International Biotechnology Inc.<br>Former Specialist, General Manager's Office, Genesis Biotech Inc. | (Note 1) | Deputy General Manager | Yung-Hao Lin | Brothers |
| Director | R.O.C. | Sunshine Wealth Co., Ltd. | — | 2017 5.19 | 3 years | 2017.5 | 3,673,000 | 4.22% | 4,252,914 | 4.14% | — | — | — | — | None | None | — | — | — |
| | R.O.C. | Authorized Representative: Jui-Hua Tsai | Male | 2017 5.19 | 3 years | 2008.6 | — | — | 1,210,308 | 1.17% | — | — | 2,013,827 | 1.96% | Tainan First Senior High School<br><br>General Manager, Ai-Yueh Industrial Co., Ltd. | General Manager, Huzza Enterprise Co., Ltd. | — | — | — |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Education and Experience | Selected Current Positions at TCI and Other Companies | Other Heads, Directors,or Supervisors as Spouse or Kin within the Second Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relationship |
| Director | Japan | DyDo Group Holdings, INC. | — | 2017 5.19 | 3 years | 2017.5 | 7,447,100 | 8.56% | 8,349,228 | 8.12% | — | — | — | — | None | None | — | — | — |
| | Japan | Authorized representative: Tomiya Takamatsu | Male | 2017 5.19 | 3 years | 2014.1 | — | — | — | — | — | — | — | — | Bachelor Degree in Economics, Kyoto University<br><br>Former Director, Dydo Group Holdings, INC. | President, DyDo Group Holdings,INC. | — | — | — |
| Independent Director | R.O.C. | Lung-Yi Liao | Male | 2017 5.19 | 3 years | 2012.3 | — | — | — | — | — | — | — | — | Bachelor Degree in Economics, National Taiwan University<br><br>Former Independent Director, China Development Financial (CDF)<br>Former General Manager and Director, First Bank<br>Former Director, Chang Hwa Bank<br>Former Director, Mega Bills Finance Co., Ltd.<br>Former Director, Taiwan Fire and Marine Insurance Co., Ltd.<br>Former Director, Taiwan Asset Management Corp.<br>Former Chairman, Trust Association of R.O.C. | Member of Audit Committee, TCI Co., Ltd.<br>Member of Renumeration Committee, TCI Co., Ltd.<br>Managing Director, China Development Financial (CDF)<br>Director, KGI Bank | — | — | — |
| Independent Director | R.O.C. | Shou-Lu Chang | Male | 2017 5.19 | 3 years | 2012.3 | — | — | — | — | — | — | — | — | Bachelor Degree in Economics, National Taiwan University<br><br>Former Branch Manager and | Member of Audit Committee, TCI Co., Ltd.<br>Member of Renumeration Committee, TCI Co., Ltd.<br>Member of Renumeration | — | — | — |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Term | Date First Elected | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Education and Experience | Selected Current Positions at TCI and Other Companies | Other Heads, Directors,or Supervisors as Spouse or Kin within the Second Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relationship |
| | | | | | | | | | | | | | | | Senior Executive Officer, Hua Nan Bank<br>Former Director, Marketing Division, Hua Nan Bank<br>Former Manager, Global Business Deparment, Hua Nan Bank<br>Former Auditor General, Hua Nan Financial Holdings<br>Former Supervisor, Chunghua Real-Estate Management Co.<br>Former Director, Cdib & Partners Investment Holding Corp.<br>Former Independent Director, Topco Technologies Corp. | Committee, Topco Technologies Corp. | | | |
| Independent Director | R.O.C. | Sung-Yuan Liao | Male | 2017 5.19 | 3 years | 2017.5 | — | — | — | — | — | — | — | — | Doctor Degree, National Chung Hsing University<br><br>Former Associate Professor, Department of Life Science, National Chung Hsing University | Member of Audit Committee, TCI Co., Ltd.<br>Member of Renumeration Committee, TCI Co., Ltd. | — | — | — |
| Independent Director | R.O.C. | Chen-Yi Kao | Male | 2017 5.19 | 3 years | 2017.5 | — | — | — | — | — | — | — | — | Doctor Degree in Chemistry, Tufts University<br><br>Professor, Graduate Institute of Biochemistry, National Chung Hsing University | Member of Audit Committee, TCI Co., Ltd.<br>Member of Renumeration Committee, TCI Co., Ltd.<br>Professor, Graduate Institute of Biochemistry, National Chung Hsing University | — | — | — |

Note 1: General Manager at TCI Co., Ltd; Chairman and General Manager at TCI Firstek Corp.; Chairman and General Manager at TCI Gene Inc.; Chairman and General Manager at BioTrade, Shanghai BioTech Group; Chairman and General Manager at BioScience, Shanghai BioTech Group; Chairman and General Manager at BioFunction, Shanghai BioTech Group; Chairman at TCI Living Co., Ltd.; Chairman at BioCosme, Shanghai BioTech Group, Director at GLUX HK LIMITED; Director at TCI HK LIMITED.

B. Qualifications and Independence Criteria of Directors

As of March 18, 2019

| Term / Name | Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience | | | Independence Criteria(Note 1) | | | | | | | | | | Number of Public Companies in which he or she also serves as an independent director |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An Instructor or Higher Position in a Department of Commerce, Law Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Publice Prosecutor, Attorney, Certified Public Accoutant,or Other Professional or Technical Specialists Who has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Area of Commerce, Law, Finance or Accountng, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Yung-Chiang Investment Co., Ltd. Authorized Representative: Yung-Hsiang Lin | | | ✓ | | | | ✓ | ✓ | | ✓ | ✓ | ✓ | | 0 |
| unshine Wealth Co., Ltd. Authorized Represtative：Jui-Hua Tsai | | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 |
| Authorized Representative: Tomiya Takamatsu | | | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 0 |
| Lung-Yi Liao | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Shou-Lu Chang | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Sung-Yuan Liao | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |
| Chen-Yi Kao | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 |

Note 1：Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to be elected or during the term of office.
Criterion 1:Not an employee of the Company or its affiliates
Criterion 2:Not a director or supervisor of the Company's affiliates (unless the person is an independent director of the Company, the Company's parent company or any subsidiary of the Company)
Criterion3: Not a shareholder whose total holdings, including those of his/her spouse and minor children, or shares held under others' names, reach or exceed 1 percent of the total outstanding shares of the Company or rank among the top 10 individual shareholders
Criterion 4: Not a spouse or relative within second degree by affinity, or within three degrees by consanguinity to any person specified in criteria 1 to 3

Criterion 5: Neither a director, supervisor, or employee of an entity that directly and/or indirectly holds more than 5% of the Company's shares, nor one of the Company's top five shareholders
Criterion 6: Not a director, supervisor, manager, or shareholder owning more than 5% of the outstanding shares of any company that has financial or business relations with the Company
Criterion 7: Not an owner, partner, director, supervisor, manager, or spouse of any of sole proprietorship, partnership, company, orinstitution that provides commercial, legal, financial or accounting services or consultations to the Company or its affiliates. However, members of the Remuneration and Nomination Committee are not covered by this restriction perArticle 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration and Nomination Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter
Criterion 8: Not a spouse or relative within second degree by affinity to other directors
Criterion 9: Not in contravention of Article 30 of the Company Act
Criterion 10: Not an institutional shareholder or its representative pursuant to Article 27 of the Company Act

## (3) Information of the President, Vice Presidents, Assitant Vice Presidents, and Heads of Departments and Branch Offices

As of 03/18/2019
Unit: share; %

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Education and Experience | Selected Current Positions at Other Companies | Other Managers as Spouse or Kin within the Second Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Reationship |
| General Manager | R.O.C. | Yung-Hsiang Lin | Male | 2010.8 | 803,179 | 0.78% | 32,887 | 0.03% | 3,102,385 | 3.02% | Bachelor Degree in Botany, National Chung Hsing University<br><br>Former Deputy General Manager, TCI Co., Ltd.<br>Former Manager, Biomedical Department, Ta Chiang International Co., Ltd.<br>Former Deputy Manager, Marketing Department, Hsin-Fa International Biotechnology Inc.<br>Former Specialist, General Manager's Office, Genesis Biotech Inc. | (Note 1) | Deputy General Manager | Yung-Hao Lin | Brothers |
| Deputy General Manager | R.O.C. | Yung-Hao Lin | Male | 2012.1 | 128,508 | 0.13% | — | — | 3,102,385 | 3.02% | Bachelor Degree in Agricultural Management, National Chiayi University<br><br>Former Assitant Vice President, Sales | Executive Director & Director's Representative, BioCosme, Shanghai BioTech Group<br>Director, BioScience, | General Manager | Yung-Hsiang Lin | Brothers |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Education and Experience | Selected Current Positions at Other Companies | Other Managers as Spouse or Kin within the Second Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Reationship |
| | | | | | | | | | | | Department, TCI Co., Ltd.<br>Former Associate Manager, Sales Department, TCI Co., Ltd.<br>Chia-Yung Industrial Co. | Shanghai BioTech Group<br>Director, BioTrade, Shanghai BioTech Group<br>Director' s Representative, BioCosme, BioTech Group<br>Director' s Representative, TCI Gene Inc. | | | |
| Deputy General Manager | R.O.C. | Wei-Chieh Liao | Male | 2012.1 | 367,921 | 0.36% | — | — | — | — | MBA, State University of New York at Albany<br><br>Former Manager, Accounting & Tax Department, TCI Co., Ltd.<br>Former Manager, Information Teconology Department, Franz Collectio Inc.<br>Former Project Manager, AdvancedTEK International Corp. | Director' s Representative, TCI Living Co., Ltd.<br>Director' s Representative, Pure Milk Co., Ltd. | None | None | None |
| Assitant Vice President, Finance Department | R.O.C. | Cheng-Hsien Chiang | Male | 2014.1 | 19,475 | 0.02% | — | — | — | — | Master Degree in Finance, Ming Chuan University<br><br>Former Manager, Finance Department, TCI Co., Ltd.<br>Former Manager & Spokesperson, Finace & Accounting Deparment, Yoko International Corp. | Supervisor's Representative, TCI Firstek Corp.<br>Supervisor's Representative, TCI Co., Ltd.<br>Supervisor's Representative, TCI Living Co., Ltd.<br>Director, PT TCI BIOTEK INDO | None | None | None |
| Assitant Vice President, | R.O.C. | Chih-Cheng Tsai | Male | 2017.1 | 9,792 | 0.01% | — | — | — | — | EMBA, National Chengchi University<br><br>Former Director, Manufacturing & | Director, BioFunction, Shanghai BioTech Group<br>Director, BioTrade, Shanghai | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Education and Experience | Selected Current Positions at Other Companies | Other Managers as Spouse or Kin within the Second Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Reationship |
| Precise iManufacturing | | | | | | | | | | | Planning Center, Techpros International Co., Ltd.<br>Former Deputy General Manager, Xiamen Factory, Franz Collectio Inc.<br>Former Director, Material Management Department, En Chu Kong Hospital | BioTech Group<br>Director' s Representative, BioCosme, BioTech Group | | | |
| Assitant Vice President, Global Business Center | R.O.C. | Hung-Fu Wang | Male | 2017.1 | 34,716 | 0.03% | — | — | — | — | MBA, Thunderbird School of Global Management<br>Former Sales Representative, Chin Haoo Trading Co., Ltd.<br>Former Research Assistant, Animal Technology Laboratories | Director' s Representative, TCI Gene Inc. | None | None | None |
| Manager, Accounting & Tax Department | R.O.C. | Jui-Yi Wu | Male | 2017.1 | 3,460 | 0.03% | 7,147 | 0.01% | — | — | Bachelor Degree in Accounting, Chung Yuan Christian University<br>Former Deputy Manager, Accounting Department, Hantic Precision Technology. Inc.<br>Former Deputy Manager, Audit Deparment, KPMG in Taiwan | None | None | None | None |
| Supervisor, Audit Department | R.O.C. | Wei-Chiang Chi | Male | 2014.10 | — | — | — | — | — | — | Bachelor Degree in Accounting, Tamkang University<br>Certified Internal Auditor (CIA)<br>Former Manager, Audit Department, Pharmtak Taiwan Co., Ltd.<br>Former Director, Scientech Corporation | None | None | None | None |

| Title | Nationality or Place of Registration | Name | Gender | Date Elected | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Education and Experience | Selected Current Positions at Other Companies | Other Managers as Spouse or Kin within the Second Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Reationship |
| Assitant Vice President, Next Laboratory | R.O.C. | Hsueh-Yin Huang (Note 2) | Female | 2017.1 | – | – | – | – | – | – | Master Degree in Physiology, National Taiwan University<br><br>Former Manager, Marketing Department, AVON Cosmetics Taiwan<br><br>Former Section Manager, Molecular Biology Department, Mithra Biotechnology Inc.<br>Former Deputy Manger, Marketing Department, TCI Co., Ltd. | None | None | None | None |
| Supervisor, Cost Management Center | R.O.C. | Chen-chen Fu (Note 3) | Female | 2018.11 | – | – | – | – | – | – | Bachelor Degree in Public Finance, Feng Chia University<br><br>Former Manager, TCI Co., Ltd. | None | None | None | None |
| Assistant Vice President, Strategic Intelligence Center | R.O.C. | Yueh Min (Note 4) | Female | 2019.2 | 3,344 | 0.003% | – | – | – | – | Master Degree in SAP Consulting, Beihang University<br><br>Former Assitant Vice President, TCI Co., Ltd. | None | None | None | None |

Note 1: General Manager at TCI Co., Ltd; Chairman and General Manager at TCI Firstek Corp.; Chairman and General Manager at TCI Gene Inc.; Chairman and General Manager at BioTrade, Shanghai BioTech Group; Chairman and General Manager at BioScience, Shanghai BioTech Group; Chairman and General Manager at BioFunction, Shanghai BioTech Group; Chairman at TCI Living Co., Ltd.; Chairman at BioCosme, Shanghai BioTech Group, Director at GLUX HK LIMITED; Director at TCI HK LIMITED.

Note 2: Hsueh-Yin Huang resigned on January 5, 2018.

Note 3: Chen-Chen Fu assumed office on November 1, 2018.

Note 4: Yueh Min assumed office on February 11, 2019.

(4) Remuneration Paid to Directors, Supervisors, General Manager, Deputy General Managers in 2018

A. Remuneration Paid to Directors (including independent directors) in 2018

Year 2018

Unit: NT$1,000 / 1000 share

| Title | Name | Director's Remuneration | | | | | | | | Total Remuneration (A+B+C+D) as a % of 2018 Net Income | | Compensation Earned by a Director Who is an Emplyee of TCI's Consolidated Entities | | | | | | | | Total Compensation (A+B+C+D+E+F+G) as a % of 2017 Net Income | | Compensation Paid to Directors from Non-consolidated Affiliates |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base Compensation (A) | | Severance Pay and Pensions (B) | | Compensation to Directors (C) | | Allowances (D) | | | | Base Compensation, Bonuses and Allowances (E) | | Severance Pay and Pensions (F) | | Employees' Profit Sharing Bonus (G) | | | | | | |
| | | From TCI | From All Consolidated Entities | From TCI | From All Consolidated Entities | From TCI | From All Consolidated Entities | From TCI | From All Consolidated Entities | From TCI | From All Consolidated Entities | From TCI | From All Consolidated Entities | From TCI | From All Consolidated Entities | From TCI | | From All Consolidated Entities | | From TCI | From All Consolidated Entities | |
| | | | | | | | | | | | | | | | | Cash | Stock | Cash | Stock | | | |
| Director | Yong-Jiang Investment Co., Ltd. Authorized Representative: Yung-Hsiang Lin (Note 1) | 0 | 0 | 0 | 0 | 3,150 | 3,150 | 910 | 910 | 0.22% | 0.22% | 20,782 | 41,335 | 0 | 0 | 0 | 0 | 19,000 | 0 | 1.38% | 3.58% | None |
| Director | Sunshine Wealth Co., Ltd. Authorized Representative: Jui-Hua Tsai | | | | | | | | | | | | | | | | | | | | | |
| Director | DyDo Group Holdings, INC. Authorized representative: Tomiya Takamatsu | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Lung-Yi Liao | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Shou-Lu Chang | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Sung-Yuan Liao | | | | | | | | | | | | | | | | | | | | | |

| | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Independent Director | Chen-Yi Kao | | | | | | | | | | | | | | | | | | | | | |

Note1: The Company provides a business car for the Chairman and the General Manager. The cost of the car is NT$ 1,880,000. The current value is NT$0 as of December 31, 2018.

Note 2: Except the persons listed in the above table, if there is any director who receives the remuneration from the companies listed in the Financial Statements (e.g., the director provides consulting service for any person belonging to the companies listed in the Financial Statements): None.

Brackets for Compensation Paid to Directors

| Brackets for Compensation Paid to Directors | Name | | | |
|---|---|---|---|---|
| | Total Remuneration (A+B+C+D) | | Total Compensation (A+B+C+D+E+F+G) | |
| | From TCI | From All Consolidated Entities | From TCI | From All Consolidated Entities |
| NT$0 ~ NT1,999,999 | Yung-Hsiang Lin, Jui-Hua Tsai, Tomiya Takamatsu, Lung-Yi Liao, Shou-Lu Chang, Sung-Yuan Liao, Chen-Yi Kao | Yung-Hsiang Lin, Jui-Hua Tsai, Tomiya Takamatsu, Lung-Yi Liao, Shou-Lu Chang, Sung-Yuan Liao, Chen-Yi Kao | Jui-Hua Tsai, Tomiya Takamatsu, Lung-Yi Liao, Shou-Lu Chang, Sung-Yuan Liao, Chen-Yi Kao | Jui-Hua Tsai, Tomiya Takamatsu, Lung-Yi Liao, Shou-Lu Chang, Sung-Yuan Liao, Chen-Yi Kao |
| NT$2,000,000 ~ NT$4,999,999 | — | — | — | — |
| NT$5,000,000 ~ NT$9,999,999 | — | — | — | — |
| NT$10,000,000 ~ NT$14,999,999 | — | — | — | — |
| NT$15,000,000 ~ NT$29,999,999 | — | — | Yung-Hsiang Lin | — |
| NT$30,000,000 ~ NT$49,999,999 | — | — | — | Yung-Hsiang Lin |
| NT$50,000,000 ~ NT$99,999,999 | — | — | — | — |
| Over NT$100,000,000 | — | — | — | — |
| Total | 7 directors | 7 directors | 7 directors | 7 directors |

B. Compensation Paid to General Manager & Deputy General Managers in 2018

Unit: NT$1,000 / 1000 shares

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Salary (A)</th><th colspan="2">Severance Pay and Pensions (B)</th><th colspan="2">Bonuses and Allowances (C)</th><th colspan="4">Employees' Profit Bonus (D)</th><th colspan="2">Total Remuneration (A+B+C+D) as a % of 2018 Net Income</th><th rowspan="3">Compensation Paid to Directors from Non-consolidated Affiliates</th></tr>
<tr><th rowspan="2">From TCI</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From TCI</th><th rowspan="2">From All Consolidated Entities</th><th rowspan="2">From TCI</th><th rowspan="2">From All Consolidated Entities</th><th colspan="2">From TCI</th><th colspan="2">From All Consolidated Entities</th><th rowspan="2">From TCI</th><th rowspan="2">From All Consolidated Entities</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>General Manager</td><td>Yung-Hsiang Lin (Note)</td><td rowspan="3">11,941</td><td rowspan="3">43,956</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">14,676</td><td rowspan="3">17,276</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">26,182</td><td rowspan="3">0</td><td rowspan="3">1.48%</td><td rowspan="3">4.87%</td><td rowspan="3">None</td></tr>
<tr><td>Deputy General Manager</td><td>Yung-Hao Lin</td></tr>
<tr><td>Deputy General Manager</td><td>Wei-Chieh Liao</td></tr>
</table>

Note: The Company provides a business car for the Chairman and the General Manager. The cost of the car is NT$ 1,880,000. The current value is NT$0 as of December 31, 2018.

Brackets for Compensation Paid to General Manger & Deputy General Managers

| Brackets for Compensation Paid to General Manager & Deputy General Managers | Name | |
|---|---|---|
| | From TCI | From All Consolidated Entities |
| NT$0 ~ NT1,999,999 | Wei-Chieh Liao | — |
| NT$2,000,000 ~ NT$4,999,999 | Yung-Hao Lin | — |
| NT$5,000,000 ~ NT$9,999,999 | — | Wei-Chieh Liao |
| NT$10,000,000 ~ NT$14,999,999 | — | — |
| NT$15,000,000 ~ NT$29,999,999 | Yung-Hsiang Lin | Yung-Hao Lin |
| NT$30,000,000 ~ NT$49,999,999 | — | — |
| NT$50,000,000 ~ NT$99,999,999 | — | Yung-Hsiang Lin |
| Over NT$100,000,000 | — | — |
| Total | 3 persons | 3 persons |

C. Employee Compensationi Amount Paid to Manager

Year 2018

Unit: NT$1,000

<table>
<tr><th></th><th>Title (Note 1)</th><th>Name (Note 1)</th><th>Stock Bonus Amount</th><th>Cash Bonus Amount</th><th>Total</th><th>Ratio of Total Amount to Net Income (%)</th></tr>
<tr><td rowspan="10">Manager</td><td>General Manager</td><td>Yung-Hsiang Lin</td><td rowspan="10">—</td><td rowspan="10">32,509</td><td rowspan="10">32,509</td><td rowspan="10">1.81%</td></tr>
<tr><td>Deputy General Manager, Global Business Center</td><td>Yung-Hao Lin</td></tr>
<tr><td>Deputy General Manager, Strategic Intelligence Center</td><td>Wei-Chieh Liao</td></tr>
<tr><td>Assitant Vice President, Finance Department</td><td>Cheng-Hsien Chiang</td></tr>
<tr><td>Assitant Vice President, Global Business Center</td><td>Hung-Fu Wang</td></tr>
<tr><td>Assitant Vice President, Precise iManufacturing</td><td>Chih-Cheng Tsai</td></tr>
<tr><td>Manager, Accounting & Tax Department</td><td>Jui-Yi Wu</td></tr>
<tr><td>Supervisor, Internal Audit Department</td><td>Wei-Chiang Chi</td></tr>
<tr><td>Supervisor, Cost Management Center (Note 2)</td><td>Chen-Chen Fu</td></tr>
<tr><td>Assistant Vice President, Strategic Intelligence Center(Note 3)</td><td>Yueh Min</td></tr>
</table>

Note 1 : Scope of Applicability to managers, according to the Tai Chai Chen III Tzi No. 0920001301 Letter dated March 27, 2003, by the Financial Supervisory Commission, R.O.C. (Taiwan) is as follows:

(1) President and the equals
(2) Vice President and the equals
(3) Assitant VP and the equals
(4) Finance Officer
(5) Account Officer
(6) Other authorized personnel for management and signature

Note 2: Chen-Chen Fu assumed office on November 1, 2018.

Note 3: Yueh Min assumed office on February 11, 2019.

D. The Ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, president and vice presidents of the Company, to the net income. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with risks and business performance.

E. The Ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, president and vice presidents of the Company, to the net income.

Unit: NT$1,000

| Year | Brackets for Compensation Paid to Directors,Supervisor, President,and Vice President | | Ratio of 2018 total Remuneration to Net Income | |
|---|---|---|---|---|
| | From TCI | From All Consolidated Entities | From TCI | From All Consolidated Entities |
| 2017 | 35,551 | 74,755 | 4.99% | 10.50% |
| 2018 | 30,677 | 91,474 | 1.71% | 5.10% |

(5) The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with risks and business performance.

A. If the directors of the Company perform their duties, the Company has to pay compensation to all irectors regardless of the Company's operating performance. The Board of Directors is authorized to determine the remuneration for each director in accordance with his/her contribution to the Company, and the Board of Directors shall refer to the usual level of the remuneration for its final decisions.

B. The remuneration for the general manager and the deputy general managers of the Company shall be determined in accordance with the provisions of Article 29 of the Company Act.

In summary, the Company's policy of paying the remuneration for the general manager and deputy general managers, and directors, and the procedures for setting remuneration are based on the usual level of remuneration in the industry, and the time invested by each individual, the responsibilities, the accomplishment of personal goals, and their job performance, the salary level for the same position, and the Company's short-term and long-term business objectives, the Company's financial status, and the correlation between individual performance and the Company's operating performance and future risks. The Company’s annual revenue (the overall revenue of the whole TCI group, the definition of any “annual revenue” in this report is the same) was NT$8,098,414,000. Compared with the annual revenue of NT$4,072,168,000 in 2017, the annual revenue had grown by 99%. The pre-tax income in 2018 was NT$2,206,537,000. Compared with the pre-tax income of NT$890,419,000 in 2017, the pre-tax income had grown by 148%. The net income in 2018 was NT$1,807,379,000. Compared with the net income of NT$720,824,000 in 2017, the net income had grown by 151%. The earnings per share was NT$17.79, which had grown by 248% compared with 2017 (NT$7.15) and showed a positive correlation. The relevant figures have been disclosed in the Annual Report in compliance with the relevant laws and regulations, and therefore the future risk of the Company shall be minor or moderate.

(6) Coporate Goverance Pratices

A. Board of Directors Meeting Status

There were 7 regular meetings convened in 2018. The directors' attendance status is as follows:

| Title | Name | Attendance in Person (B) | By Proxy | Attendance Rate in Person (%) (B/A) | Notes |
|---|---|---|---|---|---|
| Chairman | Yong-Jiang Investment Co., Ltd. Authorized Representative: Yung-Hsiang Lin | 7 | 0 | 100% | New office assumed |
| Director | Sunshine Wealth Co., Ltd. Authorized Representative: Jui-Hua Tsai | 7 | 0 | 100% | New office assumed |
| Director | DyDo Group Holdings, INC. Authorized Representative: Tomiya Takamatsu | 3 | 4 | 42.86% | New office assumed |
| Independent Director | Lung-Yi Liao | 7 | 0 | 100% | Term of office renewed |
| Independent Director | Shou-Lu Chang | 7 | 0 | 100% | Term of office renewed |
| Independent Director | Sung-Yuan Liao | 7 | 0 | 100% | New office assumed |
| Independent Director | Chen-Yi Kao | 6 | 1 | 85.71% | New office assumed |

Annotations:

1. If any of the following circumstances occur, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the Company's response should be specified.
   (1) Matters referred to in Article 14-3 of the Securities and Exchange Act：
   Not applicable. The Company has already established an audit committee.

2. If there are directors' avoidance of motions in conflict of interest, the directors's names, contents of motion, causes for avoidance and voting should be specified.

| Meeting Date | The Meeting No. | Proposal | Reasons for Recusal | Participation in Deliberation |
|---|---|---|---|---|
| 2018/5/2 | 2018 3rd Regular Meeting | Revised the Regulations for | This case had some interests for | The items of this case were voted |

| | | | | |
|---|---|---|---|---|
| | | 1st New Share Issuance of Restricted Stock Awards in 2018 and prepared the relevant tasks like determining the issuance date and the list of eligible employees. | the directors (including independent directors), and the interests were avoided. | one by one, and any directors who were correlated to this case were excluded to join the vote. After the interested parties were excluded, the chairman (or the acting chairman) consulted the remaining directors and approved this case without objection. |
| 2018/10/24 | 2018 7th Regular Meeting | Discussed the proposals suggested at the 2018 3rd Regular Meeting of the Remuneration Committee. | This case had some benefits for the directors (including independent directors), and the benefits were avoided. | After the interested parties were excluded, the chairman (or the acting chairman) consulted the remaining directors and approved this case without objection. |

1. Measures taken to strengthen the functioniality of the Board:
   (1) Complete of the 2018 performance appraisal for the Board of Directors and self-evaluation conducted by the directors. Submit the relevant reports to the regular meeting of the Board of Directors in January 2019.
   (2) Strengthen the implementation of corporate governance, integrity management and corporate social responsibility.
2. The Board of Directors convened 7 meetings in 2018. All Independence Directors attendance ratio is 96.43% in 2018.

B. Information of Audit Committee

i. The Company has assembled an Audit Committee entirely of Independent Directors on May 30,2014. The Committee has the following responsibilities:

(i-1) The appropriate expression of the Company's financial statements.

(i-2) The independence and the performance of the CPAs. The selection (dismissal) of the CPAs.

(i-3) The effective implementation of internal control.

(i-4) Supervising the Company to comply with relevant laws and regulations.

(i-5) Controling the existing or the potential risks of the Company.

ii. Audit Committee Meeting Status

There were 7 regular meetings convened in 2018. The independent directors' attendance status is as follows:

| Title | Name | Attendance in Person (B) | By Proxy | Attendance Rate in Person (%) (B/A) | Notes |
|---|---|---|---|---|---|
| Independent Director | Lung-Yi Liao | 7 | 0 | 100.00% | Term of office renewed |
| Independent Director | Shou-Lu Chang | 7 | 0 | 100.00% | Term of office renewed |
| Independent Director | Sung-Yuan Liao | 7 | 0 | 100.00% | New office assumed |
| Independent Director | Chen-Yi Kao | 6 | 1 | 85.71% | New office assumed |

Annotations:

1. If any of the following circumstances occur, the dates of meetings, sessions, contents of motion, resolutions of the Audit Committee and the Company's response to the Audit Committee's opinion should be specified.

(1) Matters referred to in Article 14-5 of the Securities and Exchange Act:

| Meeting Date | The Meeting No. | Proposal | Resolution | TCI's Response to Resolution |
|---|---|---|---|---|
| 2018/1/10 | 2018 1st Meeting | 1.The factory expansion project for the S8 factory.<br>2.Revised the provisions of the Operational Procedures for Acquisition or Disposal of Assets. | Approved | Not Applicable |
| 2018/3/1 | 2018 2nd Meeting | 1.Set the record date for capital increase for the Employee Stock Options and the convertible bonds in the 3rd quarter in 2018.<br>2.Issued the 2nd Issuance of Unsecured Convertible Bonds.<br>3.Reviewed the 2017 Business Report and the 2017 Financial Statements.<br>4.Proposal for the 2017 new share issue through capitalization of retained earnings transferred to capital | Approved | Not Applicable |
| 2018/5/2 | 2018 3rd Meeting | 1.Discussed the establishment of the new affiliate | Approved | Not Applicable |
| 2018/5/18 | 2018 4th Meeting | 1.Increased the investment amount of the S11 factory. | Approved | Not Applicable |
| 2018/7/20 | 2018 5th Meeting | 1.Discussed the 2018 Q2 Consolidated Financial Statements. | Approved | Not Applicable |
| 2018/10/8 | 2018 6th Meeting | 1. Discussed the establishment of the new affiliate in Japan. | Approved | Not Applicable |
| 2018/10/24 | 2018 7th Meeting | 1.Increased the investment amount of the Rock Park. | Approved | Not Applicable |

| | | | | |
|---|---|---|---|---|
| | | 2.Discussed the establishment of the new affiliate in France. | | |

(2) Other matters which were not approved by the Audit Committee but were approved by two-thirds or more of all directors：None.

1. If there are independent directors' avoidance of motions in conflict of interest, the directors's names, contents of motion, causes for avoidance and voting should be specified：None.
2. Communications between the independ directors, the Company' chief internal auditor and CPAs (e.g. the material items, methods and results of audits of corporate finance or operations, etc.)

(1) The Audit Committee of the Company is entirely composed of all Independent Directors. At least one meeting is held every quarter, and it can be held at any time as needed.

(2) Communications between the Independ Directors and the chief internal auditor

A. The major matters of communication in 2018 are shown as following table:

| Date | Content of Communication | Implemention |
|---|---|---|
| January 10, 2018 | Reported the execution progress of annual audit plan from November to December, 2017. | Well-understood |
| March 1, 2018 | 1.Reported the execution progress of annual audit plan from January to February, 2018.<br>2.Reviewed the 2017 Statement of Internal Control System. | 1.Well-understood<br>2.After the approval, submitted the relevant reports to the Board of Directors. |
| May 2, 2018 | Reported the execution progress of annual audit plan from March to April, 2018. | Well-understood |
| July 20, 2018 | Reported the execution progress of annual audit plan from May to June, 2018. | Well-understood |
| October 8, 2018 | Reported the execution progress of annual audit plan from July to September, 2018. | Well-understood |
| October 24, 2018 | Set the Company's 2019 annual audit plan. | After the approval, submitted the relevant reports to the Board of Directors. |

(3) Communications between the Independent Directors and the CPAs

A. The major matters of communication in 2018 are shown as following table:

| Date | Content of Communication | Implemention |
|---|---|---|
| 2018/3/1 | 2017 individual and consolidated financial statements | The CPAs shall disclose the matters that should be disclosed in the audit report by the financial statements. |
| 2018/5/2 | 2017 Q1 individual and consolidated financial statements | The CPAs shall disclose the matters that should be disclosed in the audit report by the financial statements. |

| | | | | |
|---|---|---|---|---|
| | 2018/7/20 | 2017 Q2 individual and consolidated financial statements | The CPAs shall disclose the matters that should be disclosed in the audit report by the financial statements. | |
| | 2018/10/24 | 2017 Q3 individual and consolidated financial statements | The CPAs shall disclose the matters that should be disclosed in the audit report by the financial statements. | |

C. Taiwan Corporate Governance Implementation as Required by Taiwan Financial Supervisory Commission

| Assessement Item | Implementation Status | | | Non-Implementation and Its Reason(s) |
|---|---|---|---|---|
| | Yes | No | Biref Explanation | |
| 1. Does the Company follow "Taiwan Corporate Governance Implementation" to establish and disclose its corporate governance practices? | ✓ | | The Company has formulated the Corporate Governance Best Practice Principles and disclosed the relevant information on the official website and the Market Observation Post System (MOPS). | None |
| 2. Shareholding Structure & Shareholders' Rights<br>(1) Does the Company have Internal Opertion Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, has these procedures been implemented accordingly?<br>(2) Does the Company posses a list major shareholders and beneficial owners of these major shareholders?<br>(3) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?<br>(4) Has the Company established internal rules prohibiting insider trading on undisclosed information? | ✓<br>✓<br>✓<br>✓ | | 1. The Company has a spokesperson and an agent spokesperson to deal with matters such as shareholder suggestions or disputes, and has a legal department to consult relevant legal issues.<br>2. The Company has a dedicated staff to manage the relevant information and appoints a securities firm's stock agent to assist in the handling of share-related matters and to obtain a final list of the major shareholders and major shareholders of the actual control company.<br>3. The Company has established a relationship transaction management method and a subsidiary company supervision and management approach to establish an appropriate risk control mechanism and firewall, and the audit personnel regularly check the implementation situation.<br>4. The Company has established the "Measures for the Prevention of Insider Trading and Internal Major Information Processing Management". The | None<br>None<br>None<br>None |

| Assessement Item | Implementation Status | | | Non-Implementation and Its Reason(s) |
| --- | --- | --- | --- | --- |
| | Yes | No | Biref Explanation | |
| | | | insiders of the Company shall not use the undisclosed information on the market to buy and sell securities. | |
| 3. Composition and Responsibilities of the Board of Directors<br>(1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly? | ✓ | | 1. The Company has a "Nominating Committee" and adopts the "Nomination System for Candidates". The recommended list of candidates for directors and independent directors is reviewed by the Nominating Committee and finalized by the Board of Directors to provide the shareholders' meeting.<br>According to the Company's Code of Practice on Corporate Governance, the composition of the Board of Directors should be considered in a diversified manner. Except for the director who is also a manager of the Company, it is not appropriate to exceed one-third of the Board of Directors, and recruit talents with different professional backgrounds, including (but not limited to) skills. , regional, professional experience, cultural and educational background, gender and other traits to enhance the ability of the event to operate. The current Board of Directors consists of 7 directors, including 3 directors and 4 independent directors. The members have extensive experience and expertise in finance, business and management: | None |

| Title | Name | Gender | TCI's Employee | Accounting and | Business | Indus | Risk | A Lecturer or |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |

| Assessement Item | Implementation Status: Yes | No | Biref Explanation | | | | | | | | | Non-Implementation and Its Reason(s) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | financial analysis skills | Management | trial Knowledge | Management | Higher Position in a Public or Private College | |
| | ✓<br>✓ | | Chairman | Yung-Chiang Investment Co., Ltd. Authroized Represtative : Yung-Hsiang Lin | Male | V | V | V | V | V | | None<br>None |
| (2) Other than the Compensation Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees? | ✓ | | Director | Sunshine Wealth Co., Ltd. Authorized Representative：Jui-Hua Tsai | Male | | V | V | V | V | | |
| (3) Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis? | ✓ | | Director | DyDo Group Holdings INC. Authroized Represtative：Tomiya Takamatsu | Male | | V | V | V | V | | None |

<table>
<tr><th rowspan="2">Assessement Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-Implementation and Its Reason(s)</th></tr>
<tr><th>Yes</th><th>No</th><th>Biref Explanation</th></tr>
<tr><td>(4) Does the Company regularly evaluate its external auditors’ independence?</td><td></td><td></td><td>
<table>
<tr><td>Director</td><td>Lung-Yi Liao 、</td><td>Male</td><td></td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td></td><td></td></tr>
<tr><td>Independent Director</td><td>Shou-Lu Chang</td><td>Male</td><td></td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td></td><td></td></tr>
<tr><td>Independent Director</td><td>Sung-Yuan Liao</td><td>Male</td><td></td><td></td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td></td></tr>
<tr><td>Independent Director</td><td>Chen-Yi Kao</td><td>Male</td><td></td><td></td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td></td></tr>
</table>
2. In addition to setting up the payroll committee and the audit committee according to law, the Company has set up a nomination committee in 2016 (Note 1).<br>
3. The Company has established the “Rules for Self-Assessment or Peer Evaluation of the Board of Directors”. According to Article 3 of the present Measures, the Board of Directors of the Company shall perform at least one performance evaluation of the internal Board of Directors each year. The internal evaluation period of the Board shall be based at the end of each year. The assessment procedures and assessment indicators for Articles 6 and 8 are used for annual performance</td><td></td></tr>
</table>

| Assessement Item | Implementation Status | | | Non-Implementation and Its Reason(s) |
|---|---|---|---|---|
| | Yes | No | Biref Explanation | |
| | | | evaluation. The Company performed the annual performance appraisal at the end of 2018 and reported the 2018 director self-assessment to the Nomination Committee and the Board of Directors on January 9, 2019.<br>4. The accounting department of the Company evaluates the independence of the visa accountant on its own, and the result proposal is reviewed and approved by the Audit Committee and the Board of Directors on October 24, 2018. Appraisal by the accounting department of the Company, Certified Public Accountants, Ming-Chuan Hsu and Kuo-Hua Wang, all of which are in line with the Company's independent evaluation criteria (Note 2), can be used as the Company's CPAs, accounting firm and issue a statement (Note 3). | |
| 4. Does the Company established a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnish information required for business execution by directors, handle matters relating to board meetings and shareholders' meetings according to laws, handle corporate registration and amendment registration, | ✓ | | The Company is responsible for corporate governance related matters by the chairman's office, and is the head of corporate governance by the legal manager. In order to strengthen the functions of the Board of Directors, the main duties are to provide the directors with the information required to carry out the business and the latest regulatory developments related to the operating company to assist the directors to follow. The main duties of the decree are as follows:<br>1. Notify board members of the Company's business areas and the latest developments in corporate governance related regulations. | None |

| Assessement Item | Implementation Status | | | Non-Implementation and Its Reason(s) |
|---|---|---|---|---|
| | Yes | No | Biref Explanation | |
| record minutes of board meetings and shareholders meetings, etc.)? | | | 2. Apply at least 6 credits to the Board of Directors for the course of the course; evaluate the purchase of appropriate directors and important staff liability insurance.<br>3. Elect the agenda of the Board of Directors to notify the directors seven days ago, convene the meeting and provide the meeting materials. If the issues need to be avoided, give advance notice and complete the minutes of the board meeting within 20 days after the meeting.<br>4. Conduct performance evaluations of the Board of Directors and individual directors annually.<br>5. Establish multi-disciplinary communication with investors.<br>6. Handle the pre-registration of the date of the shareholders' meeting in accordance with the law, make a notice of the meeting within the statutory time limit, discuss the proceedings, and record the proceedings, and apply for change registration in the revised charter or director re-election. | |

| Assessement Item | Implementation Status | | | Non-Implementation and Its Reason(s) |
|---|---|---|---|---|
| | Yes | No | Biref Explanation | |
| 5. Has the Company established a means of communicating with its Stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities? | ✓ | | The Company has a spokesperson and an agent spokesperson, and has an investor area and shareholder column on the Company's website, providing a share liaison window to stakeholders, including shareholders, bankers and other creditors, employees, customers, and suppliers. Both the business and the stakeholders of the Company maintain a smooth communication channel. | None |
| 6. Has the Company appointed a professional registrar for its Shareholders' Meetings? | ✓ | | The Company has appointed Fubon Securities Co., Ltd. to handle the affairs of the shareholders' meeting and hired full-time staff for the relevant tasks. | None |
| 7. Information Disclosure<br>(1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status?<br>(2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)? | ✓<br>✓ | | 1. Through the Company's website, there is an investor's special area, monthly financial information such as camping and collection, and a public information observatory link for the public to inquire about major information; and the Company's relevant regulations and the Company's relevant regulations and In the self-assessment report, investors can use the public information observatory to inquire about financial, business and corporate governance information.<br>2. The Company has a spokesperson and spokesperson, and has a special person in the investor relations management department responsible for the collection and disclosure of company information. At present, the Company's website has been placed on the Company's website. Other | None<br>None |

| Assessement Item | Implementation Status | | | Non-Implementation and Its Reason(s) |
|---|---|---|---|---|
| | Yes | No | Biref Explanation | |
| | | | relevant information should be disclosed. It was revealed at the "Public Information Observatory". | |
| 8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)? | ✓ | | 1. Employees' Rights and Interests: The Company has established a staff welfare committee in accordance with the law, implemented a pension system, and handled various employee training courses, attaching importance to labor harmony.<br>2. Employee care: The Company provides employee bonus, year-end bonus and other welfare measures, and protects the legitimate rights and interests of employees according to the labor law and other relevant regulations.<br>3. Investor Relations: The Company has legally required to provide honest and open information to the public information observatory, and to include the investor's mailbox and the spokesperson's contact information to protect the interests of investors and maintain a benign and harmonious relationship between the Company and its shareholders.<br>4. Supplier Relationship: The Company has a supplier management section in the internal control written system "Purchasing and Payment Cycle" to ensure that suppliers' delivery, quality and price are in line with the Company's needs, so that they have good communication and coordination partners. relationship.<br>5. Rights of interested parties: The Company has spokespersons and spokespersons, and the stakeholders have a smooth communication channel with the bank and other creditors, employees, customers, suppliers and stakeholders. . If legal issues are involved, they will be handled by the legal department of the Company to safeguard the interests of interested parties. | None |

| Assessement Item | Implementation Status | | | Non-Implementation and Its Reason(s) |
|---|---|---|---|---|
| | Yes | No | Biref Explanation | |
| | | | 6. The Directors and the Supervisors are involved in the refresher course in accordance with the requirements of the "Listing Examples of the Directors and Supervisors of the Listed Companies".<br>7. Implementation of risk management policies and risk measurement standards: The Company has established various internal regulations in accordance with the law and followed them to control risks.<br>8. Implementation of customer policy: The Company sets up the business department, provides services and consultations for customers' products, and maintains a smooth communication channel with customers; and has a customer complaint handling procedure to protect customer rights.<br>9. The Company purchased liability insurance for directors and supervisors: The Company has purchased liability insurance for directors. | |
| 9. The improvement status for the result of Corporate Governance Evaluation announced by Taiwan Stock Exchange:<br>1. The Company reviews the results of recent corporate governance evaluations and the Company governance evaluations released in the most recent year. It examines the indicators that are still in line with the scoring standards, arranges improvement schedules, and continuously improves most of the non-compliance projects.<br>2. The Company will prepare a corporate social responsibility report in accordance with GRI4 this year.<br>3. The Company will strengthen the Company's promotion of integrity management and internal work rules, strengthen the promotion of unethical behavior and its rectification system, and expose relevant rules and regulations on the Company's website. | | | | |

Note 1: In order to improve the nomination system for the directors and functional committee members of the Company, the Board of Directors resolved to establish a "nomination committee". According to the organization rules of the nomination committee of the Company, the committee is composed of at least three directors, of which more than half of the independent directors should participate. At present, the nomination committee of the Company consists of the chairman and all four independent directors, according to the organization rules of the nomination committee. His duties include:

- Develop criteria for diversified background and independence of expertise, technology, experience and gender required by board members, supervisors and senior managers, and seek, review and nominate directors, supervisors and senior managers candidates people.
- Build and develop the organizational structure of the Board of Directors and committees, conduct performance evaluations of the Board of Directors, committees, directors and senior managers, and assess the independence of independent directors.
- Propose and regularly review the director's progress plan and the succession plan for directors and senior managers.
- Set the Company's corporate governance code of practice.

The Nominatiing Committee meets at least twice a year. For the meeting of the Committee and the attendance rate of each member, please visit the Public Information Observatory. The list of members of the second nomination committee of the Company is as follows:

| Name | Nominating Committee |
|---|---|
| Chairman, Yung-Hsiang Lin | V |
| Independent Director, Lung-Yi Liao | V(Chair) |
| Independent Director, Shou-Lu Chang | V |
| Independent Director, Chen-Yi Kao | V |
| Independent Director, Sung-Yuan Liao | V |

Note 2: TCI Co., Ltd. 2018 annual assessment report on the independence of CPAs
The CPA Firm in 2018: PricewaterhouseCoopers Taiwan
The CPAs in 2018: Ming-Chuan Hsu and Kuo-Hua Wang
1. The appointed accountant has no significant financial interest in the Company.
2. Appoint an accountant to avoid any inappropriate relationship with the Company.
3. Appointed accountants should ensure that their assistants are honest, impartial and independent.
4. The appointed accountant has not served as a supervisor or manager of the Company for the current or the last two years or has a significant influence on the audit case; it is also determined that he will not hold the above-mentioned related duties during the future audit.
5. During the audit period, the appointed accountant himself and his or her spouse or dependent relatives have not served as directors and supervisors of the Company or have direct and significant influence on the audit work. During the audit period, the close relatives of the four members of the appointed accountant who are the directors or managers of the Company or who have direct and significant influence on the audit work shall be reduced to an acceptable procedure.
6. The gift or gift of the Company and the directors and supervisors of the Company is not valued (the value does not exceed the general social etiquette standard).
7. The appointed accountant shall not use it for others.
8. Appointed accountants must not have money with the Company to borrow money, but this is not the case with the normal business of the financial industry.

9. Appointed accountants may not concurrently engage in other undertakings that may lose their independence.
10. The appointed accountant shall not receive any commission related to the business.
11. The appointed accountant shall not hold the shares of the Company.
12. Appointed accountants shall not concurrently serve as regular employees of the Company and shall be entitled to a fixed salary.
13. The appointed accountant shall not have a joint investment or share of interest with the Company.
14. The appointment of an accountant shall not involve the management functions of the Company in making decisions.
**Assessment Results: All are independent.**

D. The Composition of the Remuneration Committee, Responsibilities, and Operation

i. Compensation Committee Members' Background Information

Information of Remureneration Committee Members:

| Title | Criteria / Name | Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience | | | Criteria (Note 1) | | | | | | | | Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | An Instructor or Higher Position in a Department Of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | |
| Independent Director | Lung-Yi Liao | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | None |
| Independent Director | Shou-Lu Chang | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | |
| Independent Director | Sung-Yuan Liao | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | |
| Independent Director | Chen-Yi Kao | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 0 | |

Note 1: Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes.

1. Not an employee of the Company or any of its affiliates;
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary, as appointed in accordance with the laws of Taiwan or with the laws of the country of the parent company or subsidiary;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the Company or ranks as of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the Company;
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof;

8. Not been a person of any conditions defined in Article 30 of the Company Act.

ii. Compensation (Remuneration) Committee Meeting Status

ii-1. There are 4 members in TCI's Compensation Committee.

ii-2. The current term of office is from May 19, 2017 to May 18, 2020. There were 3 regular meetings convened in 2018 (A).

The members' attendance status is as follows:

| Title | Name | Attendance in Person (B) | By Proxy | Attendance Rate in Person (5) (B/A) | Notes |
|---|---|---|---|---|---|
| Chair | Lung-Yi Liao | 3 | 0 | 100% | Term of office renewed |
| Member | Shou-Lu Chang | 3 | 0 | 100% | Term of office renewed |
| Member | Sung-Yuan Liao | 3 | 0 | 100% | New office assumed |
| Member | Chen-Yi Kao | 3 | 0 | 100% | New office assumed |

Annotations:

1. The Operration of Remureration Committee

| Meeting Date | The Meeting No. | Proposal | Resolution | TCI's Response to Resolution |
|---|---|---|---|---|
| 2018/3/1 | 2018 1st Meeting | 1.Prepared the 2017 Directors' Compensation and Employee Profit Sharing Plans. | Approved without objection | Approved by the Board of the Director |
| 2018/5/2 | 2018 2nd Meeting | 1. Prepared to issue the 1st New Share Issuance of Restricted Stock Awards in 2018.<br>2.Revised the Regulations for 1st New Share Issuance of Restricted Stock Awards in 2018 and prepared the relevant tasks like determining the issuance date and the list of eligible employees. | Approved without objection | Approved by the Board of the Director |
| 2018/10/24 | 2018 3rd Meeting | 1.Discussed the proposal of adjustment of the remuneration for managers. | Approved without objection | Approved by the Board of the Director |

2. If the Board of Directors does not accept or amend the suggestions of the Remureration Committee, please state the Borad meeting date, term, the motions, content of the resolutions of the Board, and the Company's handling the opinions proposed by the Remuneration Committee：None.

3. For resolutions reached by the Remuneration Committee regarding which Independent Directors have voiced opposing or qualified opinions on the record or in writing, the Remuneration Committee meeting date, period, content of the resolution, opinions of all members, and the handling of the opinions of the members：None.

E. Corporate Social Responsibility

| Evalution Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explanation | |
| 1. Substantiation of corporate governance | | | | |
| (1) Does the Company have the CSR policies or systems established and the implementation effect reviewed? | ✓ | | (1) The Company has established a Code of Practice for Corporate Social Responsibility for compliance. | None |
| (2) Does the Company have the CSR education and training arranged on a regular basis? | ✓ | | (2) The Company regularly organizes new employee education and training, including company organization welfare, department work, factory internship and excellent enterprise visits, etc., to promote the Company's business philosophy and corporate social responsibility. | None |
| (3) Does the Company have a specific (or part-time) responsibility, have the management authorized by the Board of Directs to handle matters and report the processing results to the Board of Directors. | ✓ | | (3) The Company promotes corporate social responsibility by the Administrative Service Center and regularly organizes charitable fundraising activities and public welfare participation activities. | The actual operation situation is generally in line with the gist of the relevant provisions of the Code of Practice for Corporate Social Responsibility of the listed company. |
| (4) Does the Company have a reasonable salary and remuneration policy setup, have the employee performance evaluation system combined with corporate social responsibility policies, and have a clear and effective reward and punishment system | ✓ | | (4) The Company has established a reasonable salary | None |

| Evalution Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explanation | |
| established? | | | remuneration policy and has a "Working Rules" and a new award and punishment committee, which sets out the relevant reward and punishment system and regularly conducts employee performance appraisal and rewards and punishments. | |

| Evalution Item | Implementation Status | | | Deviating from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies” and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explanation | |
| Evaluation Item | Implementation Status | | | Deviating from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies” and the root causes |
| | Yes | No | Bried Explanation | |
| 2. Development of sustainable environment | | | | |
| (1) Does the Company have an appropriate environmental management system established in accordance with its industrial character? | ✓ | | (1) The Company vigorously promotes and implements resource reuse, cooperates with government policies to continue to implement waste sorting, recycling and reduction processing, promotes the use of waste paper photocopying by the office, and promotes the habits of saving water and electricity to employees, reducing Use disposable tableware to achieve energy saving, carbon reduction and energy saving. | None |
| (1) Does the Company have an appropriate environmental management system established in accordance with its industrial character? | | | | None |
| | ✓ | | | None |
| (2) Does the Company pay attention to the impact of climate change on the operation activities, implement greenhouse gas check, and form an energy-saving, carbon-reduction, and greenhouse emissions reduction strategy? | ✓ | | (2) The Company is a health food and beauty products manufacturing industry. The wastewater generated in the production process is properly treated and discharged, and is committed to maintaining environmental cleanliness and sanitation, promoting resource reuse and continuing energy conservation. | |

| Evalution Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explanation | |
| | | | Carbon action.<br><br>(3) The Company is committed to promoting energy conservation and carbon reduction through daily education and promotion of employees and the promotion of environmentally-friendly and energy-saving waste recycling. | |
| 3. Maintenance of social welfare<br>(1) Does the Company have the relevant management policies and procedures stipulated in accordance with the relevant laws and regulations and international conventions on human rights? | ✓ | | (1) The Company complies with the Labor Standards Law, the Employment Service Law and the Gender Work Equality Law and other relevant laws and regulations and respects the internationally recognized basic labor human rights principles to protect the legitimate rights and interests of employees. Insured for labor insurance and health insurance, and employee pensions, and implement incentives such as employee dividends and year-end bonuses. The Company established the Staff Welfare Committee to provide welfare funds according to law, and held regular meetings to formulate and promote various welfare measures. | None |
| (2) Does the Company have the complaint mechanism and channel established for emplyees and have it handled properly? | ✓ | | (2) The employees of the Company can directly appeal to the department head and the personnel department, and properly handle them. | None |
| (3) Does the Company provide employee with a safe and healty working environment, and provide safety and | ✓ | | (3) The Company maintains and supervises the work environment of the factory and office in accordance with | None |

| Evalution Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explanation | |
| health education to emplyees regularly? | | | the relevant labor safety and health laws and regulations, and the two factories are regularly handled in the middle of each year, except for the health check information within 3 months of the nearby employees. Employee health check, the Taipei head office will be required to complete the employee health check at the same time, and the simple health check will be held from time to time depending on the annual situation. | None |
| (2) Does the Company have established a mechanism of periodical communication with employees and have the employee notified in a reasonable manner regarding the potential impact of the operation changes. | ✓ | | In order to maintain the safety of the office, it is not allowed to place flammable and dangerous articles in the office. According to the smoke prevention and control law, the indoor work and public places shall be completely banned. The drinking water equipment that meets the drinking water standard shall be set up in the workplace, and cleaned and maintained regularly. The workplace sanitation management and cleaning and maintenance committee shall maintain the hygienic quality of the work environment regularly by professional cleaning companies. | None |
| (3) Does the Company have an effective career capacity development training program established for the employees? | ✓ | | The Precision Intelligent Manufacturing Center conducts environmental monitoring, firefighting and first-aid exercises every six months, and holds labor safety and health education and training at least every six months. | |

| Evalution Item | Implementation Status | | | Deviating from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies” and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explanation | |
| | | | (4) The Company regularly holds a labor-management meeting to establish a good communication channel between the employer and the employee, and informs about the changes in the operations that may have a significant impact on the employees and discusses the major issues and the operational status of the operational measures in each labor-management meeting. And reviewing issues such as flexible working hours and women's nighttime overtime safety measures and planning to protect labor rights.<br>(5) The Company discusses the development of the employee's personal career by the supervisor and the staff each year through performance appraisal, and sets the next year's plan. | |

| | | | | |
|---|---|---|---|---|
| (4) Does the Company have the relevant consumer protection policies and complaint procedures established in the sense of R&D, procurement, production, operations, and service processes?<br>(7) Does the Company have products and services marketed and labeled in accordance with the relevant regulations and international norms?<br>(8) Does the Company have the suppliers checked in advance for any records of impacting the environment and society?<br>(9) Does the contract signed by the Company with the major suppliers entitle the Company to have the contract cancelled or terminated at any time when the suppliers violate the CSR policies that have significant impact on the environment and society? | ✓<br>✓<br>✓ | ✓ | (6) The Company has contracted quality contracts with key R&D and production suppliers to ensure the quality of the final R&D products in the future. It also has a laboratory for product inspection and backtracking product batch numbers to ensure consumer safety. The Company set up a business department to provide customer product service and consultation, maintain a smooth communication channel with customers, and in the internal control system, set up a customer complaint handling process chapter, assisted by the project manager and quality control unit in the first time Clarify the customer's situation, quickly eliminate the exception and give the customer improvement plan and answer to protect the customer's rights.<br>(7) For the marketing and labeling of products and services, the Company complies with relevant regulations and international standards.<br>(8) The procurement department of the Company regularly conducts supplier evaluation according to the internal control system. If there is a bad reputation record, it will not be included in the qualified supplier.<br>(9) The contract between the Company and its major suppliers does not include provisions for the supplier to terminate or terminate the contract at any time if it involves a violation of its corporate social responsibility | None<br>None<br>None<br>The actual operation situation is generally in line with the gist of the relevant provisions of the Code of Practice for Corporate Social Responsibility of the listed company. |

| | | | | |
|---|---|---|---|---|
| | | | policy and has a significant impact on the environment and society. In practice, preventive measures have been taken in the supplier's assessment. If there is a significant impact, the contract will be terminated and terminated immediately in accordance with the Company's Corporate Social Responsibility Code. | |

| Evalution Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explanation | |
| 4. Strengthening information disclosure<br>(1) Does the Company have the relevant and reliable CSR information disclosed on the Company' s website and MOPS? | ✓ | | (1) The Company disclosed relevant information and major information about the Company's operations to the public information observatory in accordance with the relevant laws and regulations, and disclosed relevant information on the implementation of corporate social responsibility in the annual report. This year, the "Permanent Business Report" was prepared and announced in accordance with relevant regulations. | None |
| 5. If the Company has the "Corporate Social Responsibility Best-Practice Principles" stipulated in accordance with the "Coroporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies," please state its deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" in operation： | | | | |
| 6. Other important information helpful in understanding the corporate social responsibility operation: | | | | |
| 7. Please detail the Corporate Social Responsibitly Report that has met the verification standard of the relevant certification institutions, if any：None. | | | | |

F. Ethical Corporate Management

| Evalutation Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explaination | |
| 1. Formation of ethical management policies and methods | | | | |
| (1) Does the Company have the ethical management policy and method declared explicity in the Articles of Incorporation and external documents; also, the commitment of the Board of Directors and the management to actively implement the operating policies? | ✓ | | (1) The Company has established the "Code of Integrity Management", and all business operations operate on the principle of good faith management. | None |
| (2) Does the Company have the prevention program for any fraud stipulated; also, have the respective operating procedures, guidelines for conduct, disciplinary actions, and complaints system declared explicity; also have it implemented substantively? | ✓ | | (2) In addition to the prohibition of dishonest conduct in the Code of Good Faith, it also reveals that the Code complies with laws and policies and has established the Company's "Integrity Procedures and Conduct Guidelines". | None |
| (3) Does the Company have preventive measures adopted in response to the conducts stated in Article 7 Paragraph 2 of the "Ethical Management Best Practice Principles for | ✓ | | (3) The Company's "Integrity Procedures and Conduct Guide" defines the scope of the prevention plan and the units responsible for it, and in the "Code of Practice", it will be dismissed if it is determined that misbehaviour is involved. | None |

| Evalutation Item | Implementation Status | | | Deviating from the “Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies” and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explaination | |
| TWSE/TAPEX Listed Companies” or other business activities subject to higher rish of fraud? | | | | |
| 2. Substantiation of ethical management | | | | |
| (1) Does the Company have the integrity of the trade counterparty assessed and with the code of integrity expressed in the contract signed? | ✓ | | | None |
| (2) Does the Company have a specific (part-time) unit setup under the Board of Directors to advocate the code of integrity and to report on its implementation to the Board on a regular basis? | ✓<br>✓ | | | None<br>None |
| (3) Does the Company have developed policies to prevent conflicts of interest, provided adequate channel for communication, and substantiated the policies? | ✓ | | (1) When the Company's "Integrity Code of Practice" regulates the signing of contracts with others, it should fully understand the other party's integrity management status, and should incorporate credit management into the terms of the contract or express the integrity. | None |
| (4)Does the Company have established effective accounting systems and internal control systems to susbstantiate ethical management; also, have audits performed by the | ✓ | | (2) Code of Integrity Management The Company is responsible for the formulation of the integrity | None |

| Evalutation Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explaination | |
| internal audit unit on a regular basis or by the commission CPAs?<br><br>(5) Does the Company have organized ethical management internal and external education and training programs on a regular basis? | | | management policy and prevention plan by the personnel unit. The internal audit personnel are responsible for supervising and implementing the audit report and submitting it to the Board of Directors.<br><br>(3) The Code of Integrity Management clearly stipulates the relevant regulations, and each business has a window of authority and responsibility, and announces the relevant operation regulations and contact mailbox on the official website to facilitate inquiry and compliance.<br><br>(4) The Company has a dedicated auditing unit, which regularly conducts internal control and inspection and control, and the relevant operation specifications are announced on the official website. | |

| Evalutation Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
| --- | --- | --- | --- | --- |
| | Yes | No | Brief Explaination | |
| | | | (5) The Company promotes relevant regulations on integrity management through regular executive meetings and internal meetings. | |
| 3. The operation of the Company' s report system<br>(1) Does the Company have a specific report and reward system stipulated, a convenient report channel established, and a responsible staff designated to handle the individual being reported?<br>(2) Does the Company have the standard investigating procedures and related confidentiality mechanism established for the incidents being reported?<br>(3) Does the Company have taken proper measures to protect the whistleblowers from suffering any consequence of reporting an incident? | ✓<br>✓<br>✓ | | (1) The Company has clearly stated the reporting and disciplinary system in the Code of Integrity, and announced the announcement to all colleagues. Employees can also respond to high-level executives in any form.<br>(2) The Company's "Integrity Procedures and Conduct Guide" has established the investigation standard operating procedures and related confidentiality mechanisms for accepting and reporting matters.<br>(3) The Company adopts an anonymous reporting policy to protect the prosecutor from improper handling due to the report. | None<br>None<br>None |

| Evalutation Item | Implementation Status | | | Deviating from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TAPEX Listed Companies" and the root causes |
|---|---|---|---|---|
| | Yes | No | Brief Explaination | |
| 4. Strengthening information disclosure<br>(1) Does the Company have the content of ethical management and its implementation disclosed on the website and MOPS? | ✓ | | (1) The Company has disclosed the contents of its integrity management code on its website and public information observatories. | None |
| 5. If the Company has the "Ethical Management Best-Practice Principles" stipulated in accordance with the "Ethical Management Best-Practice Principles for TWSE/TAPEX Listed Companies," please state its deviating from the "Ethical Management Best-Practice Principles for TWSE/TAPEX Listed Companies" in operation： | | | | |
| 6. Other important information helpful understanding the ethical management operation:<br>The Company is based on honesty, and strives to be responsible for investors, users and society. In addition, the Company and related manufacturers and partners are mostly long-term cooperation, and set up relevant full-time personnel to participate, maintain long-term stable cooperative relations and clearly define the code of conduct and rewards and punishments in the employee handbook, and strive to operate in good faith. | | | | |

(7) The Company has the corporate governance Best-Practice Principle and the related inquiries established：The Company website (https://www.tci-bio.com/Investor/Rules/zh-tw/) is with the corporate governance section designated for investor’s inquiring and downloading corporate governance-related regulations; also, it is published on the MOPS.

(8) Other important information helpful in understanding the corporate governance operation：None.

G. The implementation of the internal control system

i. Statement of Internal Control System

TCI Co., LTD.

Statement of Internal Control System

Date: February 20, 2019

Based on the findings of a self-assessment, TCI Co., Ltd. (TCI) states the following with regard to its internal control system during the year 2018

1. TCI's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system, and TCI has established such a system. Our internal control system is designed to provide reasonable assurance over the effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), reliability, timeliness, transparenc of reporting, and compliance with applicable laws and regulations.
2. An internal control system has its inherent limitations. No matter how perfectly designed, and effective internal control system can only provide reasonable assurance of accomplishment the objectives mentioned above. Furthermore, the effectiveness of an internal control system may be subject to changes due to circumstances beyond control. Nevertheless, the internal control system of TCI contains self-monitoring mechanisms, and TCI takes actions in response to any identified deficiencies.
3. TCI evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing the Establishment of Internal Control Systems by Public Companies" (herein below, the Regulations"). The criteria adopted by the Regulations identify five components of managerial internal control：(1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities, Each component further contains several items. Please refer to the Regulations for details.
4. TCI has evaluated the design and operating effecetiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, TCI believes that, on December 31, 2018, it has maintained, in all material respects, and effective internal control system (that included the supervision and management of subsidiaries), to provide reasonable assurance over operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable laws and regulations.
6. This Statement will be an integral part of TCI's Annual Report and Prospectus and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32,

171, and 174 of the Securities and Exchange Act.

7. This Statement has been passed by the Board of Directors in their meeting on February 20, 2019, with all of the seven attending directors all affirming the content of this Statement.

TCI Co., Ltd.

Chairman: Yung-Hsiang Lin (Signature)

General Manager: Yung-Hsiang Lin (Signature)

ii. If a CPA is commissioned to review internal control system specifically, the review report should be disclosed：None.

H. The Company and its internal staff being punished lawfully, the punishment given by the Company to the violators of internal control system, major nonconformity, and the improvement in the most recent year and up to the publication of the annual report：None.

I. The material resolutions reached in the shareholdrs' meeting and board meeting in the most recent year and up to the publication of the annual report

i. Important Resolutions Reached in the Shareholders' Meeting.

March 18, 2019

| Meeting Date | Important Resolution | Implemention |
|---|---|---|
| May 18,2018 | 1.Adoption of the 2017 business report and financial statements | They had been approved by the Shareholders' Meeting. |
| | 2.Adoption of the proposal for distribution of 2017 profits. | 1.The proposed dividend to shareholders is NT$4.2 per share. The cash dividend payment is NT$2.7 per share, and the total amount of cash dividend is NT$234,931,609. The stock dividend payment is NT$1.5 per share, and the total amount of stock dividend is NT$130,517,560. The total amount of distribution of 2017 profits is NT$365,449,169.<br>2.Because the proposed profit distribution is affected by the changes in equity caused by the execution of employee stock options, the cash dividend payment has been adjusted to NT$2.68827842 per share. The stock dividend payment has been adjusted to NT$1.49348800 per share.<br>3.The ex-dividend date is August 12, 2018. The cash dividend had been distributed on August 31, 2018, and the stock dividend had been distributed on September 14, 2018. |
| | 3.Proposal for the 2017 new share issue through capitalization of retained earnings transferred to capital | The amendment had been implemented in accordance with the approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10701105450 received on August 23, 2018. |
| | 4.Amendment to the articles of incorporation | The amendment had been implemented in accordance with the approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10701105450 received on August 23, 2018. |
| | 5.Amendment to the Operational Procedures for Acquisition or Disposal of Assets | The amendment had been disclosed on the Martket Observation Post System (MOPS) on May 21, 2018. The acquisition or disposal of assets should be in compliance with the amended Operational Procedures. |

ii. Important Resolutions of the Board of Directors.

March 18, 2019

| Meeting Date | Important Resolution | Implemention |
|---|---|---|
| January 10, 2018 | 1.Prepared the 2018 Opeartional Plans and the 2018 Annual Budget.<br>2.Conducted the relevant procedures for the account settlement of the Company's account at First Commercial Bank (Hong Kong Branch).<br>3.The factory expansion project for the S8 factory.<br>4.Revised the provisions of the Operational Procedures for Acquisition or Disposal of Assets. | The same as the resolution(s) |
| March 1, 2018 | 1.Prepared the record date for capital increase and the relevant tasks for the convertible bonds in 1st quarter of 2018.<br>2.Formulated the 2017 Statement of Internal Control System.<br>3.Prepared the 2017 Directors' Compensation and Employee Profit Sharing Plans.<br>4.Prepared to issue the 1st New Share Issuance of Restricted Stock Awards in 2018.<br>5.Issued the 2nd Issuance of Unsecured Convertible Bonds.<br>6.Revised the Remuneration Committee Charter.<br>7.Reviewed the 2017 Business Report and the 2017 Financial Statements.<br>8.Revised the Articles of Incorporation.<br>9.Discussed the Proposal for Distribution of 2017 Profits.<br>10.Discussed the Company's 2017 new share issue through capitalization of retained earnings transferred to capital<br>11.Determined the time period and place to accept the shareholders' proposal for the Company's 2017 general shareholders' meeting. | The same as the resolution(s) |
| May 2, 2018 | 1.Revised the Regulations for 1st New Share Issuance of Restricted Stock Awards in 2018 and prepared the relevant tasks like determining the issuance date and the list of eligible employees.<br>2.Discussed the establishment of the new affiliate. | The same as the resolution(s) |
| May 18, 2018 | 1. Amended the Approval Chart of Authority.<br>2.Increased the investment amount of the S11 factory.<br>3.Purchased a new commercial office in Neihu.<br>4.Prescribed the ex-dividend date and the relevant tasks of the distribution of 2017 profits.<br>5. Applied for the new credit line.<br>6.The subsidiary (BioFunction, Shanghai BioTech Group) applied for the new credit line. | The same as the resolution(s) |

| Meeting Date | Important Resolution | Implemention |
| --- | --- | --- |
| July 20, 2018 | 1.Set the record date for capital increase for the Employee Stock Options and the convertible bonds in the 3rd quarter in 2018.<br>2. Applied for the new credit line.<br>3.The dissolution and liquidation of the subsidiary, TCI HK LIMITED. | The same as the resolution(s) |
| October 8, 2018 | 1.Discussed the establishment of the new affiliate in Japan.<br>2.Abandoned the cash capital increase for BioFunction, Shanghai BioTech Group.<br>3.Released the managers from the non-competition restrictions. | The same as the resolution(s) |
| October 24, 2018 | 1. Set the Company's 2019 annual audit plan.<br>2. The assessment of the suitability and the independence of the CPAs commissioned by the Company.<br>3. The 2019 annual remuneration plan for CPAs.<br>4. Set the record date for capital increase for the Employee Stock Options and the convertible bonds in the 4th quarter in 2018.<br>5. Applied for the new credit line.<br>6. Discussed the investment plan for PureMilk Corp.<br>7. Released the managers from the non-competition restrictions.<br>8. Increased the investment of the Rock Park.<br>9. Approved the proposal suggested by the 3rd meeting of the Remuneration Committee in 2018.<br>10.Discussed the establishment of the new affiliate in France. | The same as the resolution(s) |
| January 9, 2019 | 1.Prepared the 2019 Opeartional Plans and the 2019 Annual Budget.<br>2.Applied for the new credit line.<br>3.Prepared to issue the 1st New Share Issuance of Restricted Stock Awards in 2019.<br>4. Amended the Operational Procedures for Acquisition or Disposal of Assets.<br>5. Amended the Rules of Procedure for Shareholders' Meetings<br>6. Conducted the relevant tasks related to purchsing the new commercial office in Neihu. | The same as the resolution(s) |
| Febuary 20, 2019 | 1.Prepared the record date for capital increase and the relevant tasks for the convertible bonds in 1st quarter of 2019.<br>2.Formulated the 2018 Statement of Internal Control System.<br>3.Applied for the new credit line.<br>4.Prepared the 2018 Directors' Compensation and Employee Profit Sharing Plans.<br>5.Reviewed the 2018 Business Report and the 2018 Financial Statements. | The same as the resolution(s) |

| Meeting Date | Important Resolution | Implemention |
|---|---|---|
| | 6.Discussed the Proposal for Distribution of 2018 Profits.<br>7.Discussed the Company's 2018 new share issue through capitalization of retained earnings transferred to capital.<br>8.Determined the time period and place to accept the shareholders' proposal for the Company's 2019 general shareholders'meeting. | |

J. The contents of the Board resolutions regarding which independent directors have voiced opposing or qualified opinions on the record or in writing in the most recent year or up to the publication of the annual report: None.

K. The resignation of dismissal of the Company's Chairman, President, Accounting Officer, Finance Officer, Internal Audit Director, and R&D Director in the most recent year or up to the publication of the annual report：None.

(4) Information Regarding the Company' s Audit Fee and Independence

A.Audit Fee

| CPA Firm | Name of CPAs | | Audit Period | Remark |
|---|---|---|---|---|
| PricewaterhouseCoopers Taiwan | Ming-Chuan Hsu | Kuo-Hua Wang | Year of 2018 | None |

Unit: NT$ 1,000

| Fee Items / Fee Range | | Audit Fee | Non-audit Fee | Total |
|---|---|---|---|---|
| 1 | Less than NT$2,000,000 | | ✓ | |
| 2 | NT$2,000,0000 - 3,999,999 | ✓ | | ✓ |
| 3 | NT$4,000,0000 - 5,999,999 | | | |
| 4 | NT$6,000,0000 - 7,999,999 | | | |
| 5 | NT$8,000,0000 - 9,999,999 | | | |
| 6 | Over NT$10,000,000 | | | |

B.If any of the following circumstances occurs, the Company shall disclose the relevant information of the issue:

i.If the non-audit fees paid to the CPAs, CPAs Firms, and its affiliated companies is over 25% of the audit fee, the amount of audit fee and non-audit fee and contents of the non-audit sercive should be disclosed:

Unit: NT$ 1,000

| Accounting Firm | Name of CPA | Audit Fee | Non-audit Fees | | | | | Audit Period | Remark |
|---|---|---|---|---|---|---|---|---|---|
| | | | System Design | Company Registration | Human Resources | Others | Subtotal | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Pricewaterhouse Coopers Taiwan | Ming-Chuan Hsu<br>Kuo-Hua Wang | 2,900 | 0 | 0 | 0 | 500 | 500 | Year of 2018 | Consultation Service and Transfer Pricing Services Fees |

ii.If the audit fee of current year is more than 15% less than the year before, please disclose the audit fee amount and ratio reduced and the root cause of the fee reduction：None.

iii.If the aduit fee amount and ratio reduced and the root cause of the reduction：None.

(5) Replacement of CPAs：

A.Infromation Regarding to the Former CPA

<table>
<tr><td>Replacement Date</td><td colspan="4">May 8, 2017</td></tr>
<tr><td>Replacement Reasons and Explanation</td><td colspan="4">The Company's CPAs were Kuo-Hua Wang and Chih, Ping-Chiun at PricewaterhouseCoopers Taiwan formerly. Since the first quarter of 2017, PricewaterhouseCoopers Taiwan has replaced the CPAs by Kuo-Hua Wang and Ming-Chuan Hsu.</td></tr>
<tr><td rowspan="3">Describe whether the Company terminated or the CPA did not accept appointment</td><td colspan="2">Parties / Status</td><td>CPA</td><td>The Company</td></tr>
<tr><td colspan="2">Termination of Appointment</td><td>Not Applicable</td><td>Not Applicable</td></tr>
<tr><td colspan="2">No longer accepted (continued) appointment</td><td>Not Applicable</td><td>Not Applicable</td></tr>
<tr><td>Unqualified Opinion</td><td colspan="4">None</td></tr>
<tr><td rowspan="7">Differences with the Company</td><td rowspan="5">Yes</td><td></td><td colspan="2">Accounting Principles or Practices</td></tr>
<tr><td></td><td colspan="2">Disclosure of Finacial Statements</td></tr>
<tr><td></td><td colspan="2">Audit Scope or Steps</td></tr>
<tr><td></td><td colspan="2">Others</td></tr>
<tr><td></td><td colspan="2"></td></tr>
<tr><td>None</td><td colspan="3">V</td></tr>
<tr><td colspan="4">Remarks / Specify Details : None</td></tr>
</table>

B.Regarding the Successor CPA

C.The reply from the previous accoutanct in response to Item 3, Order 1 and 2, Section 6, Article 10 of this guideline：None.

(6) The Company’ s Chairman, President, and Finance or Accounting Officer have held a position in the independent audting firm or its affiliates over the past year：None.

(7) Changes in the shares held and pledged by directors, supervisors, managers, and major shareholders holding over 10% of outstanding shares in the most recent year and up to the publication of the annual report

A. Changes in equity transfer and pledge

Unit：share

| Title | Name | 2018 | | As of March 18, 2019 | |
|---|---|---|---|---|---|
| | | Increase (decrease) of shareholding | Increase (decrease) of shares pledged | Increase (decrease) of shareholding | Increase (decrease) of shares pledged |
| Chairman | Yung-Chiang Investment Co., Ltd. | 403,130 | 400,000 | － | － |
| | Authorized Representative:Yung-Hsiang Lin | 483,462 | － | － | － |
| Director | Sunshine Wealth Co., Ltd. | 257,383 | － | (50,000) | － |
| | Authorized Representative: Jui-Hua Tsai | (386,313) | － | (62,000) | － |
| Director | DyDo Group Holdings, INC. | 1,279,829 | － | (1,500,000) | － |
| | Authorized representative: Tomiya Takamatsu | － | － | － | － |
| Independent Director | Lung-Yi Liao | － | － | － | － |
| Independent Director | Shou-Lu Chang | － | － | － | － |
| Independent Director | Sung-Yuan Liao | － | － | － | － |
| Independent Director | Chen-Yi Kao | － | － | － | － |
| Deputy General Manager | Yung-Hao Lin | 61,698 | － | － | － |
| Deputy General Manager | Wei-Chieh Liao | 63,910 | － | － | － |
| Assitant Vice President, Finance Department | Cheng-Hsien Chiang | 10,475 | － | － | － |
| Manager, Accounting & Tax Department | Jui-Yi Wu | 3,059 | － | － | － |
| Assitant Vice President | Chih-Cheng Tsai | 13,792 | － | － | － |
| Assitant Vice President | Hung-Fu Wang | 25,511 | － | － | － |
| Assitant Vice President | Hsueh-Yin Huang (Note 1) | NA | NA | NA | NA |
| Supervisor, Internal Audit Department | Wei-Chiang Chi | － | － | － | － |

| Title | Name | 2018 | | As of March 18, 2019 | |
|---|---|---|---|---|---|
| | | Increase (decrease) of shareholding | Increase (decrease) of shares pledged | Increase (decrease) of shareholding | Increase (decrease) of shares pledged |
| Supervisor, Cost Management Center | Chen-Chen Fu (Note 2) | — | — | — | — |
| Assistant Vice President, Strategic Intelligence Center | Yueh Min(Note 3) | NA | NA | — | — |

Note 1: Hsueh-Yin Huang resigned on January 5, 2018.
Note 2: Chen-Chen Fu assumed office on November 1, 2018.
Note 3: Yueh Min assumed office on February 11, 2019.

B. The counterparty of the equity transfer is a related party：

Unit：share / NT$

| Name | Reason | Date of Transaction | Transaction Counterpart | Relationship between the Counterparty of the Transaction and the Company, Directors, Supervisors and the Shareholders with Shareholdings of more than 10% | Amount of Shares | Price |
|---|---|---|---|---|---|---|
| Wei-Chieh Liao | Gift | 2018.7 | Hui-Mei Chen | Wei-Chieh Liao Relatives Within Two Degrees of Wei-Chieh Liao | 5,000 | — |

C. The counterparty of the equity pledge is a related party：None.

(8) The top-10 shareholders who are the spouses or relatives within second-degree to each other.

As of March 18, 2019
Unit: share / %

| Name | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Name and Relationship Between the Company' s Top 10 Shareholders, or Spouses or Relatives Within Two Degrees | | Remark |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | % | Shares | % | Shares | % | Name | Relations | |
| Taipei Fubon Commercial Bank Trust Dade Group Holdings Co., Ltd. Investment Account<br>Authorized representative: Tomiya Takamatsu | | 8.13%<br>— | —<br>— | —<br>— | —<br>— | —<br>— | Taipei Fubon Commercial Bank Trust Datong Pharmaceutical Industry Co., Ltd. Investment Account<br>— | Parent company and its subsidiary<br>— | —<br>— |
| Sunshine Wealth Co., Ltd.<br>Legal Representative: Wu-Nan Yang | 4,252,914<br>693,304 | 4.14%<br>0.67% | —<br>— | —<br>— | —<br>— | —<br>— | —<br>— | —<br>— | — |
| Taipei Fubon Commercial Bank Trust Datong Pharmaceutical Industry Co., Ltd. Investment Account | 3,737,537 | 3.64% | — | — | — | — | Taipei Fubon Commercial Bank Trust Dade Group Holdings Co., Ltd. Investment Account | Parent company and its subsidiary | — |
| Yung-Chiang Investment Co., Ltd.<br>Legal Representative: Yung-Hsiang Lin | 3,102,385<br>803,179 | 3.02%<br>0.78% | —<br>32,887 | —<br>0.03% | —<br>— | —<br>— | —<br>— | —<br>— | —<br>— |
| Citibank Standard Life Life Global Small Company Fund Account | 2,733,009 | 2.66% | — | — | — | — | — | — | — |
| Wang Hao Co., Ltd.<br>Authorized Representative: Chia-Chin Tsai | 2,013,827<br>— | 1.96%<br>— | —<br>— | —<br>— | 1,210,308<br>— | 1.17%<br>— | —<br>— | —<br>— | —<br>— |
| Chase Trusts Shabu Central Bank Outsourcing Quoni Investment Account | 1,776,057 | 1.73% | — | — | — | — | — | — | — |
| HSBC Trusted Morgan Stanley International Co., Ltd. | 1,621,879 | 1.58% | — | — | — | — | — | — | — |
| JPMorgan Chase administers Vanguard German Emerging Market Equity Fund Account | 1,349,088 | 1.31% | — | — | — | — | — | — | — |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Chase Managed Advanced Starlight Advanced General International Stock Index | 1,340,328 | 1.30% | – | – | – | – | – | – | – |

(9) The shares of the invested company held by the Company, the Company' s directors, supervisors, managers, and companies controlled directly or indirectly, and the aggregated overall sharholding ration

As of December 31, 2018

Unit: share / %

| Affiliated Enterprises | Investment by TCI | | Investment by TCI' s Directors, Supervisors, Mangers and its directly or indirectly controlled business | | Total Investment | |
|---|---|---|---|---|---|---|
| | Shares | % | Shares | % | Shares | % |
| TCI Firstek Corp. | 115,963,709 | 100% | — | — | 115,963,709 | 100% |
| TCI Gene Inc. | 6,425,000 | 61.19% | 4,075,000 | 38.81% | 6,425,000 | 61.19% |
| TCI Living Co., Ltd. | 11,500,000 | 100% | — | — | 11,500,000 | 100% |
| Shanghai BioCosme Co., Ltd. | 500,000 | 100% | — | — | 500,000 | 100% |
| BioFunction, Shanghai BioTech Group | Note 1 | 100% | — | — | Note 1 | 100% |
| TCI HK LIMITED | Note 1 | 100% | — | — | Note 1 | 100% |
| BioTrade, Shanghai BioTech Group | Note 1 | 100% | — | — | Note 1 | 100% |
| BioScience, Shanghai BioTech Group | Note 1 | 100% | — | — | Note 1 | 100% |
| BioCosme, Shanghai BioTech Group | Note 1 | 100% | — | — | Note 1 | 100% |
| GLUX HK LIMITED | Note 1 | 61.19% | Note 1 | 38.81% | Note 1 | 61.19% |
| TCI BIOTECH LLC | Note 1 | 100% | — | - | Note 1 | 100% |
| TCI JAPAN CO., LTD. | Note 2 | 100% | — | - | Note 2 | 100% |
| PT TCI BIOTEK INDO | Note2 | 100% | — | - | Note2 | 100% |
| SBI GROUP HK LIMITED | Note 1 | 100% | — | - | Note 1 | 100% |

| | | | | | | |
|---|---|---|---|---|---|---|
| BIO DYNAMIC LABORATORIES INC. | Note 1 | 100% | — | - | Note 1 | 100% |

Note 1: As a company limited by shares, there is no issuace of shares.
Note 2: The capital had not been invested as of December 31, 2018.

## 4.Business Capitalization

(1) Capital and Shares

A. Capitalization

i.Equity formation

As of 03/18/2019

Unit: NT$1,000 / 1,000 shares

| Year/Month | Issue Price (Per Share) | Authorized Share Capital | | Capital Stock | | Remark | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Source of Capital | | Others |
| 2006/08 | 10 | 12,000 | 120,000 | 5,380 | 53,800 | Capitalization by Cash | 10,000 | Note 1 |
| 2007/08 | 10 | 12,000 | 120,000 | 6,380 | 63,800 | Capitalization by Cash | 10,000 | Note 2 |
| 2008/04 | 12 | 12,000 | 120,000 | 7,380 | 73,800 | Capitalization by Cash | 10,000 | Note 3 |
| 2009/10 | 10 | 12,000 | 120,000 | 8,618 | 86,180 | Capitalization by Cash<br>Capitalization by Earnings | 5,000<br>7,380 | Note 4 |
| 2010/08 | 10 | 50,000 | 500,000 | 15,000 | 150,000 | Capitalization by Cash<br>Capitalization by Earnings | 10,001<br>53,819 | Note 5 |
| 2011/07 | 10 | 50,000 | 500,000 | 20,042 | 200,420 | Capitalization by Earnings<br>Capitalization by Employee Bonus | 45,000<br>5,420 | Note 6 |
| 2011/12 | 68 | 50,000 | 500,000 | 22,642 | 226,420 | Capitalization by Cash | 26,000 | Note 7 |
| 2012/09 | 10<br>18 | 50,000 | 500,000 | 29,799 | 297,996 | Capitalization by Earnings<br>Conversion by Stock Option | 67,926<br>3,650 | Note 8 |
| 2013/04 | 18 | 50,000 | 500,000 | 29,812 | 298,126 | Conversion by Stock Option | 130 | Note 9 |
| 2013/08 | 10<br>18 | 50,000 | 500,000 | 39,423 | 394,234 | Capitalization by Earnings<br>Conversion by Stock Option | 89,438<br>6,670 | Note 10 |
| 2013/09 | 93 | 50,000 | 500,000 | 43,880 | 438,804 | Capitalization by Cash | 44,570 | Note 11 |
| 2014/08 | 10<br>18 | 100,000 | 1,000,000 | 51,024 | 510,244 | Capitalization by Earnings<br>Conversion by Stock Option | 65,821<br>5,620 | Note 12 |
| 2014/10 | 72.3 | 100,000 | 1,000,000 | 55,624 | 556,244 | Capitalization by Private Placement | 46,000 | Note 13 |
| 2015/08 | 10<br>18 | 100,000 | 1,000,000 | 61,202 | 612,028 | Capitalization by Earnings<br>Conversion by Stock Option | 55,624<br>160 | Note 14 |
| 2016/02 | 36<br>88 | 100,000 | 1,000,000 | 65,276 | 652,764 | Conversion by Stock Option<br>Conversion by Convertible Bond | 1,680<br>39,056 | Note 15 |
| 2016/05 | 88 | 100,000 | 1,000,000 | 66,607 | 666,071 | Conversion by Convertible Bond | 13,306 | Note 16 |
| 2016/08 | 10<br>78.8 | 100,000 | 1,000,000 | 75,370 | 753,698 | Capitalization by Earnings<br>Conversion by Convertible Bond<br>Capitalization by Restricted Employee Share | 78,332<br>3,295<br>6,000 | Note 17 |
| 2016/10 | 10 | 100,000 | 1,000,000 | 75,447 | 754,470 | Conversion by Stock Option | 10 | Note |

| Year/Month | Issue Price (Per Share) | Authorized Share Capital | | Capital Stock | | Remark | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Shares | Amount | Source of Capital | | Others |
| | 78.8 | | | | | Conversion by Convertible Bond | 761 | 18 |
| 2017/01 | 10<br>78.8 | 100,000 | 1,000,000 | 75,621 | 756,213 | Conversion by Stock Option<br>Conversion by Convertible Bond | 1,730<br>13 | Note 19 |
| 2017/04 | 10<br>78.8 | 100,000 | 1,000,000 | 75,653 | 756,525 | Conversion by Stock Option<br>Conversion by Convertible Bond | 300<br>13 | Note 20 |
| 2017/06 | 10 | 100,000 | 1,000,000 | 75,669 | 756,685 | Conversion by Stock Option | 160 | Note 21 |
| 2017/07 | 10 | 100,000 | 1,000,000 | 87,012 | 870,117 | Capitalization by Earnings | 113,432 | Note 22 |
| 2018/04 | 10 | 100,000 | 1,000,000 | 87,070 | 870,701 | Conversion by Convertible Bond | 584 | Note 23 |
| 2018/07 | 10 | 200,000 | 2,000,000 | 100,122 | 1,001,219 | Capitalization by Earnings | 130,518 | Note 24 |
| 2018/11 | 10 | 200,000 | 2,000,000 | 102,232 | 1,022,321 | Conversion by Stock Option<br>Conversion by Convertible Bond | 5,260<br>15,842 | Note 25 |
| 2019/01 | 10 | 200,000 | 2,000,000 | 102,608 | 1,026,076 | Conversion by Stock Option<br>Conversion by Convertible Bond | 420<br>3,335 | Note 26 |

Note 1: The approval letter, the Letter No. Taipei-City-Government-City-Construction-Bureau-09582279100 received on August 22, 2006.

Note 2: The approval letter, the Letter No. Taipei-City-Government-City-Construction-Bureau-09688717100 received on August 30, 2007.

Note 3: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-09783966800 received on April 25, 2008.

Note 4: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-09887803330 received on October 29, 2009.

Note 5: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-09985775230 received on August 16, 2010.

Note 6: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-10085576600 received on July 15, 2011.

Note 7: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-10090009810 received on December 9, 2011.

Note 8: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-10187001810 received on September 6, 2012.

Note 9: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-10282650710 received on April 10, 2013.

Note 10: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-10286556500 received on August 1, 2013.

Note 11: The approval letter, the Letter No. Taipei-City-Government-Office-of-Commerce-10288072500 received on September 25, 2013.

Note 12: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10301165180 received on August 15, 2014.

Note 13: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10301165180 received on November 5, 2014.

Note 14: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10401161750 received on August 6, 2015.

Note 15: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10501017880 received on February 2, 2016.

Note 16: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10501100670 received on May 17, 2016.

Note 17: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10501192080 received on August 5, 2016.

Note 18: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10501246530 received on October 18, 2016.

Note 19: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10601007940 received on January 19, 2017.

Note 20: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10601049900 received on April

18, 2017.

Note 21: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10601098480 received on July 17, 2017.

Note 22: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10601102940 received on July 28, 2017.

Note 23: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10701105450 received on August 23, 2018.

Note 24: The approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10701131780 received on November 5, 2018.

ii. Share Type

As of March 18, 2019

Unit：share

| Share Type | Authorized Capital | | | Remark |
|---|---|---|---|---|
| | Issued Shares | Unissued Shares | Total | |
| Common Stock | 102,607,559 | 97,392,441 | 200,000,000 | Authorized capital stock, of which, 10,000,000 shares are reserved for exercising stock options. |

iii. Information related to shelf registration：None.

B. Composition of Shareholders

As of 03/18/2019

Unit: person / share

| Structure of Shareholder / QTY | Government Agencies | Financial Institutions | Other Instituions | Individuals | Institutions & Individuals | Total |
|---|---|---|---|---|---|---|
| Number of Sharehodlers | — | — | 144 | 8,759 | 470 | 9,373 |
| Total Shares Owned | — | — | 18,587,805 | 27,082,976 | 57,071,491 | 102,742,272 |
| Shareholding Ratio | — | — | 18.09% | 26.36% | 55.55% | 100.00% |

C. Distribution Profile of Share Ownership (the issue price per share is NT$10)

As of 03/18/2019

Unit: person / share / %

| Shareholder Ownership (Shares) | Number of Shareholders | Ownership | Ownership (%) |
|---|---|---|---|
| 1 to 999 | 4,167 | 459,826 | 0.45% |
| 1,000 to 5,000 | 4,022 | 7,347,848 | 7.15% |
| 5,001 to 10,000 | 435 | 3,220,954 | 3.14% |
| 10,001 to 15,000 | 159 | 2,000,527 | 1.95% |
| 15,001 to 20,000 | 88 | 1,544,590 | 1.50% |
| 20,001 to 30,000 | 115 | 2,858,252 | 2.78% |
| 30,001 to 50,000 | 112 | 4,338,499 | 4.22% |
| 50,001 to 100,000 | 109 | 7,819,609 | 7.61% |
| 100,001 to 200,000 | 89 | 12,362,920 | 12.03% |
| 200,001 to 400,000 | 39 | 11,079,800 | 10.78% |
| 400,001 to 600,000 | 11 | 5,429,149 | 5.28% |
| 600,001 to 800,000 | 10 | 6,961,172 | 6.78% |
| 800,001 to 1,000,000 | 4 | 3,578,566 | 3.48% |
| Over 1,000,001 | 13 | 33,740,560 | 32.84% |
| Total | 9,373 | 102,742,272 | 100.00% |

D. Major Shareholders (Our 10 Largest Shareholders or the Shareholder Which Ownership is Higher than 5%)

As of 03/18/2019

Unit: share / %

| Shares / Name | Current Shareholding | % |
|---|---|---|
| Taipei Fubon Commercial | 8,349,228 | 8.13% |

| | | |
|---|---|---|
| Bank Trust Dade Group Holdings Co., Ltd. Investment Account | | |
| Sunshine Wealth Co., Ltd. | 4,252,914 | 4.14% |
| Taipei Fubon Commercial Bank Trust Datong Pharmaceutical Industry Co., Ltd. Investment Account | 3,737,537 | 3.64% |
| Yung-Chiang Investment Co., Ltd. | 3,102,385 | 3.02% |
| Citibank Standard Life Life Global Small Company Fund Account | 2,733,009 | 2.66% |
| Wang Hao Co., Ltd. | 2,013,827 | 1.96% |
| JPMorgan Chase Bank N.A. Taipei Branch in Custody for Saudi Arabian Monetary Agency Quoni Investment Account | 1,776,057 | 1.73% |
| HSBC Trusted Morgan Stanley International Co., Ltd. | 1,621,879 | 1.58% |
| PMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Emerging Markets Stock Index Fund | 1,349,088 | 1.31% |
| JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds | 1,340,328 | 1.30% |

E. Market Price, Net Worth, Earnings, and Dividends of Per Share within 2 Years.

Unit：NT$ / 1,000 shares

| Item \ Year | | 2017 | 2018 |
|---|---|---|---|
| Market Price per Share | High | 296.5 | 614 |
| | Low | 142 | 263 |
| | Average | 202.86 | 450.68 |
| Net Worth per Share | Before Distribution | 38.92 | 55.78 |
| | After Distribution | 34.72 | Note 1 |

| | | | | |
|---|---|---|---|---|
| Earnings per Shares | Weighted Average Shares | | 86,566 | 100,885 |
| | Earnings per Shares | Before Adjustment | 8.23 | 17.79 |
| | | After Adjustment | 7.15 | Note 1 |
| Dividend per Share | Cash Dividend | | 2.70 | Note 1 |
| | Stock Dividend | Stock Dividend from Retained Earnings | 1.50 | Note 1 |
| | | Stock Dividend from Paid-In Capital | None | None |
| | Accumulative Unpaid Dividend | | None | None |
| Return on Investment Analysis | Price Earnings Ratio (Note 3) | | 24.65 | — |
| | Price to Dividend Ratio (Note 4) | | 75.13 | — |
| | Cash Dividend Yield Ratio (Note 5) | | 1.33% | — |

Note 1: The appropriation amount of earnings per share for 2018 has yet to be approved at the Annaul Shareholders' Meeting.

Note 2: The net value per share and earnings per share are those that have not been verified (audited) by the accountant in the most recent quarter of the annual report. The remaining fields are filled with the annual data as of the date of publication of the annual report.

Note 3: Price earnings ratio = Average closing price / earnings per share

Note 4: Price to cash dividend Ratio = Average closing price / cash dividend per share

Note 5: Cash dividend yield Ratio = Cash dividend per share / average closing price

F.Company dividend policy and implementation

i.Dividend policy as set out in the Articles of Incorporation

According to Article 18 of Article 18-2 of the Articles of Incorporation.

If the Company's annual final accounts have net profit after tax, they should first pay taxes to make up for past losses, and set a 10% of their balance as statutory surplus reserve, but the statutory surplus accumulation has reached the Company. When the total amount of capital is exceeded, this is not the limit. The special surplus reserve is proposed or reversed in accordance with the relevant laws and regulations. If there is a balance, and the available-distributed surplus calculated from the undistributed surplus at the beginning of the period (including adjustment of the undistributed surplus amount), the Board of Directors proposes a surplus distribution case, which is distributed after the resolution of the shareholders' meeting.

The Company's industry is currently in a growth stage. In the increasingly competitive environment, in order to achieve sustainable operation, considering operational growth, capital needs and long-term financial planning, and taking into account shareholders' rights, the annual surplus is 30% to 80. %Shareholders' dividends. The shareholder dividends of the Company are distributed in a combination of partial stock dividends and some cash dividends. The proportion of shareholders' cash dividend distribution is not less than 10% of the total dividends of shareholders, but only when the Company When there is more surplus or sufficient funds, it can be seen that the annual surplus status increases the cash dividend payout ratio of shareholders.

ii.The proposed dividend distribution of this shareholders meeting

The 2018 annual dividends of the Company were approved by the Board of Directors on February 20, 2019. The resolution is to allocate NT$872,164,253 from the 2018 annual surplus, and the cash dividend per share is NT$7 and the stock dividend per share is NT$1.5. The amounts of the dividends shall be approved by the 2019 Annual Shareholder’s Meeting.

G. The Effect on Business Performance, EPS, and ROE by the Company’ s Stock Dividend Distributed as Bonus Shares in This Shareholders’ Meeting

Unit: NT$

| Item / Year | | | 2019 (anticipated) |
|---|---|---|---|
| Paid-in Capital (NT$) | | | 1,026,075,590 (note 1) |
| Cash Dividend and Stock Dividend | Cash Dividend per Share | | 7.0 (note 2) |
| | New Share Issue through Capitalization of Retained Earnings Transferred to Capital per Share (share) | | 0.15 (note 3) |
| | New Share Issue through Capitalization of Capital Surplus Transferred to Capital per Share (share) | | - |
| Business Performance | Net Revenue | | Not applicable (note 3) |
| | Net Change % (compared with 2018 net revenue) | | |
| | Net Income | | |
| | Net Change % | | |
| | Earnings per Share | | |
| | Net Change % (compared with 2018 EPS) | | |
| | Average Return on Investment | | |
| Pro Forma EPS and P/E Ratio | In the Event that TCI Cancels New Share Issue through Capitalization of | Pro Forma EPS | Not applicable (note 3) |
| | | Pro Forma Average ROI (%) | |

| | | | |
|---|---|---|---|
| | Retained Earnings Transferred to Capital per Share, and Distirbutes the Amount into Cash Dividend | | |
| | In the Event that TCI Cancels New Share Issue through Capitalization of Capital Surplus Transferred to Capital | Pro Forma EPS | |
| | | Pro Forma ROI (%) | |
| | In the Event that TCI Cancels New Share Issue through Capitalization of Capital Surplus Transferred to Capital, and Distributes the Amount into Cash Dividend | Pro Forma EPS | |
| | | Pro Forma Average ROI (%) | |

Note 1: The amount of paid-in capital is in accordance with the approval letter, the Letter No. Ministry-of-Economic-Affairs-Commerce-Department-10801005770.
Note 2: The amount will be determined by the final shareholders' resolution in 2019 annual shareholders' meeting.
Note 3: The financial forecast report of 2019 has not been published yet, and therefore the relevant items are not applicable.

The proposed free share allotment of the shareholders' meeting can be used to enhance the Company's capital scale and strengthen the financial structure, which has positive benefits to the Company's business performance. In addition, the Company's future share revenue will grow steadily, this free share allotment to earnings per share The dilution effect is limited.

H. Employee Compensation and Remuneration to Directors and Supervisors

i. The number or scope of compensation for employees, directors and supervisors as set out in the articles of association

According to the Company's articles of association, if the Company is profitable in the year (the so-called profit refers to the pre-tax profit minus the benefits before the employee is paid and the directors' compensation), it is distributed in the following order:

i-1. When the Company still has accumulated losses (including adjustment of undistributed surplus amount), the amount of compensation should be retained in advance.

i-2. Five to fifteen percent of the employees are paid and no more than three percent are directors' compensation.

The employees' compensation in the preceding paragraph can be obtained by stock or cash, and the object of the employee's compensation is to include the employees of the subordinate company that meet the conditions set by the Board of Directors. The directors of the preceding paragraph are only paid in cash.

ii.The estimation base for the distribution of employee compensation and remuneration to director and supervisor, the calculation base of the outstanding shares for the distribution of stock dividend, and the accounting process for the differences between the actual amount distributed and the estimated amount.

ii-1. The employee's remuneration and director's remuneration estimates are based on the pre-tax benefits as of the end of the period (net of the benefits prior to the distribution of employee compensation and directors' compensation), and the employee's remuneration and director's remuneration as set out in the articles of association. Within the scope of the number, and based on the previous issue of the number of estimates, and recognized as current operating costs and operating expenses.

ii-2. The basis for calculating the number of shares in which the employees of the Company are allotted shares is based on the closing price of the day before the resolution of the shareholders' meeting and considering the impact of the ex-dividend ex-dividend. The employee compensation proposed by the shareholders meeting was issued in cash on February 20, 2019.

ii-3. When there is a discrepancy between the actual allotment amount and the estimated number of shares in the current shareholders' meeting, the difference will be regarded as a change in accounting estimates and is included in the current profit and loss of the resolution of the shareholders' meeting.

iii.Information about the proposed distribution of employee bonus as approved by the Board of Director

iii-1. The amount of the proposed distribution of employee bonus and remuneration to directors is shown as below. If the amount referred to above differs from the employee bonus and remuneration to directors and supervisors recognized, please state the number of differences, causes of differences, and the treatment scenarios：

Unit: NT$

| Item | Amount |
|---|---|

| | |
|---|---|
| Compensation for Employees in 2018 | 150,000,000 |
| Compensation for Directors in 2018 | 3,150,000 |

The amount of employee compensation and directors' compensation to be proposed is not different from the fees recognized in 2018.

iii-2.The proportion of the employee's remuneration distributed by the stock and the total net profit after tax and the total amount of employee compensation in the current period.

The remuneration of the proposed staff is paid in cash by the resolution of the Board of Directors on February 20, 2019. It is not applicable to the employee's stock remuneration.

iv.If the amount referred to above differs from the employee bonus and remuneration to directors and supervisors recognized, please state the number of differences, causes of differences, and the treatment scenarios：None.

I.The Company bought back the shares of the Company: None.

(2) Corporate Bond

| Corporate Bond Category | 1st Unsecured Conversion of Coporate Bond |
|---|---|
| Issuance Date | October 16, 2015 |
| Par Value | NT$100,000 |
| Place of Issuance and Trade | R.O.C. (Taiwan) |
| Issuance Price | At 100.5% of Par Value |
| Total Issuance Amount | NT$500,000,000 |
| Coupon Rate | 0% |
| Tenor | 3 Years<br>Maturity Date: October 16, 2018 |
| Guarantor | None |
| Trustee | Taipei Fubon Bank |
| Underwriter | Fubon Securities Co., Ltd. |
| Certifying Accountant | None |
| Method of Repayment | None |
| Outstanding Balance | During the three-year period of the issuance, in addition to conversion or redemption according to the conversion method, it will be repaid in cash at the time of expiration. |
| Outstanding Balance | NT$0 |

| Corporate Bond Category | | 1st Unsecured Conversion of Coporate Bond |
|---|---|---|
| Terms and Conditions for Early Redemption or Repayment | | The conversion debt shall be sold back to the bondholders on the date of the second year of the issue (October 16, 2018). The Company shall issue the bond to the bond on the first 40 days after the second year of the conversion of the conversion debt. The holder's "Notice of Exercise of the Right to Sell" (as set out in the register of creditors on the fifth business day prior to the date of dispatch of the "Notice of Exercise of Resale", which is subsequently obtained for trading or other reasons Investors of the conversion debts shall be notified by way of announcement. They shall also inform the counter trading center to announce the exercise of the right to sell the convertible bonds. The bondholders may notify the Company in writing within 40 days after the announcement. The agency (effective at the time of delivery, the postal person uses the postmark as the basis) requires the interest denomination of the bond denomination (the maturity of the bond is 101.0025% (the annual real rate of return of 0.5%)] There is a redemption of this conversion debt. The Company accepts the sale request and shall redeem the conversion debt in cash within five business days after the sale date. The above date will be postponed to the next business day if the Taipei Securities Centralized Trading Market ceases to operate. |
| Restrictive Clauses | | None |
| Rating Agency, Date of Rating, and Rating Awarded | | Not Applicable |
| Other Rights | Amount of Ordinary Shares, Global Depository Receipts, or other Securities Converted (Exchanged or Subscribed) up to the publication date of this annual report | The Converted Ordinary Shares Amounted to NT$5,000,000 up to the Publication of the Annual Report |
| | Issuance and Conversion (Exchange or Subscription) Terms | Please refer to the conversion method in Attachment 1 of the Company's Convertible Corporate Bonds Prospectus. |

| Corporate Bond Category | 1st Unsecured Conversion of Coporate Bond |
|---|---|
| Possible Dilution of Equity and Impact on Equity of Existing Shareholders due to Subscription or Issuance Terms of Issuance, Conversion and Exchange of Corporate Bones | None |
| Custodian of Exchanged Assets | Not Applicable |

| Corporate Bond Category | | Unsecured Conversion of Coporate Bond | | |
|---|---|---|---|---|
| Item \ Year | | 2016 | 2017 | 2018 |
| Market Price per Share | Highest | 224 | 273 | 0 |
| | Lowest | 125.5 | 198 | 0 |
| | Average | 153.54 | 225.15 | 0 |
| Conversion Price | | 78.8 | 68.5 | 68.5 |
| Date of Issuance and the Conversion Price at the Date of Issuance | | Issued on October 16, 2015. The conversion price was NT$88. | Issued on October 16, 2015. The conversion price was NT$88. | Issued on October 16, 2015. The conversion price was NT$88. |
| Fulfilling the Conversion Obligation | | Delivered by issuing new shares | Delivered by issuing new shares | Delivered by issuing new shares |

| | |
|---|---|
| Corporate Bond Category | 2nd Unsecured Conversion of Coporate Bond |
| Issuance Date | June 8, 2018 |
| Par Value | NT$100,000,000 |
| Issuance Price | R.O.C. (Taiwan) |
| Total Issuance Amount | At 100% of Par Value |
| Coupon Rate | NT$1,200,000,000 |
| Coupon Rate | 0% |
| Tenor | 3 Years<br>Maturity Date: June. 16, 2021 |
| Guarantor | None |
| Trustee | Taipei Fubon Bank |
| Underwriter | Fubon Securities Co., Ltd. |
| Certifying Lawyer | None |
| Certifying Accountant | None |
| Method of Repayment | During the three-year period of the issuance, in addition to conversion or redemption according to the conversion method, it will be repaid in cash at the time of expiration. |
| Outstanding Balance | NT$0 |
| Terms and Conditions for early redemption or repayment | The conversion of corporate bonds shall be sold back to the base date of the conversion of the corporate bonds by the holder of the conversion corporate bonds in advance of the two-year issue (June 8, 2020). The Company shall send a "Notice of Exercise of the Right of Resale" to the Bondholders by registered mail before the sale date back to the 40th day before the base date (April 29, 2021) (with a notice of exercise of the right to sell back) The date of the fifth business day bond holder's register on the date of the mailing date shall prevail, and the bondholders who subsequently obtained the conversion of corporate bonds due to trading or other reasons shall be notified by way of announcement) The counter purchase center announces the exercise of the conversion right of the convertible corporate bond holder. The holder of the conversion corporate bond can notify the Company's stock agency in writing within 40 days before the sale date (on delivery). The effectiveness of the mailer is based on postmarks. The Company is required to add interest compensation to the denomination of the bond [101.0025% of the bond denomination (0.5% of the real rate of return) for two years] to redeem the bond held |

<table>
<tr><td colspan="2">Corporate Bond Category</td><td>2nd Unsecured Conversion of Coporate Bond</td></tr>
<tr><td colspan="2"></td><td>by it. return. The Company accepts the sale request and shall redeem the bond in cash within five business days after the sale date. The above date will be postponed to the next business day if the Taipei Securities Centralized Trading Market ceases to operate.</td></tr>
<tr><td colspan="2">Restrictive Clauses</td><td>None</td></tr>
<tr><td colspan="2">Rating Agency, Date of Rating, and Rating Awarded</td><td>Not Applicable</td></tr>
<tr><td rowspan="2">Other Rights</td><td>Amount of Ordinary Shares, Global Depository Receipts, or other Securities Converted (Exchanged or Subscribed) up to the Publication Date of this Annual Report</td><td>The amount of converted common shares is NT$20,524,16,000 up to the publication date of this Annual Report.</td></tr>
<tr><td>Issuance and Conversion (Exchange or Subscription) Terms</td><td>Please refer to the conversion method in Attachment 1 of the Company's Convertible Corporate Bonds Prospectus.</td></tr>
<tr><td colspan="2">Possible Dilution of Equity and Impact on Equity of Existing Shareholders due to Subscription or Issuance Terms of Issuance, Conversion and Exchange of Corporate Bones</td><td>None</td></tr>
<tr><td colspan="2">Custodian of Exchanged Assets</td><td>Not Applicable</td></tr>
</table>

<table>
<tr><td colspan="2">Corporate Bond Category</td><td>Unsecured Conversion of Coporate Bond</td></tr>
<tr><td colspan="2">Year<br>Item</td><td>2018</td></tr>
<tr><td rowspan="3">Market Price per Share</td><td>Highest</td><td>164</td></tr>
<tr><td>Lowest</td><td>108.10</td></tr>
<tr><td>Average</td><td>126.59</td></tr>
</table>

| | |
|---|---|
| Conversion Price | 363.7 |
| Conversion Price at the Date of Issuance | Issued on June 8, 2018. The conversion price was NT$418. |
| Fulfilling the Conversion Obligation | Delivered by issuing new shares |

(3) Preferred Stock Issued : None

(4) Global Depositary Receipts Issued: None

(5) Employees Stock Options Issued

A. The Company's outstanding employee stock options

March 18, 2019

| Types of Employee Stock Option Certificate | 2016 1st Employee Stock Option | 2018 1st Employee Stock Option |
|---|---|---|
| The Effective Date of Declaration | 2016/6/20 | 2018/5/11 |
| Date of Issuance | 2016/7/1 | 2018/5/15 |
| The Number of Units Issued | 2000 units (each unit can subscribe for 1,000 shares of the Company's common stock) | 2000 units (each unit can subscribe for 1,000 shares of the Company's common stock) |
| Ratio of the Number of Shares Available for Subscription to the Total Number of Shares Issued | 3% (the ratio between the issued shared and the total shares in 2016) | 2.3% (the ratio between the issued shared and the total shares in 2018) |
| Duration of Subscription | 6 years The subscribers may exercise the stock options according to the prescribed time limit after the expiration of the employee stock option certificate. | 6 years The subscribers may exercise the stock options according to the prescribed time limit after the expiration of the employee stock option certificate. |
| Method of Performance | Issuing new shares | Issuing new shares |
| Restrictive Subscription Period and Ratio | After 2 years, the cumulative maximum share option ratio will be increased to 30%; after | After 2 years, the cumulative maximum share option ratio will be increased to 30%; after |

| Types of Employee Stock Option Certificate | 2016 1st Employee Stock Option | 2018 1st Employee Stock Option |
|---|---|---|
| (%) | 3 years, the cumulative maximum share option ratio will be increased to 60%; and after 6 years, the cumulative maximum share option ratio will be increased to 100%. | 3 years, the cumulative maximum share option ratio will be increased to 60%; and after 6 years, the cumulative maximum share option ratio will be increased to 100%. |
| Number of Shares Subscribed | 568,000 | - |
| Amount of Shares Subscribed | 43,715,700 | - |
| Number of Shares yet to be Subscribed | 1,432,000 | 2,000,000 |
| Subscription Price Per Share for the Unsubscribed Shares | NT$67.7 | NT$448 |
| Ratio of the Unsubscribed Shares to the Total Number of Shares Issued (%) | 1.4% | 1.95% |
| Impact on Shareholders' Equity | The Company's total number of shares as of February 29, 2015 was 66,376,454 shares. After adding 6,637,645 shares to be converted into 2017 surplus, the total number of outstanding shares was 73,014,099 shares. The total number of shares that are expected to be issued by the employee's stock option certificate is 2,000,000 shares, accounting for approximately 2.74% of the total number of outstanding shares, the estimated annual earnings per | The Company's total number of shares as of February 21, 2018 was 87,011,707 shares. After adding 13,051,756 shares to be converted into 2017 surplus, the total number of outstanding shares was 100,063,463 shares. The total number of shares that are expected to be issued by the employee's stock option certificate is 2,000,000 shares, accounting for approximately 2.3% of the total number of outstanding shares, the estimated annual earnings per |

| Types of Employee Stock Option Certificate | 2016 1st Employee Stock Option | 2018 1st Employee Stock Option |
|---|---|---|
| | share diluted to NT$0.29, NT$0.20, NT$0.08, and NT$0.03 per share. | share diluted to NT$0.71, NT$0.22, and NT$0.04 per share. |

B. Name of the managers with employee stock option certificates obtained, the top-10 employees with stock option certificates obtained, the respective acquistioin and subscription.

i. 2016 1st Employee Stock Option

| | Title | Name | Number of Shares acquired | Ratio of Subscribed Shares to Total Number of Shares Issued | Subscribed | | | | Unsubscribed | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued |
| Managers | General Manager | Yung-Hsiang Lin | 1,260,000 | 1.23% | 369,000 | 77.8/67.7 | 28,677,900 | 0.36% | 891,000 | 67.7 | 60,320,700 | 0.87% |
| | Deputy General Manager | Yung-Hao Lin | | | | | | | | | | |
| | Deputy General Manager | Wei-Chieh Liao | | | | | | | | | | |
| | Assitant Vice President, Finance Department | Cheng-Hsien Chiang | | | | | | | | | | |
| | Manager, Accounting & Tax Department | Jui-Yi Wu | | | | | | | | | | |
| | Assitant Vice President, Global Business Center | Hung-Fu Wang | | | | | | | | | | |
| | Factory Chief Director, Precise iManufacturing | Chih-Cheng Tsai | | | | | | | | | | |

| | Title | Name | Number of Shares acquired | Ratio of Subscribed Shares to Total Number of Shares Issued | Subscribed | | | | Unsubscribed | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued |
| | Assitant Vice President | Hsueh-Yin Huang (Note 1) | | | | | | | | | | |
| | Supervisor, Internal Audit Department | Wei-Chiang Chi | | | | | | | | | | |
| | Supervisor, Cost Management Center | Chen-Chen Fu (Notes 2) | | | | | | | | | | |
| | Assistant Vice President, Strategic Intelligence Center | Yueh Min (Note 3) | | | | | | | | | | |
| Employees | Global Business Center | Shan-Shan Liu | 305,000 | 0.30% | 73,000 | 77.8/67.7 | 5,659,200 | 0.07% | 232,000 | 67.7 | 15,706,400 | 0.23% |
| | Strategic Procurement Department | Hsiu-Wei Lin | | | | | | | | | | |
| | Research & Design Center | Ching-Ting, Chen | | | | | | | | | | |
| | Golden Hill Park, Precise iManufacturing Center | Hsiang-Pin Wang | | | | | | | | | | |

| | Title | Name | Number of Shares acquired | Ratio of Subscribed Shares to Total Number of Shares Issued | Subscribed | | | | Unsubscribed | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued |
| | Global Business Center | Shu-Ching, Wang | | | | | | | | | | |
| | Global Business Center | Jui-Ting, Ling | | | | | | | | | | |
| | Global Business Center | Yi-Ching Chen | | | | | | | | | | |
| | Intelligence Manufacturing Department | Hung-Lin Chen | | | | | | | | | | |
| | President Office | Chien-Yu, Lu | | | | | | | | | | |
| | Precise iManufacturing Center | Yi-Chun, Liu | | | | | | | | | | |

Note 1: Hsueh-Yin Huang resigned on January 5, 2018.

Note 2: Chen-Chen Fu assumed office on November 1, 2018.

Note 3: Yueh Min assumed office on February 11, 2019.

ii. 2018 1st Employee Stock Option

| | Title | Name | Number of Shares acquired | Ratio of Subscribed Shares to Total Number of Shares Issued | Subscribed | | | | Unsubscribed | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued |
| | General Manager | Yung-Hsiang Lin | | | | | | | | | | |
| | Deputy General Manager | Yung-Hao Lin | | | | | | | | | | |
| | Deputy General Manager | Wei-Chieh Liao | | | | | | | | | | |
| | Assitant Vice President, Finance Department | Cheng-Hsien Chiang | | | | | | | | | | |
| Managers | Manager, Accounting & Tax Department | Jui-Yi Wu | 985,000 | 0.96% | - | - | - | - | 985,000 | 448 | 441,280,000 | 0.96% |
| | Assitant Vice President, Global Business Center | Hung-Fu Wang | | | | | | | | | | |
| | Factory Chief Director, Precise iManufacturing | Chih-Cheng Tsai | | | | | | | | | | |
| | Assitant Vice President | Hsueh-Yin Huang (Note 1) | | | | | | | | | | |

<table>
<tr><th rowspan="2"></th><th rowspan="2">Title</th><th rowspan="2">Name</th><th rowspan="2">Number of Shares acquired</th><th rowspan="2">Ratio of Subscribed Shares to Total Number of Shares Issued</th><th colspan="4">Subscribed</th><th colspan="4">Unsubscribed</th></tr>
<tr><th>Number of Shares Subscribed</th><th>Price of Shares Subscribed</th><th>Amount of Shares Subscribed</th><th>Ratio of Subscribed Shares to Total Number of Shares Issued</th><th>Number of Shares Subscribed</th><th>Price of Shares Subscribed</th><th>Amount of Shares Subscribed</th><th>Ratio of Subscribed Shares to Total Number of Shares Issued</th></tr>
<tr><td rowspan="3"></td><td>Supervisor, Internal Audit Department</td><td>Wei-Chiang Chi</td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td></tr>
<tr><td>Supervisor, Cost Management Center</td><td>Chen-Chen Fu (Note 2)</td></tr>
<tr><td>Assistant Vice President, Strategic Intelligence Center</td><td>Yueh Min (Note 3)</td></tr>
<tr><td rowspan="6">Employees</td><td>Global Business Center</td><td>Shan-Shan Liu</td><td rowspan="6">305,000</td><td rowspan="6">0.30%</td><td rowspan="6">-</td><td rowspan="6">-</td><td rowspan="6">-</td><td rowspan="6">-</td><td rowspan="6">305,000</td><td rowspan="6">448</td><td rowspan="6">136,640,000</td><td rowspan="6">0.30%</td></tr>
<tr><td>Cost Management Center</td><td>Hsiu-Wei Lin</td></tr>
<tr><td>Precise Imanufacturing Center</td><td>Chun-Ying Ho</td></tr>
<tr><td>Administration Service Center</td><td>Tung-Wei Li</td></tr>
<tr><td>Administration Service Center</td><td>Chi-Li Ni</td></tr>
<tr><td>Global Business Center</td><td>Jui-Ting, Ling</td></tr>
</table>

| | Title | Name | Number of Shares acquired | Ratio of Subscribed Shares to Total Number of Shares Issued | Subscribed | | | | Unsubscribed | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued | Number of Shares Subscribed | Price of Shares Subscribed | Amount of Shares Subscribed | Ratio of Subscribed Shares to Total Number of Shares Issued |
| | Precise iManufacturing Center | Yi-Chun, Liu | | | | | | | | | | |
| | Research & Design Center | Ching-Ting, Chen | | | | | | | | | | |
| | Global Business Center | Shu-Ching, Wang | | | | | | | | | | |
| | President Office | Chien-Yu, Lu | | | | | | | | | | |

Note 1: Hsueh-Yin Huang resigned on January 5, 2018.

Note 2: Chen-Chen Fu assumed office on November 1, 2018.

Note 3: Yueh Min assumed office on February 11, 2019.

(6) Restricted Employee Shares

A. The effect on shareholders' rights by the Company's RSAs (not been fully vested yet)

March 18, 2019

<table>
<tr><td>Category</td><td>2016 1st Restricted Employee Shares</td></tr>
<tr><td>Approval Date</td><td>2016/6/20</td></tr>
<tr><td>Issuance Date</td><td>2017/4/30</td></tr>
<tr><td>Number of Restricted Employee Shares Issued</td><td>600,000 shares</td></tr>
<tr><td>Issued Price Per Share</td><td>NT$10</td></tr>
<tr><td>Ratio of Shares exercisable to Outstanding Common Shares (%)</td><td>0.82% (the ratio between the issued shares and the total common shares in 2017)</td></tr>
<tr><td>Vesting Conditions for Exercise of Restricted Employee Shares</td><td>The employees who meet the performance goals or the conditions specified below are eligible for the vesting of Restricted Stock Awards.<br>1. The growth rate of revenue growth is 30% (years),<br>2. The net interest rate after tax will remain above 10%.<br>3. Earnings per share (EPS) of 3.0 yuan (inclusive) or more.
<table>
<tr><th>Derive Period</th><th>Vested Shares with Installations</th></tr>
<tr><td>1 year after the issuance date (stll in-service)</td><td>200 shares</td></tr>
<tr><td>2 years after the issuance date (stll in-service)</td><td>200 shares</td></tr>
<tr><td>3 years after the issuance date (stll in-service)</td><td>200 shares</td></tr>
</table></td></tr>
<tr><td>Restrictions to the Rights of New Restricted Employee Shares</td><td>1. The employee shall not sell, pledge, transfer, donate, set, or otherwise distribute the new shares of the employee's rights until the employee has obtained the new shares.<br>2. Before the employees fail to meet the vested conditions, the attendance, proposal, speech, voting rights and other relevant shareholders' equity matters of the shareholders' meeting shall be exercised by the trust institution.<br>3. Restricted employee rights new shares acquired in accordance with these Measures, except for the above-mentioned restrictions, have been allocated unrestricted restrictions on employee rights. New shares do not participate in allotment, interest and cash increase subscriptions.</td></tr>
<tr><td>Custody of Restricted Employee Shares</td><td>Deliveried to trust custody</td></tr>
<tr><td>Procedures for Non-Copliance of the Conditions</td><td>The Company will cancel the employee rights of all employees who have not received the pre-established conditions to receive (buy) shares.</td></tr>
<tr><td>Withdrawal of New Restricted Employee Shares</td><td>0 share</td></tr>
<tr><td>Unrestricted New Restricted</td><td>400,000 shares</td></tr>
</table>

| | |
|---|---|
| Employee Shares | |
| Restricted New Restricted Employee Shares | 200,000 shares |
| Ratio of Shares Unrestricted to Outstanding Common Shares (%) | 0.23% (the ratio between the issued shares and the total common shares in 2017) |
| Impact on Shareholders' Equity | The Company's total number of shares of 66,376,454 shares as of February 29, 2016, plus the number of shares to be transferred to the 2015 surplus of 6,637,645 shares, totaled 73,014,099 shares outstanding. The current issuance limit the total number of shares subscribed for by employees. For 600,000 shares, the ratio of the number of outstanding shares is 0.82%. It is estimated that the annual compensation cost will be diluted to NT$0.09 in 2016, NT$0.09 in 2017 and NT$0.09 in 2018, respectively. It will not have a significant impact on shareholders' equity. |

B. The number of managers who obtained the new shares of the employee's rights and the names of the top ten employees who obtained the number of shares and the status of the acquisition

As of March 18, 2019

Unit: share / NT$

| | Title | Name | Number of Restricted Employee Shares Acquired | Ratio of Acquired to Outstanding Common Shares | Unrestricted Rights | | | | Restricted Rights | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Unrestricted Shares | Issued Price | Issued Amount | Ratio of Acquired to Outstanding Common Shares | Restricted Shares | Issued Price | Issued Amount | Ratio of Restricted to Outstanding Common Shares |
| Managers | General Manager | Yung-Hsiang Lin | 600,000 | 0.58% | 400,000 | 10 | 4,000,000 | 0.39% | 200,000 | 10 | 2,000,000 | 0.19% |

(7)Merger or acquisition or transfer of shares of his company to issue new shares: None.

(8)Funding plan execution situation

The second domestic unsecured conversion of corporate bonds in 2018

A. Project Content

1.The date and the letters of approval from the competent authority

It was approved by the Financial Supervisory Commission on May 18, 2018, with the letter of the Financial Supervisory Certificate No. 1070313343.

This time, the second unsecured conversion of corporate bonds in Taiwan was collected, and the amount raised was NT$120,000,000, which was completed in the second quarter of 2018. The fundraising plan is mainly used for the construction of logistics warehouse buildings and the construction of automated storage systems, the purchase of machinery and equipment and the enrichment of working capital. The amount is NT$600,000,000, NT$200,000,000, and NT$400,000,000 respectively.

B. Implementation

Unit: NT$1,000

| Item | Completion Date | Totoal Amount of Investment | Implementation | | Progress of Investment | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Q2, 2018 | Q3, 2018 | Q4, 2018 | Totoal (as of Q4, 2018) |
| Build the Logistics Warehouses and Establish the Automated Warehouse System | 2nd Quarter, 2019 | 600,000 | Capital Needed | Supposed | 65,000 | 240,000 | 84,500 | 389,500 |
| | | | | Exact | - | 95,081 | 87,802 | 182,883 |
| | | | Progress (%) | Supposed | 10.83% | 40% | 14.08% | 64.91% |
| | | | | Exact | - | 15.84% | 14.63% | 30.48% |
| Purchase Equipment and Instruments | 1st Quarter, 2019 | 200,000 | Capital Needed | Supposed | - | - | 77,000 | 77,000 |
| | | | | Exact | - | - | - | - |
| | | | Progress (%) | Supposed | - | - | 38.50% | 38.50% |
| | | | | Exact | - | - | - | - |
| Capital Used for Operation | 4th Quarter, 2018 | 400,000 | Capital Needed | Supposed | - | 200,000 | 200,000 | 400,000 |
| | | | | Exact | - | 225,383 | 174,617 | 400,000 |
| | | | Progress (%) | Supposed | - | 50% | 50.00% | 100% |
| | | | | Exact | - | 56.34% | 43.66% | 100% |
| Total | | 1,200,000 | Capital Needed | Supposed | 65,000 | 440,000 | 361,500 | 866,500 |
| | | | | Exact | - | 320,464 | 262,419 | 582,883 |
| | | | Progress (%) | Supposed | 5.42% | 36.67% | 30.13% | 72.21% |
| | | | | Exact | - | 26.71% | 21.87% | 48.57% |

The second unsecured conversion of corporate bonds in China was raised by NT$120,000,000, and the total investment in the fourth quarter of 2018 was NT$582,883,000, of which the working capital was NT$400,000,000, which was completed in full; the construction of logistics warehouses and construction The actual progress of the construction of the automated warehousing system and the purchase of machinery and equipment is expected to be slightly behind. The construction schedule of the main logistics warehouse construction project is relatively long, which will make adjustments to the payment progress of the project. However, it is reasonable to adjust the progress due to actual needs.

## 5. Operational Highlights

1. Business Activities
   (1) Business Scope
      i. The scope of business of the Company shall be as follows:

1. C104010 Sugar Confectionery and Bakery Product Manufacturing
2. C110010 Beverage Manufacturing
3. C199990 Other Food Manufacturing Not Elsewhere Classified
4. C307010 Apparel, Clothing Accessories and Other Textile Product Manufacturing
5. C802100 Cosmetics Manufacturing
6. CH01040 Toys Manufacturing
7. CN01010 Furniture and Fixtures Manufacturing
8. F102040 Wholesale of Nonalcoholic Beverages
9. F102170 Wholesale of Food and Grocery
10. F108040 Wholesale of Cosmetics
11. F203010 Retail sale of Food and Grocery
12. F208040 Retail Sale of Cosmetics
13. F401010 International Trade
14. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval

The Company's major business projects are research, development, sales, and manufacturing of functional beverages, dietary supplements and skin care products.

2. Sales Mix

Unit: NT$ 1,000

| Year / Product Category | 2017 | | 2018 | |
|---|---|---|---|---|
| | Annual Revenue | % | Annual Revenue | % |
| Dietary Supplements | 3,325,743 | 81.67 | 7,420,348 | 91.63 |
| Skin Care Products | 715,230 | 17.56 | 609,105 | 7.52 |
| Others | 31,195 | 0.77 | 68,961 | 0.85 |
| Total | 4,072,168 | 100.00 | 8,098,414 | 100.00 |

3.Major Product Categories

The Company's current major products are health foods and skin care products, providing a cross-border R&D platform for rapid R&D and manufacturing service. We bring experts together from many countries to provide the fastest service, the latest materials, and the safest process. We also provide comprehensive support including art design and a complete service mechanism featured our three core beliefs: Quality, Quick Manufacturing, and Optimal Quotation to achieve product quality and safety, fast delivery, and ideal quotation, which will meet various types of customer needs. Functional beverages include collagen beverages that supplement the loss of collagen; glucosamine beverages that lubricate joints, and other liquid drinks for various purposes such as whitening, breast enhancement, slimming, reducing blood fat levels and improving immunity. Dietary supplements include various types of products such as hard capsules, soft capsules, tablets, powders, liquid products, and jelly, which are used for whitening, anti-wrinkle, slimming, eye protection, liver protection, immunity improvement and nutritional supplementation. Skin care products include face care and body care products, such as: the LipoButy$^{TM}$ mask, eye masks, essences and cream.

(2)Industry Overview

1.Status Quo and the Development Trend

Through our unique methodology, "Integrated Bioscience Design (IBD)", the Company integrates R&D, production and marketing into a cross-border service platform by a comprehensive innovative service model, exploring consumer needs from the industry overview, and combining cross-disciplinary expertise and technologies into the brand. We develop high-performance products and shorten the time required from product development to launch for our customers and fulfil our corporate mission: “Join & Delight Consumer’s Life”. The Company's products can be divided into functional beverages, dietary supplements, skin care products and other related products. Because functional beverages and dietary supplements are in the scope of functional foods, the analysis of functional food market and skin care market is shown as follows:

(1)Functional Foods

A. Global Market Is Showing Steady Growth

With the promotion and implementation of the concept of preventive medicine, people choose adjuvant and alternative therapies to prevent the occurrence of diseases. Among them, health care products and functional foods have the effects of providing nutritional supplements, improving health and delaying aging. The consumption and the use of health care products and functional foods have become a trend, especially in Europe and Americas. According to the research report of BCC Research, the global market size of nutraceutical industry in 2018 was US$230.9 billion. It is expected to grow to US$336.1 billion in 2018-2023. The compound annual growth rate (CAGR) is 7.8%, and the CAGRs of functional beverages, functional foods and dietary supplements are 8.4%, 8.1% and 6.8%, respectively.

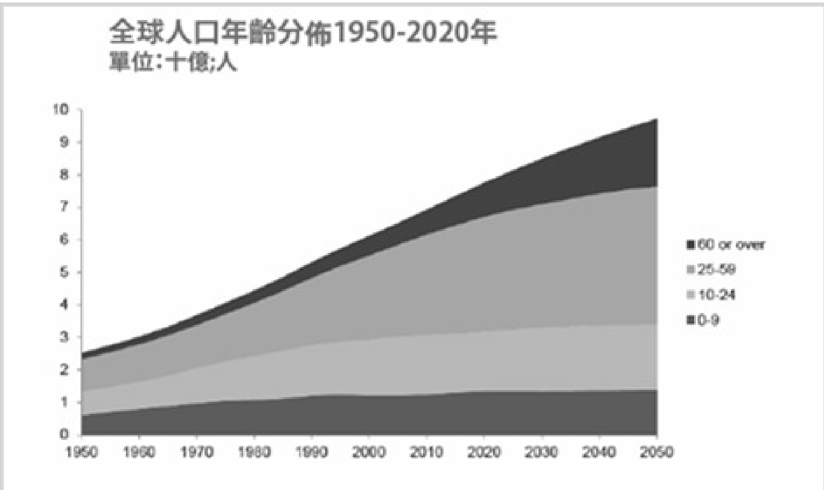
(US$ Billions)

| Product | 2017 | 2018 | 2023 | CAGR |
|---|---|---|---|---|
| Functional Beverages | 77.1 | 83.1 | 124.4 | 8.4% |
| Functional Food | 69.6 | 75.1 | 110.9 | 8.1% |
| Dietary Supplements | 67.5 | 72.7 | 100.8 | 6.8% |
| Total | 214.2 | 230.9 | 336.1 | 7.8% |

*(Data source: BBC Research, the editor of the analysis report)*

B. Accelerated-Aging of Global People

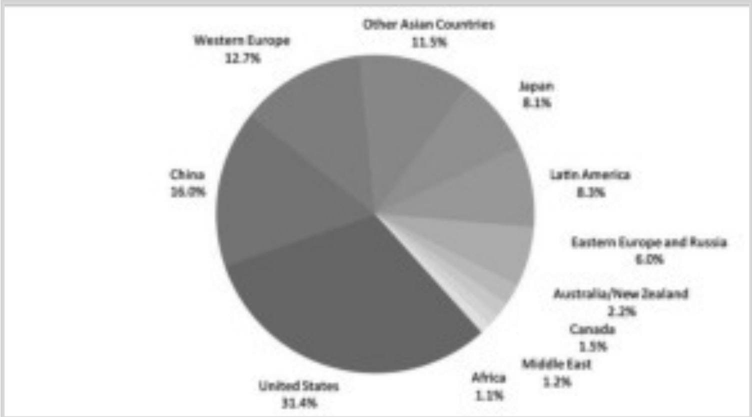
According to the latest UN report, the world population is estimated to reach 9.8 billion in 2050, of which more than 1.5 billion people will be over 65 years old, accounting for about 16% of the total population. Compared with the total population of 7.6 billion in 2017, the elderly population is 700 million, accounting for only 9% of the total population. The world population is rapidly aging. On the other hand, with the advancement of medical technology, the average life expectancy of human beings is getting longer and longer. The United Nations predicts that the average life expectancy of human beings in 2019 will be 72.3 years old, and will reach 74.3 years in 2030. Preventive health care has become one of the most concerned issues by consumers around the world.




*(Data source: The United Nations, OECE, Macquarie Research)*

C. Importance of Asia Is Increasing

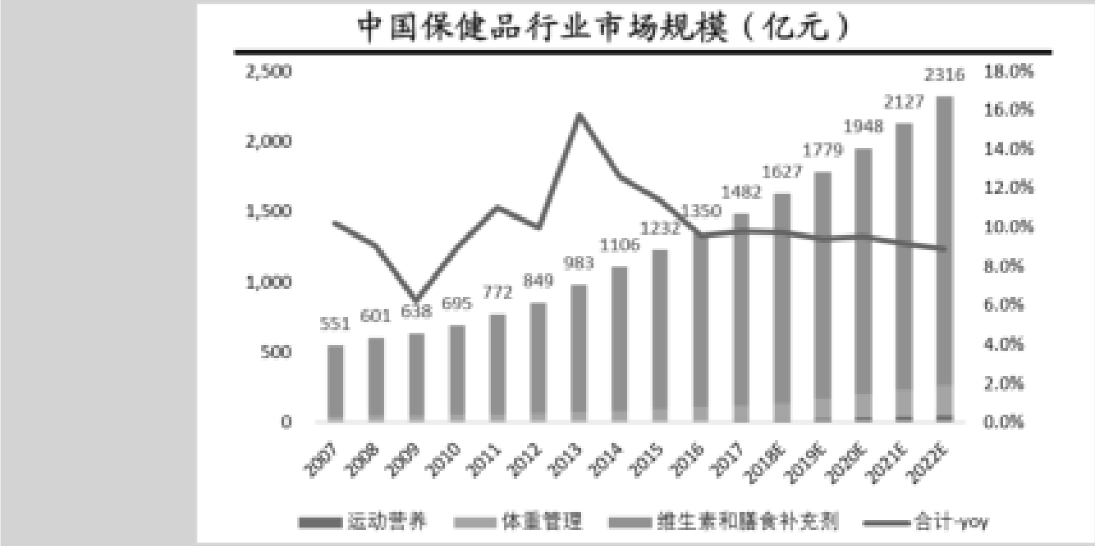
From the perspective of global health care products, the United States is still the world's largest health care market. According to data database established by the marketing research agency, Nutrition Business Journal, the US market share in the global market reached 31.4% in 2017. Asia has been developing rapidly in recent years. Among them, China's health care market has surpassed Western Europe and ranked second in the world. The Chinese market share accounts for 16.0% of the global market. Japan accounts for 8.1%, and other Asian regions account for 11.5. The influence of Asian countries is axiomatic.




*(Data source: Nutrition Business Journal)*

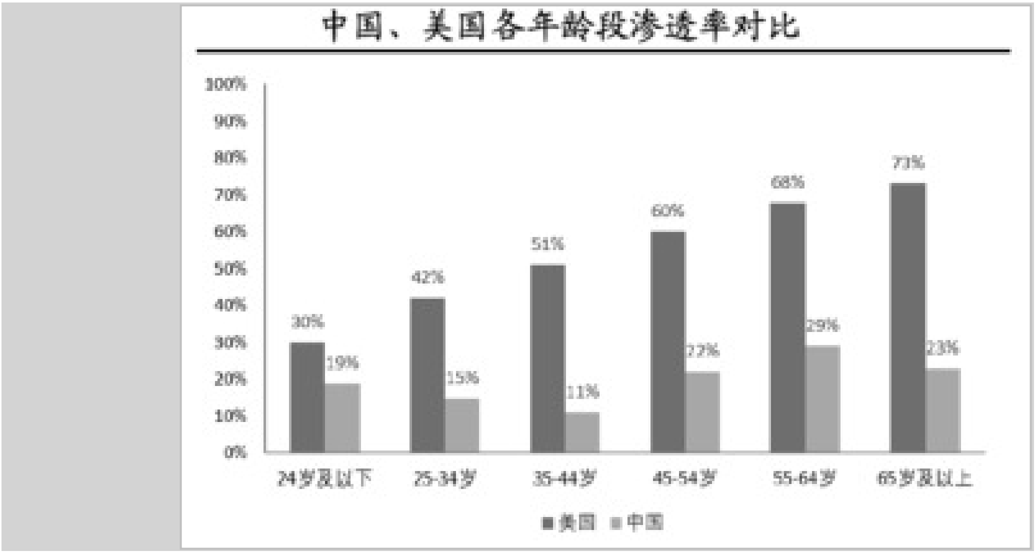
D. Market Size of Health Care Industry in China Is Growing Steadily

According to the analysis reports from Euromonitor, the market size of China's health care industry reached RMB 162.7 billion in 2018. In terms of market size, vitamins and dietary supplements still dominant this market, and weight management products and sports supplements account for a relatively small proportion. In 2018, the above three categories accounted for 91.3%, 7.4%, and 1.3%, respectively. In terms of trends, the proportion of vitamins and dietary supplements is decreasing year by year, but it still accounts for more than 90%. Due to its low basic percentage and the consumer demand, the growth rate of sports supplements is the fastest. The CAGR reached 39.6% in 2013-2018. The CAGRs of dietary supplements (vitamins included) and weight management productsin the past 5 years were 10.3% and 11.9% respectively.




*(Data source: Euromonitor, Northeast Securities Co., Ltd)*

Due to the short history of the development of health food industry in China, the knowledge of health foods and the eating habits of Chinese people have not yet been fully established. In terms of permeability, the penetration rate of health products in the United States is over 50%, while that in Japan is about 40%. The penetration rate in China is only 20%. As population aging in China, the awareness of nutrition and health care will become the focus, and the future consumption of healthy foods and the penetration rate will have an chance to further expand.

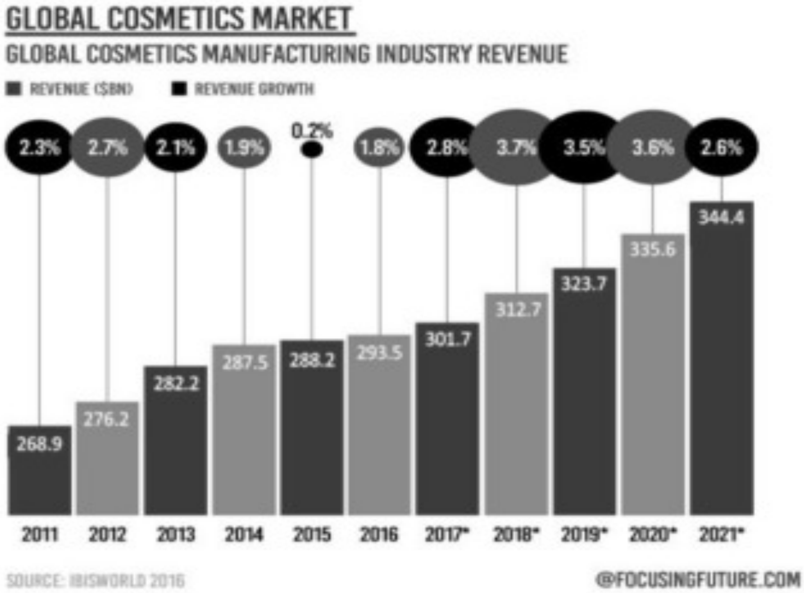



*(Data source: IQVLA, Northeast Securities Co.,Ltd. )*

(2) Beauty Care Market

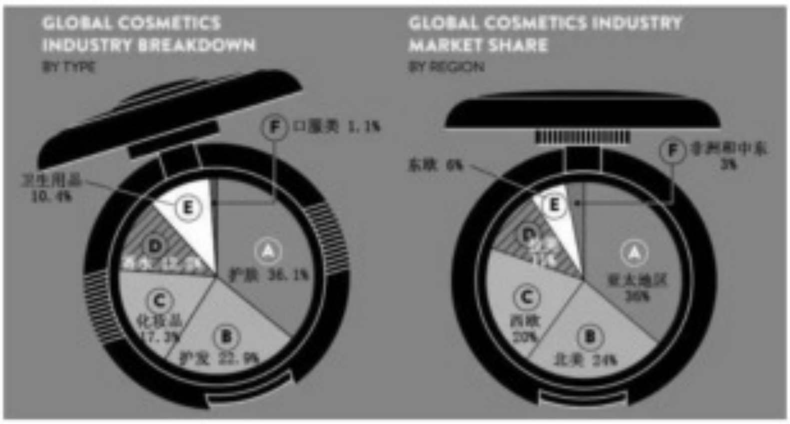
A. Speeded Up Growth of the Global Beauty Care Market

Beauty and skin care have always been valued by female consumers. According to the insights from the marketing research agency, IBIS World, cosmetics industry is a vast global industry with the annual sales of $301.7 billion in 2018 and the CAGR of 2.2% in 2011-2018. With the emergence of cosmetics in emerging markets, coupled with the rejuvenation of the age group and the advancement of cosmetic industry by natural and environmentally friendly products, the CAGR is expected to increase to 3.3% in 2018-2021.




*(Data source: IBIS World)*

Cosmetics and beauty care products are mainly based on daily skin care (36.1%) and hair care (22.9%) products, while cosmetics account for 17.3%. It has demonstrated that makeup has gradually become part of people's daily life. In terms of regions, Asia Pacific is the largest cosmetics market (36%), followed by North America (24%) and Western Europe (20%).




*(Data source: IBIS World)*

B.Facial Mask Market in China Is a Rising Star

According to the reports from Euromonitor, the retail sales of cosmetic and personal care products in China reached RMB 385.5 billion in 2018, a 6.6% increase from the previous year. The CAGR of 2020 is expected to be 5.4% in 2018-2022, which is higher than the global growth rate.

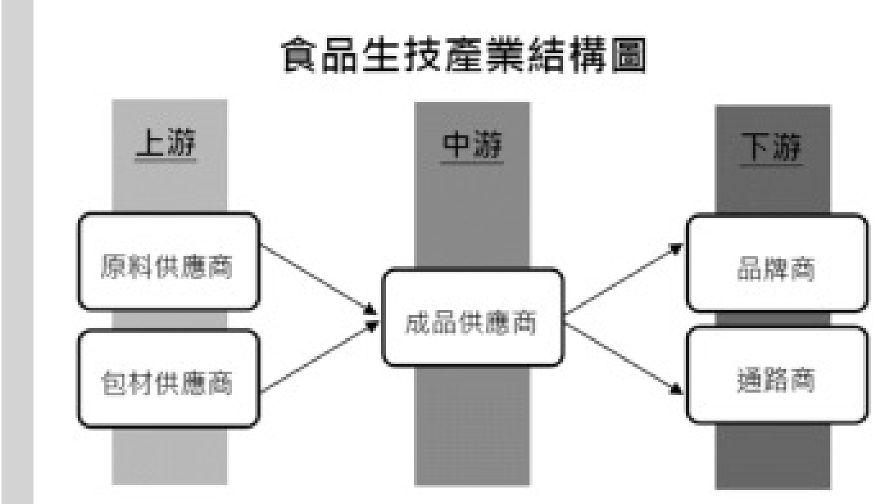

(Data source: Euromonitor, CITIC Securities Company Limited )

The air pollution and the changeable climate in China make facial makes become a key role in daily skin care, and young people are paying more and more attention to skin care and preventitive medicine. According to the data provided by Euromonitor, the market size of facial mask industry in China reached RMB 20.75 billion in 2017, and the CAGR reached 15.8% in 2010-2017, which was significantly higher than the overall growth rate of 8.7% of cosmetics industry during the same period. It is expected that the CAGR will be 11.7% with a high momentum in 2017-2021. With the growth of per capita income, the frequency of applying facial masks will increase following Japanese and Korean consumers, and the market size of the facial mask industry in China is expected to reach a new height.


(Data source: Euromonitor, CITIC Securities Company Limited )

2. Correlations between Upstream, Midstream, and Downstream Companies

Across the entire industry chain, the Company focuses on the development of new products, and the R&D and the manufacturing of functional beverages, health foods and beauty care products. We are at the upstream and the midstream of the overall supply chain. Our major business model is to search for bio-materials from different places around the world. We integrate the results to develop new types of bio-materials through our professional analysis, and then provide customized formulas according to different needs of customers. We use our own patented technology to conceptualize the idea from our customers. Through our research team, global procurement system and raw materials management, we have been developing competitive and market-oriented products for customers. The correlations between upstream, midstream, and downstream companies in biotechnology industry in Taiwan are shown as follows:




3.Trends and Competition

(1)Trends of Product Development

The focuses of product development of the Company include three major products/services: raw material development for dietary supplements and skin care products, innovative functional foods, and genetic testing platforms. The raw material development for dietary supplements and skin care products has been developed for many years and has achieved considerable success. So far more than 80% of the products use our self-developed IBD raw materials. Through the "Bio Resouce Data Mining" business model with the AI management platform, the cloud management system, the 7 exclusive manufacturing processes for extraction and biotransforamtion, the evaluation of 100 research platforms for cellular efficacy, the research on the regulatory mechanism for the expression of 200 genes, and the 15 analysis methodologies for natural compounds, the future research and development efficiency will be increased by more than 70 times. These technologies accelerate the exploitation of the value of global biological resources.


In addition, in terms of genetic testing platforms and personalized health management services according to the human genetic variation, the G2 genetic analysis kit (for DNA) is used to conduct genetic risk assessment for 58 common diseases of Asian people. The R1 (for RNA) dynamic analysis kit is used to conduct real-time monitoring of relative expression levels of mRNAs. The B1 (for proteins) biochemical analysis kit is used to monitor physiological changes in our bodies. We predict and monitor health status through the analysis reports of DNA, RNA, and proteins, and establish personalized nutrition recipe and health management strategies for each customer with the physicians and the dietitians of our exclusive clinic.


In recent years, with the rapid development of DNA sequencing technology, DNA sequencing has entered into people's lives, and people’s recognition of health has begun to change. Early detection, personalized monitoring, and timely treatment of cancer are the benefits brought by genetic technology. After human genome is decoded, everyone can more clearly understand the correlations between genes, nutrition and diseases. Each of us has 99% of the same genetic sequence, but about 1% of the remaining genetic sequences are different, which gives each of us unique physiological traits. We call this 1% difference in gene sequence Single Nucleotide Polymorphism (SNPs). To date, thousands of SNPs have been found to be related to nutrition. If this SNP is a gene that regulates nutrient absorption, environmental factors, or even metabolic drugs, it will greatly affect our health.

The Company's gene development laboratory is dedicated to gene-related research, from human DNA exploration to the genetic loci (SNPs) associated with health and even disease, to understand individual health situations. With the long-term accumulation of research energy on natural resources by the TCI team, we fully mine the natural materials, thoroughly understand the biochemical reactions (gene expression, biochemical values, etc.) of all natural substances on the cells, and we organize and calculate the correlation between genes, diet and diseases to develop personalized health management programs. From the perspective of preventive medicine, TCI strives to promote the concept of “early detection and better prevention”, and makes good use of today's genetic technology, including genetic testing for analysis of innate DNA mutations, and tracking of health-related gene performance in the blood and biochemical analysis of protein, in order to provide customers with all aspects of Jiankang.

A.Raw Material Development for Dietary Supplements

Since 2011, the Company has been devoted to the development of autonomous special-purpose raw materials (referred to as IBD raw materials). We add raw materials to existing product formulas to improve its efficacy while ameliorating its safety, and we fully control the source of raw materials to ensure product quality. In addition to improving the competitiveness of the Company, it also increases the economic benefits of domestic agriculture. As of February 2019, the following health products have been successfully developed and marketed from IBD raw materials:

(1) Happy banana®
(2) Sugarlock®
(3) Wbeauty®
(4) CitriSlim®

(5) Liverguard®
(6) JellySkin®
(7) Formosal Ruby™
(8) Cleaner J™
(9) Green Caviar®
(10) O'Young
(11) Guard U®
(12) Ocean White®
(13) Dragon Power®
(14) Soba!®
(15) SugarCut®
(16) Happy Angel®
(17) Dr.Lu
(18) Sun &Moon Enzym®
(19) Block 2.5®
(20) DKM®

In addition to the above-mentioned developed IBD raw materials, the Company is conducting research on plant stem cells and investing in the research and development of drugs. It is expected to develop more natural and beneficial ingredients to human health. The TCI Plant Stem Cell Research and Development Center values the preservation of precious plant varieties through establishing the manner of constant moisture and temperature preservation and developing more than 30 kinds of sterile seedlings of feature plants of Taiwan, and gradually studies the effectiveness and function of the stem cells. This raw material is produced by the Company itself from plant introduction and disinfection, callus induction, cultivation of mass production, to the end of ultrasonic extraction, experimental analysis, clinical testing, as a complete raw material development process. We will develop more in situ or special plants, and use the effective substance of their stem cells to produce unique raw materials for skin care products and food products.

In addition to the use of solid-state tissue culture technology, the Company also develops new operation modes such as tidal and automated culture, and strengthens the control of production capacity and cost on the basis of existing stable production to create more effective IBD raw materials. Recently, TCI also developed skin care products that are different from the market, such as snowlotus stem cells and iceplant stem cells. Through cell experiments, gene platform to final skin test integration, TCI thoroughly presents the specificity and function of raw materials, so that customers can more clearly understand the true mechanism of effect.

In addition to being used as skin care products and food materials, plant stem cells are also investigating the use of botanicals (API), using special cultivation methods and compound identification techniques to identify specific ingredients, and further developing them into usable medicines, providing more natural and beneficial to the human body. The ingredients. The ingredients that have been developed are as follows:

| | | | |
|---|---|---|---|
| Snowlotus | Orchid | Iceplant | Tea |
| Peachblossom | Camellia | Hibiscus | Polygonum |
| Lavender | Rosemary | Ginseng | Ginkgo |
| Dendrobiumofficinale | *Rhinacanthus nasutus* | | |

B.Gene analysis platform and products and services

Genetic research is gradually bringing human cognition of medical and health care to the precise application of personalization. The Company's G2 gene detection kit has been developed for DNA genetic testing products specifically for Asian Chinese. Sixty chronic diseases can be detected at a time, which provides the risk of diseases as a reference for the personalized health management. The G2 gene test kit for the assessment of inheritance risks includes tests for metabolic diseases such as diabetes, hypertension, hyperlipidemia, obesity, and cardiovascular related diseases such as stroke, coronary artery disease, and about 14 cancer such as colorectal cancer, liver cancer, and breast cancer. In addition to the genetic detection kits related to the disease and health, the Company has paid more attention to the needs of the general public and created many consumer genetic testing kits. Designed a number of genetic testing kits aiming for different ethnic groups such as the OB obesity gene kit for the slimming group, the BS kit for the beauty group, the environmental toxic metabolism kit, the oral inflammation kit, the pregnant mommy stretch marks and the keloid kit, cell anti-aging kit. The Company has accumulated a total of 6,000 gene detection commissions. Through the newly created health management e-platform, the public can obtain personal genetic testing information while maintaining personal privacy rights. In addition, through our e-platform, clients can choose individual health management strategies, including genetic nutrition specialties, genetic nutrition drips, gene exercise prescriptions, professional health consultation, medical health insurance, core health management plans and other diverse programs, to meet more needs of people for health care.

In order to enable people to more fully understand the health effects of personalized health management and the health applications of G2 gene detection products in preventive medicine, the Company also develops R1 dynamic gene tracking system and B1 protein biological indicators. Through regular blood tests, it provides timely examination of the physical status of the seven major items of blood tumors, cell anti-aging, neurodegenerative diseases, brain vascular diseases, cardiovascular risk, hepatitis and cirrhosis, immune rheumatism and allergies. Additionally, supplemented by high-level bioinformatics statistics, the results of the operations will enable the public to get early warning of disease when the physiological trait of traditional medicine is not obvious. The Company strives to develop a good prediction system and R1 tracking system through genetic technology, and provides ODM personalized health management program for each person. With the health management of genetic nutricion specialities prescribed by the Company's professional physicians and dietitians, it helps people avoid high-risk diseases. In addition, the Company strives to improve the member service system to become a strong backing for the health of members. The efforts of the professional R&D team in the research and development of genetic technology are for the health of members. They introduce biomedical patented IBD raw materials into gene nutritional formulation system to achieve the most accurate and immediate health management.

C. Research and application of symbiotic microorganisms

Microbial immunology has a very important role in clinical practice, and it is also closely related to the health of people in daily life. The Company will invest more in the development of functional probiotics, and establish its own proprietary database of beneficial bacteria, including two series of self-produced strains and gene-regulated strains. For example, TCI633, which produces small molecule hyaluronic acid, is self-generated bacteria. According to the latest R&D data, TCI633 has significant curative effect on initial degenerative arthritis. At the same time, through genetic research, it is pointed out that TCI633 may slow down the initial degenerative arthritis swelling and pain by regulating the activity of osteoblast production. Our R&D team will develop more self-generated series of strains and use the metabolic products of beneficial bacteria to achieve the health care effects of nutritional supplementation. The gene-regulated strains will target chronic diseases such as hypertension, high blood fat, diabetes, obesity, etc., so that microorganisms can regulate the expression of certain specific genes in the human body. Therefore, in the future, the people will continue to supplement with the good bacteria, so that the good bacteria can colonize the body and align with the physiological regulation mechanism of the human body. This utilized the microbiology and human symbiosis to achieve the best benefits of health promotion. As of February 2019, the Company's own proprietary and proven probiotics are:

i. TCI633: relieves discomfort of degenerative arthritis and prevents the development of degenerative arthritis.
ii. TCI378: reduces cholesterol production, increases fat metabolism, and helps with weight management.
iii. TCI028: reduces TMAO in the blood, prevents cardiovascular disease, and is resistant to garlic.
iv. TCI507: decreases the level of cholesterol in blood and helps regulate blood lipids.
v. TCI711: promotes liver function and helps toxins degrade and excrete, reducing the accumulation of toxins in the human body.
vi. TCI999: improves longevity gene performance and avoids aging.
vii. TCI357: improves lung cell repair and PM2.5 clearance rate for respiratory health care.
viii. TCI058: converts fatty acids in the diet to CLA, increases the metabolic rate of the human body and prevents re-fat.
ix. TCI515: provides two-way regulation of immunity, prevention of allergies, and enhancement of resistance.

(2)The competition of products

In response to the needs of consumers, in recent years, the trend of functional food and beauty care products and formulas is that there will be star materials emerge almost every 2 to 3 years, such as peptide protein raw materials, fruit acid, vitamin A acid, botox, L-vitamin C, Q10, collagen, hyaluronic acid and deep ocean water. Functional foods and beauty care products are the soul of the entire beauty industry. How to seek new, change, and develop new raw material technologies, formulas, and R&D of new products is a major issue. Therefore, we should continue to pay attention to customer needs and develop innovative strategies in response to the trend of the times for future development opportunities.

Since 2018, the Company has created a new operation mode of “bio-mining”, which is manufactured by gene technology, big data, automation, smart formulation platform and industry 4.0. Therefore. starting from integrating large data form the high-automation devices, which can only be seen in front of the screen including real-time fluorescence quantitative analyzer, AOI automatic optical detection, high speed and high throughput sample processing arm, fully automatic nucleic acid extraction, and fully intelligent six-axis arm, it turns artificial intelligence and automated laboratories into reality. It also combines global biotechnology resources to create high-performance products. Product development focuses on new materials and extraction, screening technology. Based on the extraction and screening conditions of raw materials, they are incorporated into the the experimental design according to the characteristics of the material, the required time, output power, temperature, material liquid ratio, material size and other variables. And the extraction and screening conditions are optimized, and the stability and effective absorption are sought. In addition, through automated research and development, it combines seven kinds of extraction and biotransformation processes, 100 kinds of cell efficacy platform experiments, 200 gene regulation and expression mechanisms, 15 kinds of natural components analysis. Each effect component needs 17,700 experiments. After the vertical integrated automation of "bio-mining", it has increased efficiency by 70 times. Installing high-speed engines accelerates the value of global biological resources. The Company gradually increased the proportion of IBD raw materials automatically, actively distribute patents and increase the advantages that other competitors could not copy.

The Company has developed three core technologies for many years to create high-performance and differentiated products. Technology One, Double Nutri is the innovative technology of TCI, which creates the possibility of nutritional supplementation through emulsification + colloid bearing technology. Now we can use the double-cylinder emulsification technology to combine dual-phase nutrition to create a more effective and convenient product. Technology Two, LipoButy$^{TM}$ is a technology that uses sub-micron molecules to accelerate the delivery of the essence and reach the bottom of the skin. LipoMask$^{TM}$ micro-lipid mask, the technology is originally used for pharmaceuticals, and the output is small and expensive. The Company takes the lead in expanding the production capacity with advanced process. The essence component is the first in the industry to coat the whole liposome with superior characteristics such as small particle size and high permeation, so that the essence can quickly penetrate into the skin cells. As the most effective mask in the industry today, the application time is shortened from 15 minutes to about 5 minutes to achieve the ultimate beauty and skin care effect. Technology Three, the Company conducts cell efficacy tests on the existing functional raw materials with the high-throughput methods from the unilateral to the compound. And we quickly explore whether it has the effect of multiplying or offsetting each other, and integrate this large amount of data into Synergene™ database. According the data, we design different functional appeals including the formulation of skin, immune regulation, cardiovascular health, blood sugar, exercise performance, etc., to develops commercial dosage forms, and then evaluates clinical efficacy. In the future, for brand customers, whether it is in raw materials or terminal products, it can effectively provide scientific verification and integrated high-performance product solutions.

The Company has been developing collagen peptide products for many years, and master the source and characteristics of upstream raw materials. It takes the lead in using technology to create a trace method for the source of collagen peptides, and conducts supplier inspections at a strict genetic level. In addition to verifying the information provided by suppliers, the ultra-high resolution tandem mass spectrometer was used to analyze and detect the collagen peptide sequence, and the analysis results are compared with the international reference standard database. The first-order structural similarity of the protein is verified by artificial intelligence to trace the source of the collagen peptide extraction from pigs, fish and cattle. In addition, the difference in sequence can further identify the species, whether it is a breeding or wild pig, which of the cattle, buffalo, and yak, and which fish. It can analyze the mixed ratio of species. The ratio allows the collagen peptide consumers to eat with confidence, promote the special function of collagen products, and promote the healthy growth of the collagen peptide market. Accurate identification supports differences between collagen peptide sequences and create more differentiated functional and scientifically certified products.

(3)Technology and R&D overview

A.Technical Level and Research Development of the Business


The Company's R&D and Design Center adjusts strategies following the Company's decisions from designing products to meet the needs of customers to automatically actively developing raw materials and promotion of the "Bio-integrated Design" process. The Center is dedicated to the digging of various natural assets including feature plants, agriculture and food processing by-products, microorganisms and their metabolites, marine organisms, etc., and evaluates each material through extraction and biotransformation (fermentation) process, cell efficacy test analysis, and explores the gene regulation mechanism at the cellular level from the gene platform, and finally separates its unique active ingredients. After active ingredients are repeatedly verified, they enter the human clinical research and accelerate the research and development output through the introduction of various automation platforms, which makes the Company's research and development speed in the field of health and technology extremely advantageous. The Company's R&D and Design Center has set up nine laboratories to jointly operate, including Q-ODM Lab, Next Lab, E.V.E. Lab (Efficacy Value Experience), and Human & Microbiome Laboratory (H&M Lab) , Molecular Identification & Analysis Laboratory (MIA Lab), ISO 17025 Lab, Eagle Eye Lab, Aroma Therapy Physiology Lab (ATP Lab), and Gene Lab. The energy of R&D is relayed and transmitted to meet the various needs of consumers from now to the future. And the method of Bio-integrated Design follows the principle strictly and is focused and fast to continuously innovate and check.

The brief introduction to the 9 major laboratories of the Company:

i. Next Lab

The Next LAB scouts and pinpoints research topics that are perceptive and far-sighted; with the powerful resources of the organization as back up, these forward-thinkers combining the most recent advancements from various academic institutions, acts as the incentive for innovative differentiation. We have successfully developed plant-stem-cell engineering technology that resolved the issues of sustainability with rare/ precious medicinal plants and herbs. The ability to produce stable supplies through callus tissue cultures that more importantly amplifies the final product potency from the refinement of ingredient activity and bioavailability; presenting to our clients the assurance of quality and stability of every product efficacy. Plant-stem-cell generated ingredients can be applied to both supplement & skincare. In addition, we utilize micro-emulsion encapsulation technology to give oil-soluble substances water solubility as to stretch product application and diversity. Through rigorous technological developments, and configuration of global patents, we continue to innovate, experiment and practice; solving potential problems for our clients before they even occur and foreseeing the needs of consumers before they even realize through creating fully lifestyle integrated experiences.

ii. Human & Microbiome Laboratory (H&M Lab)

The Human Microbiome Laboratory (H&M Lab) primarily focuses on the establishment of a versatile bank of multifunctional microbial strains. Through active screening of probiotics and the natural flora function feedback loop, our development of target-specific microfloral adjustment and modification from selective bacterial manipulation truly benefit each individual from a personal scope.


iii. MIA Lab (Molecular Identification & Analysis Laboratory)
The Molecular Identification & Analysis Laboratory (MIA Lab) utilizes various high-tech instruments, such as GC/MSMS, LC/MSMS, NMR, UPLC and other internationally recognized methodologies to analyze and identify natural active substances and microbial metabolites. MIA Lab works closely with the GENE Lab to define the active substances responsible for benefiting effects based on the results of in vitro studies. All of our extraction process are designed to provide maximum yields of health benefiting substances, making our product highly function focused and efficacy driven.

iv. E.V.E. Lab (Efficacy, Value, Experience)
Through the numerous collaborations with renowned medical research centers, we have laid the groundwork for a pioneering visualization of the clinical verification techniques, by issuing product validation reports to secure the reliability and integrity of a product's consistency, ensuring only the best is delivered, for our clients and for consumers.

v. Q-ODM Lab (Quality Quickness Quotation Original Design Manufacturer)
The Q-ODM LAB implements the formulations provided by the Product-Development department and crafts theoretical designs into reality, as to ensure and prepare for a zero complication manufacturing process and the most reliable mass production schedule. Simultaneously adopting fine-tuning in the advancement of our production processes; the moment the initial samples are created, the planning for all considerations regarding production flow, and product optimization commences immediately. Through parametric

analysis of all available sensory tests, flavor evaluations, skin reactions to sheetmasks and dermatological referencing, we have achieved the highest Quality standards, while being the Quickest in awareness for new business opportunities and lastly providing the economics of rational Quotations.

vi. ISO17025 Lab

The ISO17025 Lab is internationally recognized 17025-certified by the Taiwan Accreditation Foundation (TAF). It is equipped with GC-MS/MS and LC-MS/MS to safeguard the products you receive with the fittest international criteria met, and to uphold our insistence that all products conform to the high-efficacy standard. TCI is the leaders that set an industry changing implementation of "100% Safety" product résumé licensing system which contains the entirety of product detailed specifications and every test report conducted from the ingredient to the finished products. Measuring over 300 test targets, those including but not limited to 3 major preservatives classes, 7 dominant microorganisms groups, 9 main heavy-metals categories and 105 pesticide residues. The datasheet documents are attached to the finished products before shipment, so our clients can be completely at ease upon receiving their goods.

vii. Gene Lab

We have successfully developed a high-throughput cell screening platform to readily identify the ideal optimum target function of every raw material. Through a series of experimentation we further clarify the interaction between active compounds and the impacts on expressing gene ensuring. On the other hand, we have developed G2 technology, a new genetic tooling and analytical platform, which can predict the likelihoods of certain disease developments: 58 types of chronic diseases (Diabetes, Hypertension, hyperlipidemia, obesity and other metabolic syndromes); 14 major cancers. The R1 Chip, which allows a current physical status examination, and B1 testing: that provides dynamic tracking of genes and protein. The two-phase examinations are used to create a gene-centered personalized health management plan.

viii. Eagle Eye Lab

To comply with the mass output of a high-speed automated production line, the pace and accuracy of manual inspection can no longer meet these demands. The Eagle Eye Laboratory develops more focus sensitive monitoring equipment; that now provides direct online monitoring through computerized visual-identification system technology; generating cloud linked database to create a high-proficiency manufacturing environment that promises sure quality.


ix. ATP Lab (Aroma Therapy Physiology Lab)

The ATP (Aroma Therapy Physiology) Lab focuses on the research into bodily interaction between the olfactory reception of scent and the human physiology. By devising cell line culture experimentation in combination with the support of the genetic screening platform, we observe the extent of selective mRNA expressions and protein activity levels in the body's bloodstream after administering a given fragrance; the lab finds complementing in-body stimulation of a fragrance to the design purpose of the final product; matching or setting up the product image with a touch of scented signature. The Lab has established our own TCI fragrance database; using the foundation of scientific data informatics, we are able to create unique formulations that emit their own inimitable fragrance in accordance to the image as well as the function of each product design.

B.Research and development personnel and their eduaction

In terms of personnel quality, the master's degree at the end of March 2019 accounted for 70.9% of the total number of R&D personnel.

Unit: person / year

| Item \ Year | | 2017 | 2018 | As of March 18, 2019 |
|---|---|---|---|---|
| Academy Ratio of R&D Staff | Ph.D | 11 | 19 | 19 |
| | Master | 57 | 62 | 62 |
| | College | 24 | 40 | 42 |
| | Below Senior High School (Included) | 2 | 1 | 1 |
| Total | | 94 | 122 | 124 |
| Average Years of Service | | 2.1 | 2.05 | 2.19 |

Note: Manpower statistics of the whole TCI group (including subsidiaries, full-time dispatch and appointment, excluding temporary manpower).

C.R&D Expense incurred in the most recent year and up to the publication of the annual report

Unit:NT$1,000

| Item \ Year | 2016 | 2017 | 2018 |
|---|---|---|---|
| and Development Expenses(A) | 160,255 | 182,276 | 438,046 |
| Operating Revenue(B) | 3,109,676 | 4,072,168 | 8,098,414 |
| Ratio of Research and Development Expense to Operating Revenue | 5% | 5% | 5% |

D.Technology and products that have been successfully developed in the most recent year and as of the date of annual report publication

| Year | Major Achievements |
|---|---|
| 2017 | 1. Application research of young pear fruit extract in respiratory health care and detoxification products<br>2.TCI378 reduced fat probiotics<br>3. Black tomato extract in eye care health food application development<br>4. Xueyan extract in the development of tight skin care products<br>5. Sailboat grape extract in the development of the compact anti-aging effect<br>6. Eclipta extract in the development of whitening skin care products<br>7. Orange peel fermentation in body fat management product development<br>8. Application of mango fruit extract to anti-glycation and fat-reducing products<br>9.TCI711 detox probiotics<br>10. Fucus algae extract that enhances skin elasticity and anti-aging |

| Year | Major Achievements |
|---|---|
| 2018 | 1. Tree tomato extract in eye care health food application development<br>2. Liulan extract in the development of moisturizing skin care products<br>3. Water scented extract for skin care products development<br>4. Peach glue extract for the development of elastic care products<br>5. Prickly pear extract in the application of full-effect antioxidant health food development<br>6. Banana stamen extract in the development for hair care products<br>7. Buckwheat hull extract in the development for anti-glycation health food<br>8. Tenaka bark extract is used to prevent skin aging and skin care products development<br>9. Red dragon ovule extract for anti-glycation health food application development<br>10. Durian carpel extract in development for anti-fatigue health food applications<br>11. Paramita white core extract in development for women's health care food applications<br>12. Dendrobium candidum extract for skin care application development<br>13. Kaqi huatima extract in the development for anti-aging products<br>14. Daidai flower extract for the health food of beauty skin and fat loss development<br>15. Jinhua tea extract is used in the application of the health food of skin fat reduction<br>16. Purple citronella extract for Qingfei health food development<br>17. Tea trunk cells in development for skin care products<br>18. Coffee cherry for the health food of beauty skin development<br>19. TCI507 orange bacteria can reduce blood lipids and regulate intestinal bacteria<br>20. TCI357 pear bacteria can repair lung epithelial cells and enhance the ability of macrophages to phagocytose PM2.5.<br>21. TCI028 good heart bacteria can can prevent atherosclerosis and reduce the risk of new blood vessel diseases<br>22. Pomegranate fermented foods and skin care products for whitening and skin firming. |

| Year | Major Achievements |
|---|---|
| 2019.1.1 - 2019.3.18 | 1. Dill extract in brain health food application development<br>2. Gold raspberry extract in the application of beauty health food application development<br>3. Traveler tree extracts for anti-aging health food application development<br>4. Wild cherry blossom extract is applied to the beauty health food application development<br>5. Emerald Cherry Extract for Skin Care Food Application Development<br>6. Indiana extract is applied to antioxidant health food application development |

(4) Short-Term and Long-Term Development Plans

A. Short-Term Development Plans

i. Rapidly develop new products with opportunities for market trends, continuously strengthen formula design and intensify product efficacy to enhance product efficiency. Meet market needs with production cost control and innovative product packaging design to expand market share.

ii. Continue to strengthen the development of local materials in Taiwan, and aim to become exclusive raw materials. Especially strengthen, scientize and value-add Taiwan's native agriculture.

iii. Devote to improving the product design capability and technical level of R&D personnel to increase market competitiveness.

iv. Use a bioreactor in a liquid culture manner to cultivate plant callus (stem cells) in a large scale, develop optimum production conditions for each product, and strengthen product efficiency and reduce production costs.

2. Long-Term Development Plans

i. Continue to communicate and cooperate with universities and hospitals, and research and develop more new materials, products and efficacy verification in combination with academic resources.

ii. Fully integrate raw materials, establish its own experimental extraction plant at the processing end, and plant plants with development potential on its own to achieve full-scale integration of raw materials.

iii. Research and development of genetic testing, research on the relationship between genetic and genetic diseases, and related clinical trial projects.

iv. The relationship between the application of microbial immunology to clinical medicine and personal health.

2. Market, production and sales overview

(1)Market analysis

A.Target regions

Unit: NT$1,000

| Counterparty \ Year | 2017 | | 2018 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Domestic Customers | 365,937 | 8.99% | 378,065 | 4.67% |
| Overseas Customers | 3,706,231 | 91.01% | 7,720,349 | 95.33% |
| Total | 4,072,168 | 100% | 8,098,414 | 100% |

B.Market share

Unit: US$ billion

| Item | Estimated Global Market Size in 2018 | The Company's Annual Revenue in 2018 (Note) | Market Share |
|---|---|---|---|
| Supplements and Functional Foods | 2,309 | 2.47 | 0.11% |
| Cosmetic and Skin Care Products | 5,704 | 0.20 | 0.004% |

Data source: Euromonitor、mordorintelligence。

Note: The currency exchange rate between US$ and NT$ was 1:30.

C.Market supply and demand situation and growth in the future

In 2018, the global health food market is expected to reach US$230.9 billion. In recent years, the trend of natural, plant extract, organic sources and sugar-reducing formulas, and the rapid development of products such as protein, fish oil, Omega fatty acids and probiotics, will be Develop and manufacture related products based on the development trend of health foods. According to the market research report of Mordorintelligence, the global beauty care products market reached US$5,704 in 2018. It is estimated that the global beauty care products market will reach US$805.6 billion in 2023, with a compound annual growth rate of 7.14%.

D.Competitive Niche

i. Continuous development of new materials

In response to the needs of consumers, in recent years, the trend of functional food and beauty care products and formulas, there will be star material almost every 2 to 3 years, such as peptide protein raw materials, fruit acid, vitamin A acid, Botox, L-vitamin C, Q10, collagen, hyaluronic acid and deep ocean water. Functional foods and beauty care products are the soul of the entire beautiful industry, and how to seek new, change, and develop new raw material technologies, formulas, and research and development of new products is a major issue. Therefore, we should continue to pay attention to customer needs and develop in response to the trend of the times. Develop your own innovative strategies for future development opportunities.

The Company is responsible for the development of re-materials and extraction and screening technologies. The extraction and screening conditions of raw materials are based on the characteristics of the materials, and the time, output power, temperature, material ratio, material size and other factors are added. In the experimental design, the extraction and screening conditions are optimized, and the stability and effective absorption are sought. In the future, the Company will gradually increase the proportion of autonomous IBD raw materials, actively distribute patents, and increase the advantages that other competitors cannot replicate.

ii. Actively deploy overseass markets

The bottleneck in the scale of the domestic food biotechnology industry lies in the fact that its market size is too small to rely solely on the Taiwan market. It is necessary to focus on the Asia-Pacific market and the global market, otherwise it will be difficult to survive and grow. The domestic manufacturers should strategically focus on economies of scale as the primary task, and actively develop the Asian markets of many potential consumers. In particular, the Chinese mainland market can be used to develop markets first, to identify differences, adapt to local conditions and complement Taiwan's advantages. How to make consumers' peace of mind and healthy eating become an important trend of product development. When Taiwanese manufacturers enter the mainland market, because of the stable quality and beautiful design, and the safety of Taiwanese manufacturers is generally trusted by mainland consumers, they can be launched. Special products such as products with Taiwan characteristics or advantages are used to cut into the layout of business opportunities.

The Southeast Asian market, including Malaysia, Indonesia and other countries, has a large Muslim population. Therefore, based on religious beliefs, the Muslim population attaches great importance to the source of raw materials for the demand for functional foods. Healthy foods or beauty products developed by food biotechnology companies must avoid alcohol and pig extracts in order to gain the favor of local consumers.

The Company is committed to the development of the international market, and has established a service base in the existing mainland China market. For the Southeast Asian market, considering the Muslim population in Malaysia and Indonesia, in addition to applying for halal certification and developing products in line with local conditions, 2017 Jakarta, Indonesia, reached an office and went deep into the local market. In addition, we are also actively developing regions such as Japan, Europe, Australia and India to expand our customer base.

iii. Product quality assurance and validation

The Company's entire products have passed the inspection, and the Company's quality verification laboratory has passed ISO17025 and TAF certification, and the credibility is equivalent to the third-party inspection unit. In 2015, LC-MS/MS and GC-MS/MS were newly purchased to establish product history. The system consists of five preservatives, eight major microorganisms, nine heavy metals and 310 pesticide residues, six plasticizers, and a “product resume” containing product specifications and various measurement items. Attached with the goods, so that customers are more at ease.

E. Advantages, Disadvantages and Countermeasures of Developing Prospects

i. Favorable factor

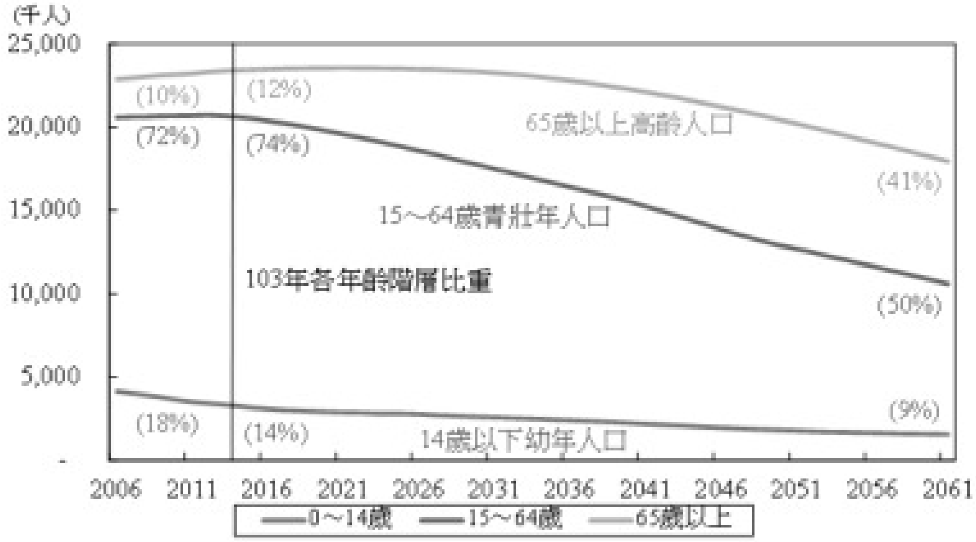
i-1.Development of preventive medicine and adjuvant therapy

Chronic diseases, including cardiovascular diseases, hypertension, cancer, chronic respiratory diseases and diabetes, threaten human health. As the number of chronic diseases increases, it becomes a major concern for medical expenses and social welfare burdens in various countries. Health and function From the perspective of preventive medicine, food has the functions of increasing nutrition, promoting health and delaying aging. It is gradually favored by governments and consumers in the context of expecting health care and functional foods to reduce medical expenses and health awareness.

i-2. Health awareness and the elderly population increase to increase market demand

Chinese people are affected by social and people's livelihood problems such as long-term stagnation of real wages and high housing prices. Coupled with the rise of Chinese singleism and the gradual decline of the concept of raising children, the people's fertility will decline for a long time, and the population structure of China continues to be aging. According to the Ministry of the Interior. According to statistics, the proportion of the elderly population in Taiwan increased to 14.09% in 2017, officially entered the old age society, and entered the super senior age (more than 20%) in 2035. As the elderly population pays more attention to their own health and the food consumption budget is higher, it will drive the market scale of domestic health food, nutritional supplement food, natural grain, fruits and vegetables and fresh food to continue to expand.

Taiwan's demographic trends




*Data source: Ministry of the Interior, R.O.C. (Taiwan)*

i-3.Consumer self-care awareness

As the concept of "self-care" is taking shape, consumers are encouraged to build a sense of health awareness and continue to recognize that food can provide health benefits and help with disease management, such as improving cardiovascular function and strengthening body energy. Increased purchasing confidence with endurance, maintenance of overall health and improved digestive system, especially for certified and clinically proven products.

i-4.Increased income in China and the emphasis on health awareness

In recent years, with the high growth of the Chinese mainland economy, with the increase in consumer disposable income, the expenditure on improving health and living standards will also increase. In the next few years, the mainland vitamin and health food market is expected to continue to maintain its ideal momentum. According to data provider Euromonitor, as of the end of 2017, the mainland market for vitamins and health supplements has reached RMB 160 billion, and with the release of consumption power in second- and third-tier cities, it will become a new force for consumption growth. The market for food and beauty care products has great potential for development in the future.

i-5.Increased female spending power

Women's economic and life autonomy makes them able to invest more in order to improve their external problems. External improvements can increase interpersonal relationships, and beautiful appearances can be appreciated by others. In addition, there may be more job opportunities. The advantages brought by external advantages make women willing to invest money and time to receive various kinds of beauty care services in order to become beautiful. The sales volume of beauty drinks market is growing year by year. It shows that Taiwan women's requirements for beauty are not limited to the face. Instead of pursuing all-round beauty, the future will be a big business opportunity for the health food and beauty care products market.

i-6. The rise of genomics

Scientists are currently studying the interrelationship between genes, diets, and diseases of "personal genomics," so-called nutrigenomics, to achieve life management and disease prevention, and even predictive purposes. Personal genetic testing confirms whether it is prone to metabolic syndrome or other diseases, and provides health measures for life, diet, and health food applications to achieve preventive effects.

ii.Unfavorable factors and countermeasures:

ii-1.The health and functional food market has flourished, causing large domestic and foreign manufacturers to enter, and many competitors in the industry.

Action Plans:

a. The Company is guided by the needs of consumers. In the development process, the products assist customers to conduct feasibility analysis and produce specific marketing plans, and to grasp the analysis of target group preferences, so that products can grasp market trends before production and can avoid Develop highly competitive products.

b. The Company set up a function verification laboratory to conduct experimental verification on product efficacy, give scientific data and proof with high reference value, and cooperate with various medical centers or professional institutions to open a complete professional verification report to enhance customer confidence and satisfaction. degree.

c. The Company conducts molecular-level DNA and RNA research on raw materials and products, understands how raw materials and products work in the human body, and understands the synergy between the various materials for efficacy, which can be used to design products. The most effective product.

d. The Company has applied for patents in Taiwan, the United States, China, South Korea, Hong Kong, Japan, Germany, France, India, Singapore and Europe. Up to now, 239 patents have been approved and 265 applications have been approved to prevent research and development. Infringed by others, innovative products to ensure the competitive advantage of the Company and its customers.

e. The Company has two GMP-certified factories, such as a capsule tablet factory and a functional beverage factory, which have improved the Company's self-made rate. Currently, we are actively expanding the domestic demand market and other overseass markets in China, and we have established health food factories and mask factories in Jinshan District, Shanghai, China to directly serve local and international customers with high efficiency and competitive prices.

f. The Company uses a variety of autonomous IBD (Integrated Bio-science Design) raw materials such as banana peel and peanut film. In 2014, it also used 12 kinds of health care products (including Formosa RubyTM, Cleaner JTM, Dragon PowerTM, etc.). Won the international invention awards, through the differentiation of raw materials and dosage forms, develop unique products to lead the market and avoid competition among peers.

ii-2.The Taiwan market is limited in scale and food hygiene management regulations (such as food hygiene management laws, health food application licensing methods, etc.) tend to be strict.

<u>Action Plans:</u>

a. China's Daxie market will increase its market size with the increase of people's income. Therefore, the Company has established a large-scale service base to gradually promote the entire line of products to the Datun area.

b. At present, sales in the US and Europe account for a gradual increase in the overall proportion of the Company. Through the successful model of business development, we actively strive for orders from internationally renowned manufacturers.

c. The Company is also actively developing the Southeast Asian market. Considering that there are many Muslims in Indonesia and Malaysia, in addition to applying for HALAL certification, and developing new products that meet local customs, such as fish collagen drinks, to enhance consumer purchases. Willingness.

d. The Company's Legal Intelligence Department has collected and organized the laws on health food and beauty care products in Taiwan, China, Malaysia, Hong Kong, the United States and Europe to ensure that the Company's products can fully comply with regulations and reduce legal risks.

ii-3.The characteristics of health foods belong to a product that is directly consumed by consumers, so the safety of products is a consideration that consumers will pay attention to when purchasing.

Action Plans:

a. The R&D department laboratory of the Company is responsible for raw material development, formula design and efficacy verification, and manufactures according to SOP specifications. After being issued by the Quality Assurance Center, it can be listed to ensure the safety and efficacy of the products.

b. Because the Health Department of the Executive Yuan has strict specifications for healthy foods, if the Company's products want to obtain the certification of healthy foods, it must undergo a rigorous review process, indicating that the certified products have passed the quality control of government units, making it easier. With the recognition of consumers, the Company has obtained ISO9001, ISO22000, ISO17025, HACCP, Sedex, FSSC22000, food GMP, functional food GMP, HALAL and other quality certifications at home and abroad, and established standardized production processes and strict production in the production plant. Quality control, so the product is highly competitive.

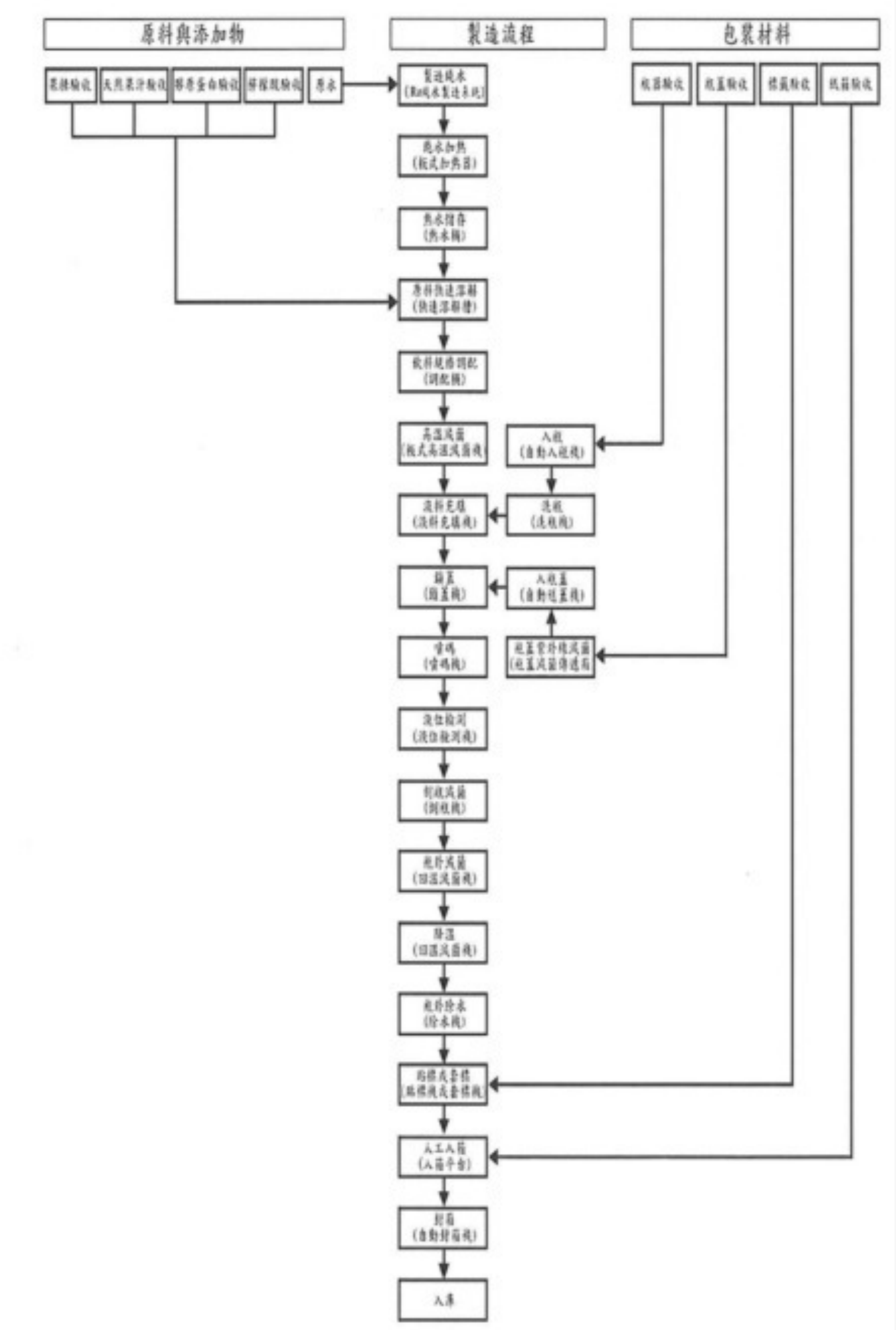
(2)Important use of the main products and production process

A.Major functionalities

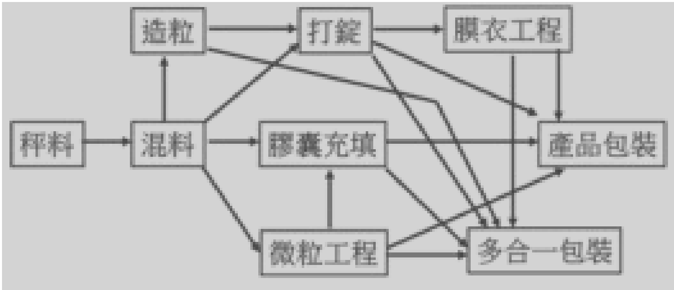
| Product Category | Major Functionalities |
| --- | --- |
| Functional Beverages | Supplements the loss of body collagen, breast enlargement, whitening, slimming, lubricating joints, lowering blood fat and enhancing immunity |
| Dietary Supplements | Various types of whitening, anti-wrinkle, slimming, eye protection and immune enhancement |
| Cosmetic and Skin Care Products | Skin and facial skin care |

B.Manufacturing process

i.Functional beverages



ii.Capsules, tablets, powerders




iii.Supply of main raw materials

The Company's raw materials are supplied by domestic and foreign manufacturers. In order to obtain a stable source of purchase, the Company and suppliers have always maintained close cooperative relations and actively developed new suppliers.

iv.List of major suppliers and sales customers in the last two years

A. The name of the supplier and its purchase amount and ratio, which accounted for more than 10% of the total purchase amount in any year in the last two years, and the reason for the increase or decrease: the Company did not purchase a single supplier in 2017 and 2018. The amount accounts for more than 10% of the total purchase.

B. The name of the customer and its sales amount and ratio, which accounted for more than 10% of the total sales in any of the previous years, and the reasons for the increase or decrease.

Unit: NT$1,000

| Item | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Customer Name | Amount | % | Relationship | Customer's Name | Amount | % | Relationship |
| 1 | Customer M | 1,479,517 | 36.33 | None | Customer M | 1,598,916 | 19.74 | None |
| 2 | Others | 2,592,651 | 63.67 | — | Customer L | 2,163,991 | 26.72 | None |
| 3 | - | - | - | — | Others | 4,335,507 | 53.54 | — |
| | Annual Revenue | 4,072,168 | 100.00 | — | Annual Revenue | 8,098,414 | 100.00 | — |

<u>Reasons for increase or decrease:</u>

The sales of M's products in each year were stable, and the sales volume increased slightly compared with last year. However, the ratio of total sales to sales decreased compared with last year, mainly due to the Customer L who sold hot functional drinks this year.

v.Quantity of production in the last two years

Unit: NT$1,000 / 1000 pcs

| Year / Product Category | 2017 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Production Capacity | Quantity of Production | Sales | Production Capacity | Quantity of Production | Sales |
| Functional Beverages | 96,000 | 73,875 | 1,144,813 | 226,800 | 154,378 | 2,518,738 |
| Dietary Supplements | Note | Note | 767,280 | Note | Note | 1,564,334 |
| Cosmetic and Skin Care Products | Note | Note | 499,302 | Note | Note | 443,947 |
| Total | | | 2,411,395 | | | 4,527,019 |

Note: Due to inconsistent product dosage units, it is not intended to calculate production.

Change Analysis:

The company's 2018 annual output value continued to rise compared with 2017, mainly due to the good sales of various products and the steady growth of production lines.

vi.Sales and production quantity in the recent two years

Unit: NT$1,000 / 1000 pcs

| Year / Product Category | | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Domestic Customers | | Overseas Customers | | Overseas Customers | | Overseas Customers | |
| | | Quantity | Sales | Quantity | Sales | Quantity | Sales | Quantity | Sales |
| Functional Beverages | PCS | 10,808 | 187,827 | 65,485 | 1,555,896 | 11,295 | 180,296 | 158,758 | 4,142,140 |
| Dietary Supplements | PCS | Note | 123,814 | Note | 1,458,206 | Note | 111,472 | Note | 2,986,440 |
| Cosmetic and Skin Care Products | PCS | Note | 42,107 | Note | 673,123 | Note | 38,324 | Note | 570,781 |
| Others | PCS | Note | 12,189 | Note | 19,006 | Note | 47,973 | Note | 20,988 |
| Total | PCS | | 365,937 | | 3,706,231 | | 378,065 | | 7,720,349 |

Note: Due to inconsistent product dosage units, it is not intended to calculate sales.

Change Analysis:

The Company's annual sales in 2018 were increased compared with 2017, mainly due to the continuous growth of sales in various regions and products.

3.Employees' employment, average length of service, average age and academic distribution ratio of employees in the last two years and up to the annual report

Unit: person / %

| Year | | 2017 | 2018 | As of March 18, 2019 |
|---|---|---|---|---|
| No. of Employees | Salesperson | 104 | 95 | 98 |
| | Management Staff | 91 | 110 | 110 |
| | R& D Staff | 94 | 116 | 123 |
| | Direct Staff | 535 | 450 | 441 |
| | Total | 824 | 771 | 772 |
| Average Age | | 32.1 | 31.4 | 31.2 |
| Average Years of Service | | 2.2 | 2.5 | 2.2 |
| Academy Ratio (%) | Ph.D | 1.45 | 2.71 | 2.53 |
| | Master | 20.14 | 23.32 | 24.00 |
| | College | 42.73 | 51.55 | 50.40 |
| | Below Senior High School (Included) | 35.68 | 22.42 | 23.07 |
| | Total | 100.00 | 100.00 | 100.00 |

Note: Manpower statistics of the whole TCI group (including subsidiaries, full-time dispatch and appointment, excluding temporary manpower).

4.Environmental expenditure information

(1) According to the law, the instructions for applying for, paying or setting up the requirements for the application, payment or establishment of the pollution facility permit or pollution discharge permit or the need to pay the pollution prevention cost or the establishment of the environmental protection special unit:

The Company has no special pollution in the process, so there is no need to apply for a pollution installation permit or a pollutant discharge permit. In addition, the factory of the Company's Chinese subsidiary has only the function of outer box packaging, and there is no special pollution on the process. It is generated, so there is no need to apply for a pollution installation permit or a pollutant discharge permit.

(2) Investment in the prevention and control of major environmental pollution equipment and its use and possible benefits: None.

(3) In the past two years and the end of the annual report, the Company has improved the environmental pollution, and it has incidents of pollution disputes, and should explain its treatment: None.

(4) The total amount of losses (including compensation) and dispositions suffered by the Company due to environmental pollution in the last two years and the end of the annual report, and the future response measures (including improvement measures) and possible expenditures (including failure to take countermeasures) The estimated amount of loss, disposition and compensation that may occur, if it cannot be reasonably estimated, should state the fact that it cannot be reasonably estimated): None.

(5) The impact of the current pollution situation and its improvement on the Company's

earnings, competitive position and capital expenditures and the estimated major environmental capital expenditures for the next two years: None.

5.Labour Relations

(1) The Company’s employee welfare measures, eductation, training, retirement system and its implementation, as well as the agreement between the employers and the employees, and the implementation of the employee’s right protection.

A.Employee welfare measures

The Company and subsidiaries in Taiwan, except for the law and related laws and regulations, all employees are involved in labor insurance, universal health insurance, group accident insurance, and provide wedding and funeral allowances and various allowances, and hold regular birthday celebrations. In addition to special festivals, staff gifts (goods), year-end tails, year-end bonuses, employee subscriptions and dividends, etc., and the establishment of the employee welfare committee to coordinate various employee welfare plans; in addition to paying social fees for employees in accordance with Chinese laws and regulations In addition to insurance and housing provident fund, it also provides benefits such as wedding and funeral benefits and various allowances, year-end tails, and year-end bonuses.

B.Eductation and training

The Company and its subsidiaries provide a variety of training courses and various professional on-the-job education training, including new staff training, on-the-job training courses, labour safety and health education training, professional courses, etc., and department heads and staff can also send staff as needed. Or self-study courses and exeges organized by external organizations to enhance the professional competence and core competitiveness of employees, and strengthen the staff's complete training and training channels.

C.Retirement System and its Implementation

In order to promote the retirement of living and strengthen the relationship between the Company and the Taiwanese companies, the Company and its subsidiaries in Taiwan are all based on the completion pension regulations. The Company provides a retirement reserve of 6% of the total monthly salary, and deposits it into the management bureau of the Bureau of Environmental Protection; The Company pays basic endowment insurance premiums on a monthly basis in accordance with the Social Insurance Law.

D.The agreement between the employers and the employees

The Company and its subsidiaries have always complied with various government laws and regulations, and paid attention to labor rights and interests. The employment, separation, retirement and various welfare measures of employees are based on the Labor Standards Law and relevant laws and regulations. In order to maintain a good interaction between the employer and the employee, there has not been any dispute that has caused an agreement between the employers and the employees. However, the Company will continue to make good efforts to make welfare measures more harmonious, so as to eliminate the possibility of disputes over capital disputes.

E.The agreement between the employers and the employees, and the implementation of the protection of employee rights

The Company and its subsidiaries have established a comprehensive system and system, which sets out various management measures, which clearly define employee rights and obligations and welfare items, and regularly review the revised benefits to safeguard all labor rights.

(2) In the most recent year and the end of the annual report, the losses suffered by labor disputes, and the current and future estimated amounts and response measures may be disclosed. If it cannot be reasonably estimated, the facts that cannot be reasonably estimated should be stated.

Labor / Employer dispute loss incurred in the most recent year and up to the publication of the annual report; also, disclosing estimated current and future loss and its countermeasure：None.

## IV. Financial Information

1.Condensed Balance Sheet and Statements of Comprehensive Income for the Last Five Years

(1)Condensed Balance Sheet

A. Condensed Balance Sheet

i. Stand-aloneCondensed Balance Sheet

Unit: NT$1,000

| Item \ Year | | Financial Information in the Recent 5 Years | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Current Assets | | 975,766 | 1,013,588 | 1,041,220 | 1,022,643 | 3,080,004 |
| Property, Plant, and Equipment | | 519,516 | 718,830 | 931,231 | 1,341,941 | 1,555,891 |
| Intangible Assets | | 3,285 | 16,969 | 19,898 | 17,755 | 15,954 |
| Other Assets | | 761,667 | 1,030,988 | 1,597,970 | 2,015,396 | 3,949,579 |
| Total Assets | | 2,260,234 | 2,780,375 | 3,590,319 | 4,397,735 | 8,601,428 |
| Current Liabilities | Before Distribution | 328,867 | 314,828 | 684,149 | 873,719 | 2,381,478 |
| | After Distribution | 384,491 | 412,742 | 835,392 | 1,108,650 | Note |
| Noncurrent Liabilities | | 223,953 | 226,641 | 144,324 | 137,938 | 496,064 |
| Total Liabilities | Before Distribution | 552,820 | 541,469 | 828,473 | 1,011,657 | 2,877,542 |
| | After Distribution | 608,444 | 639,383 | 979,716 | 1,246,588 | Note |
| Shareholder's Equity Attributable to Parent Company | | — | — | — | — | — |
| Paid-in Capital | | 556,244 | 731,097 | 756,213 | 870,117 | 1,026,076 |
| Capital Surplus | | 853,927 | 1,176,135 | 1,400,258 | 1,453,414 | 2,256,871 |
| Retained Eernings | Before Distribution | 273,929 | 410,135 | 750,139 | 1,197,690 | 2,613,710 |
| | After Distribution | 218,305 | 233,889 | 485,464 | 832,241 | Note |
| Other Equity Interests | | 23,314 | (129) | (144,764) | (135,143) | (172,771) |
| Treasury Stock | | — | — | — | — | — |
| Non-Controlling Interest | | — | — | — | — | — |
| Total Equity | Before Distribution | 1,707,414 | 2,238,906 | 2,761,846 | 3,386,078 | 5,723,886 |
| | After Distribution | 1,651,790 | 2,140,992 | 2,497,171 | 3,020,629 | Note |

Data source: The Financial Statements approved by the CPAs.

Note:The proposal for the distribution of the 2018 earnings is yet to be resolved in the 2019 shareholders' meeting.

B. Consolidated Condensed Balance Sheet

Unit: NT$1,000

| Item \ Year | | Financial Information in the recent 5 years | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Current Assets | | 1,536,681 | 1,917,085 | 2,347,346 | 2,831,034 | 7,227,635 |
| Property, Plant, and Equipment | | 573,491 | 1,064,453 | 1,285,128 | 1,682,933 | 1,925,376 |
| Intangible Assets | | 3,285 | 23,709 | 26,493 | 25,667 | 25,266 |
| Other Assets | | 399,478 | 162,897 | 242,504 | 301,049 | 1,108,463 |
| Total Assets | | 2,512,935 | 3,168,144 | 3,901,471 | 4,840,683 | 10,286,740 |
| Current Liabilities | Before Distribution | 405,299 | 632,450 | 964,450 | 1,272,551 | 4,008,630 |
| | After Distribution | 460,923 | 730,364 | 1,115,693 | 1,507,482 | Note |
| Noncurrent Liabilities | | 397,183 | 281,062 | 155,324 | 149,860 | 509,068 |
| Total Liabilities | Before Distribution | 913,512 | 1,119,774 | 1,422,411 | 1,422,411 | 4,517,698 |
| | After Distribution | 858,106 | 1,011,426 | 1,271,017 | 1,657,342 | Note |
| Shareholder's Equity Attributable to Parent Company | | 1,707,414 | 2,238,906 | 2,761,846 | 3,386,078 | 5,723,886 |
| Paid-in Capital | | 556,244 | 731,097 | 756,213 | 870,117 | 1,026,076 |
| Capital Surplus | | 853,927 | 1,176,135 | 1,400,258 | 1,453,414 | 2,256,871 |
| Retained Eernings | Before Distribution | 273,929 | 410,135 | 750,139 | 1,197,690 | 2,613,710 |
| | After Distribution | 218,305 | 233,889 | 485464 | 832,241 | Note |
| Other Equity Interests | | 23,314 | (129) | (144,764) | (135,143) | (172,771) |
| Treasury Stock | | — | — | — | — | — |
| Non-Controlling Interest | | 3,039 | 15,726 | 19,851 | 32,194 | 45,156 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total Equity | Before Distribution | 1,710,453 | 2,254,632 | 2,781,697 | 3,418,272 | 5,769,042 |
| | After Distribution | 1,654,829 | 2,156,718 | 2,517,022 | 3,052,823 | Note |

Data source:The Consolidated Financial Statements approved by the CPAs.

Note:The proposal for the distribution of the 2018 earnings is yet to be resolved in the 2019 shareholders' meeting.

C. Statements of Comprehensive Income

i. Statements of Comprehensive Income

ii. Stand-Alone Statements of Comprehensive Income

Unit:NT$1,000

| Item \ Year | Financial Information in the recent 5 years | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating Revenue | 1,103,602 | 1,359,951 | 1,866,553 | 2,395,952 | 5,090,620 |
| Gross Profit | 322,600 | 323,201 | 404,751 | 638,065 | 1,201,081 |
| Operating Porfit | 109,600 | 41,740 | (34,826) | 68,893 | 223,628 |
| Non-Operating Income and Expenses | 77,348 | 218,873 | 553,037 | 670,506 | 1,683,577 |
| Pre-tax Income | 186,948 | 260,613 | 518,211 | 739,399 | 1,907,205 |
| Net Income for Continuing Operations | 158,378 | 247,457 | 516,250 | 712,226 | 1,794,899 |
| Loss from discontinued operations | — | — | — | — | — |
| Net Income | 158,378 | 247,457 | 516,250 | 712,226 | 1,794,899 |
| Other Comprehensive Profit and Loss (after Tax) | 19,760 | (23,443) | (95,616) | (22,264) | (65,140) |
| Compressive Income | 178,138 | 224,014 | 420,634 | 689,962 | 1,729,759 |
| Earnings per Share | 3.08 | 4.02 | 6.90 | 8.23 | 17.79 |

Data source: The Consolidated Financial Statements approved by the CPAs.

iii. Consolidated Statements of Comprehensive Income

Unit: NT$1,000

| Item \ Year | Financial Information in the recent 5 years | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Operating Revenue | 1,455,125 | 2,064,531 | 3,109,676 | 4,072,168 | 8,098,414 |
| Gross Profit | 479,448 | 731,899 | 1,292,513 | 1,654,399 | 3,516,952 |
| Operating Porfit | 140,835 | 268,409 | 622,775 | 879,450 | 2,036,923 |
| Non-Operating Income and Expenses | 58,197 | 20,761 | 12,267 | 11,041 | 169,614 |
| Pre-tax Income | 199,032 | 289,170 | 635,042 | 890,491 | 2,206,537 |
| Net Income for Continuing Operations | 156,827 | 241,233 | 513,547 | 720,824 | 1,807,379 |
| Loss from discontinued operations | — | — | — | — | — |
| Net Income | 156,827 | 241,233 | 513,547 | 720,824 | 1,807,379 |
| Other Comprehensive Profit and Loss (after Tax) | 19,760 | (23,745) | (95,644) | (22,551) | (64,658) |

| | | | | | |
|---|---|---|---|---|---|
| Compressive Income | 176,587 | 217,488 | 417,903 | 698,273 | 1,742,721 |
| Profit Attributable to Owners of the Parent Company | 158,378 | 247,457 | 516,250 | 712,226 | 1,794,899 |
| Non-controlling interest | (1,551) | (6,224) | (2,703) | 8,598 | 12,480 |
| Shareholder's Equity Attributable to Parent Company | 178,138 | 224,014 | 420,634 | 689,962 | 1,729,759 |
| Non-controlling interest | (1,551) | (6,526) | (2,731) | 8,311 | 12,962 |
| Earnings per Share | 3.08 | 4.02 | 6.90 | 8.23 | 17.79 |

Data source: The Consolidated Financial Statements approved by the CPAs.

D. Independent auditors' names and their audit opinions for the past five years

i. Independent auditors' names and their audit opinions for the past five years

| Year | Name of CPA Firm | Name of CPA | Auditor's Opinions |
|---|---|---|---|
| 2014 | PricewaterhouseCoopers Taiwan | Ping-Chiun Chih, Han-Chi Wu | No Special Opinions |
| 2015 | PricewaterhouseCoopers Taiwan | Ping-Chiun Chih, Han-Chi Wu | No Special Opinions |
| 2016 | PricewaterhouseCoopers Taiwan | Ping-Chiun Chih, Kuo-Hua Wang | No Special Opinions |
| 2017 | PricewaterhouseCoopers Taiwan | Ming-Chuan Hsu, Kuo-Hua Wang | No Special Opinions |
| 2018 | PricewaterhouseCoopers Taiwan | Ming-Chuan Hsu, Kuo-Hua Wang | No Special Opinions |

ii. The reason for the change of accountants in the past five years: The CPAs of the Company's financial report were Ping-Chiun Chih and Han-Chi Wu who are originally from the PricewaterhouseCoopers Taiwan. Since the 1$^{st}$ quarter of 2016, in order to meet the needs of the internal rotation of the firm, For the support of Ping-Chiun Chih and Kuo-Hua Wang, from the 1$^{st}$ quarter of 2017, in order to meet the needs of the internal rotation of the Institute, Ming-Chuan Hsu and Kuo-Hua Wang were responsible for approval.

(2)Financial Analysis within the Last 5 Years

A.Financial Analysis within the Last 5 Years (in compliance with International Financial Reporting Standards, IFRSs)

i.Individual Financial Statements

| Analysis Item \ Year | | | Financial Analysis within the Last 5 Years | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Financial Structure (%) | Liabilities to Assets Ratio | | 24.46 | 19.47 | 23.08 | 23.00 | 33.45 |
| | Long-term Fund to Property, Plant, and Equipment Ratio | | 371.05 | 321.76 | 311.51 | 262.61 | 399.66 |
| Liquidity (%) | Current Ratio | | 296.71 | 321.95 | 152.19 | 117.04 | 129.33 |
| | Quick Ratio | | 231.31 | 247.47 | 118.74 | 77.99 | 101.06 |
| | Interest Coverage Ratio | | 52.39 | 42.77 | 276.20 | 286.92 | 416.24 |
| Operating Performance | Accounts Receivable Turnover (Times) | | 9.23 | 9.28 | 8.17 | 9.55 | 8.53 |
| | Average Collection Days | | 40 | 39 | 45 | 38 | 43 |
| | Inventory Turnover (Times) | | 4.66 | 5.08 | 7.02 | 7.01 | 9.15 |
| | Accounts Payable Turnover (Times) | | 6.06 | 6.45 | 5.25 | 4.27 | 3.91 |
| | Average days Sales | | 78 | 72 | 52 | 52 | 40 |
| | Property, Plant, and Equipment (Times) | | 2.24 | 2.20 | 2.26 | 2.11 | 3.51 |
| | Total Asset Turnover (Times) | | 0.57 | 0.54 | 0.59 | 0.60 | 0.78 |
| Profitability | Return on Assets (%) | | 8.29 | 10.02 | 16.26 | 17.859 | 27.67 |
| | Return on Equity (%) | | 10.84 | 12.53 | 20.65 | 23.17 | 39.41 |
| | Ratio of Pre-tax Income to Paid-in Capital | Operating Porfit | 19.70 | 6.39 | (4.62) | 7.92 | 21.79 |
| | | Pre-tax Income | 33.61 | 39.92 | 68.69 | 84.98 | 185.87 |
| | Net Income Margin (%) | | 14.35 | 18.20 | 27.66 | 29.73 | 35.26 |
| | Earnings per Share (NT$) (Note 2) | | 3.08 | 4.02 | 6.90 | 8.23 | 17.79 |
| Cash Flow | Cash Flow Ratio (%) | | 39.67 | 27.72 | 54.22 | 39.84 | 43.83 |
| | Cash Flow Adequacy Ratio(%) | | 66.82 | 32.35 | 45.65 | 41.99 | 63.05 |
| | Cash Flow Reinvestment Ratio(%) | | 3.31 | 0.23 | 7.92 | 5.24 | 12.35 |

| Analysis Item \ Year | | Financial Analysis within the Last 5 Years | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Leverage | Operating Leverage | 1.47 | 2.44 | (1.34) | 2.52 | 2.47 |
| | Financial Leverage | 1.03 | 1.18 | 0.95 | 1.04 | 1.02 |

Explain the reasons for the changes in the financial ratios in the last two years:
1. Interest coverage ratio: Mainly due to the issuance of corporate bonds in the current period and the increase in the payment of raw materials.
2. Quick ratio: The main reason is the increase in cash balance in the current period.
3. Interest coverage ratio, real estate, plant and equipment turnover rate (times): Mainly due to good profit in the current period.
4. Inventory turnover rate (times): The main department is the growth of revenue in the current period, the raw materials are invested smoothly, and the finished products are shipped smoothly.
5. Operating profit, pre-tax net profit as a percentage of paid-in capital: The main reason is that the revenue of the current period continues to grow and the profit is good.

Data source: The Financial Statements approved by the CPAs.

ii. Consolidated Financial Analysis

| Analysis Item \ Year | | Financial Analysis within the last 5 years | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| Financial Structure % | Liabilities to Assets Ratio | 31.93 | 28.83 | 28.70 | 29.38 | 43.92 |
| | Long-term Fund to Property, Plant, and Equipment Ratio | 364.20 | 222.57 | 227.27 | 211.31 | 325.31 |
| Liquidity (%) | Curerent Ratio | 379.15 | 303.12 | 243.39 | 222.47 | 180.30 |
| | Quick Ratio | 299.91 | 245.91 | 192.76 | 180.48 | 142.01 |
| | Interest Coverage Ratio | 54.73 | 47.30 | 154.69 | 339.72 | 464.27 |
| Operating Performance | Accounts Receivable Turnover (Times) | 5.48 | 9.48 | 16.36 | 12.91 | 16.41 |
| | Average Collection Days | 67 | 38 | 22 | 28 | 22 |
| | Inventory Turnover (Times) | 4.09 | 4.59 | 4.98 | 5.45 | 5.18 |
| | Accounts Payable Turnover (Times) | 5.87 | 6.81 | 6.40 | 5.47 | 4.33 |
| | Average days Sales | 89 | 79 | 73 | 67 | 70 |
| | Property, Plant, and Equipment Turnover(Times) | 2.74 | 2.52 | 2.65 | 2.74 | 4.49 |
| | Total Asset Turnover(Times) | 0.69 | 0.73 | 0.88 | 0.93 | 1.07 |
| Profitabilit | Return on Assets (%) | 7.56 | 8.68 | 14.63 | 16.54 | 23.95 |
| | Return on Equity (%) | 10.72 | 12.17 | 22.86 | 23.25 | 39.35 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| y | Ratio of Pre-tax Income to Paid-in Capital | Operating Porfit | 25.32 | 41.12 | 82.54 | 101.07 | 198.52 |
| | | Pre-tax Income | 35.78 | 44.30 | 84.17 | 102.34 | 215.05 |
| | Net Income Margin (%) | | 10.78 | 11.68 | 16.51 | 17.70 | 22.32 |
| | Earnings per Share(NT$) (Note 2) | | 3.08 | 4.02 | 6.90 | 8.23 | 17.79 |
| Cash Flow | Cash Flow Adequacy Ratio(%) | | 51.84 | 77.63 | 91.73 | 79.81 | 87.56 |
| | Cash Flow Reinvestment Ratio(%) | | 77.94 | 66.95 | 96.10 | 100.82 | 131.66 |
| | Cash Flow Adequacy Ratio(%) | | 6.53 | 18.18 | 23.87 | 22.17 | 48.46 |
| Financial Structure % | Operating Leverage | | 1.47 | 1.35 | 1.21 | 1.18 | 1.12 |
| | Financial Leverage | | 1.03 | 1.02 | 1.01 | 1.00 | 1.00 |

Explain the reasons for the changes in the financial ratios in the last two years:

1. Debt-to-asset ratio: The main reason is that the company's corporate bonds issued during the period and the smooth receipt of orders received increased.

2. Long-term capital accounted for the ratio of real estate, plant and equipment: Mainly due to good profit in the current period and the issuance of corporate bonds.

3. Interest coverage ratio: The main profit is due to good profit in the current period.

4. Turnover of receivables (times) and average number of days of collection: The main revenue of the current period continued to grow, and the payment of goods was smooth.

5. Real estate, plant and equipment turnover rate (times): The main department's revenue continued to grow in the current period, and the new factory building was not completed yet.

6. Operating profit, pre-tax net profit as a percentage of paid-in capital: The main business is the continuous growth of revenue in the current period, resulting in good profit.

Data source: The Consolidated Financial Statements approved by the CPAs.

Note 1: It is based on the weighted average number of foreign shares in the current year, and retrospectively adjusts the number of foreign shares in the previous year as the weighted average circulation of the treasury shares due to the surplus of capital increase and the holding of the company's shares.

Note 2：Formulas for the above tables：

1. Financial Structure
   (1)Liablilites to Assets Ratio ＝ Total Liabilities / Total Assets。
   (2)Long-term Fund to Property, Plant, and Equipment Ratio ＝ (Total Equity + Noncurrent Liabilities）/ Property, Plant, and Equipment
2. Liquidity Analysis
   (1) Curerent Ratio ＝ Current Assets / Current Liabilities。
   (2) Quick Ratio ＝ (Current Assets – Inventory - Prepaid Expenses) / Current Liabilities。

(3) Interest Coverage Ratio ＝ Income before Interest and Taxes / Interest Expense

3. Operating Performance Analysis

(1)Accounts Receivable Turnover (Times) ＝ Net Reveneue / Average Accounts Receivable

(2)Average Collection Days ＝ 365 / Accounts Receivable Turnover (Times)。

(3)Inventory Turnover (Times) ＝ Cost of Sales / Average Inventory

(4)Accounts Payable Turnover ＝ Cost of Sales / Average Account Payable

(5)Average Days Sales ＝ 365 / Inventory Turnover (Times)

(6)Property, Plant, and Equipment Turnover(Times) ＝ Net Revenue / Average Net Property, Plant, and Equipment

(7)Total Asset Turnover ＝ Net Revenue / Average Total Assets。

4. Profitability Analysis

(1)Return on Assets ＝〔Net Income + Interext ×（1 - Tax Rate）〕/ Average Assets

(2)Return on Equity ＝ Net Income / Average Equity

(3)Net Income Margin ＝ Net Income / Net Revenue

(4)Earnings per Share ＝ (Shareholder's Equity Attributable to Parent Compan - Preferred Stock Dividends) / Weighted Average Outstanding Shares (Note 4）

5. Cash Flow

(1)Cash Flow Ratio ＝ Net Cash Flow From Operating Activities / Current Liabilities

(2)Cash Flow Adequacy Ratio ＝ Net Cash Flow from Operating Activities for the past 5 years / (Captial Expenditure + Increases in Inventory + Cash Dividends for the past 5 years)

(3) Cash Flow Reinvestment Ratio ＝ (Net Cash Flow from Operating Activities - Cash Dividends) / (Property, Plant, and Equipment + Long-term Investments + Current Assets + Working Captial)

6. Leverage

(1)Operating Leverage ＝ (Net Revenue - Variable Operating Costs and Expneses) / Operating Porfit

(2)Financial Leverage ＝ Operating Porfit / (Operating Porfit - Interest Expnese)

3.Audit Committee’ s Review Report for the most recent financial year

**2018 Audit Committee’s Review Report**

The Board of Directors has prepared the Company’s 2018 Financial Statements. The CPAs of PwC Taiwan, Ming-Chuan Hsu and Kuo-Hua Wang, were retained to audit TCI’s Financial Statements. The Business Report, Financial Statements, and earning allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of TCI Co., Ltd. According to relevant requirements of Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we herby submit this report.

To

2019 Annual Shareholders’ Meeting of TCI Co., Ltd.

TCI Co., Ltd.

Chaireman of the Audit Committee

__________________________

Lung-Yi Liao

4.Financial Statements of the most recent year：Please refer to P.250 to P.326.

5.The consolidated financial statements of the parent and subsidiary audited by the CPA in the most recent year：Please refer to P167 to P249.

6. Financial difficulties, if any, encountered by the Company and its affiliated companies in the most recent year and up to the publication of the annual report, and its impact on the Company’ s financial status：None.

# VII. Review of Financial Conditions, Financial Performance, and Risk Management

1.Financial Conditions

(1) Consolidated Balnce Sheet Analysis

Unit：NT$1,000

| Item \ Year | 2018 | 2017 | Difference | |
|---|---|---|---|---|
| | | | Amount | % |
| Current Assets | 7,227,635 | 2,831,034 | 4,396,601 | 155% |
| Financial Assets at Fair Value through Profit or Loss | 25,848 | - | 25,848 | - |
| Available-for-sale Financial Assets | - | 4,253 | (4,253) | (100%) |
| Property, Plant, and Equipment | 1,925,376 | 1,682,933 | 242,443 | 14% |
| Intangible Assets | 25,266 | 25,667 | -401 | -2% |
| Other Assets | 1,082,615 | 296,796 | 785,819 | 265% |
| Total Assets | 10,286,740 | 4,840,683 | 5,446,057 | 113% |
| Current Liabilities | 4,008,630 | 1,272,551 | 2,736,079 | 215% |
| Long-Term Liabilities | 494,446 | 137,938 | 356,508 | 258% |
| Other Liabilities | 14,622 | 11,922 | 2,700 | 23% |
| Total Liabilities | 4,517,698 | 1,422,411 | 3,095,287 | 218% |
| Paid-in Capital | 1,026,076 | 870,117 | 155,959 | 18% |
| Capital Surplus | 2,256,871 | 1,453,414 | 803,457 | 55% |
| Legal Reserve | 216,913 | 145,690 | 71,223 | 49% |
| Special Reserve | 120,366 | 98,101 | 22,265 | 23% |
| Retained Earnings | 2,276,431 | 953,899 | 1,322,532 | 139% |
| Other Equity Interests | (172,771) | (135,143) | -37,628 | 28% |
| Shareholder's Equity Attributable to Parent Company | 5,723,886 | 3,386,078 | 2,337,808 | 69% |
| Total Equity | 5,769,042 | 3,418,272 | 2,350,770 | 69% |
| Recently, the annual change has reached more than 20%, and the amount of change has reached NT$10 million or more:<br>(1) Current assets: The main operating conditions of good collections have led to an increase in cash and the strengthening of strategic raw materials preparation.<br>(2) Financial assets for sale: IFRS9 is applied to the financial assets classified as fair value through other comprehensive gains and losses on January 1, 107 of the Republic of China - non-current.<br>(3) Financial assets measured at fair value through other comprehensive gains and losses - non-current: Mainly due to increased external investment in the current period | | | | |

(4) Real estate, plant and equipment: The continuous expansion of the production line in this period. .
(5) Other assets: Due to the increase in pre-paid new plant construction and equipment.
(6) Current liabilities: During the period, the purchase of raw materials increased, the accounts payable increased; the number of employees increased, the personnel expenses increased; the operating activities were alive, and the advance payment was increased.
(7) Long-term liabilities: due to the issuance of corporate bonds in the current period.
(8) Statutory surplus reserve, retained earnings and total shareholders' equity: due to the increase in net profit for the period.
(9) Special surplus reserve: The main reason is the calculation of the exchange difference calculated in the financial statements of foreign operating institutions in the previous year.
Future Response Plan: The above changes have no significant impact on the Company.

2.Financial Performance

(1)Analysia of Financial Status

Unit: NT$1,000

| Year / Item | 2018 | 2017 | Increased or Decreased Amount | Changed Ratio (%) |
|---|---|---|---|---|
| Operating Revenue | 8,098,414 | 4,072,169 | 4,026,245 | 99% |
| Operating Costs | (4,581,462) | (2,417,769) | 2,163,693 | 89% |
| Gross Profit | 3,516,952 | 1,654,399 | 1,862,553 | 113% |
| Operating Expenses | (1,480,029) | (774,949) | 705,080 | 91% |
| Operating Income | 2,036,923 | 879,450 | 1,157,473 | 132% |
| Non-operating income | 137,458 | 31,115 | 106,343 | 342% |
| Other Gains and Losses | 36,919 | (17,445) | 54,364 | -312% |
| Financial Costs | (4,763) | (2,629) | 2,134 | 81% |
| Non-Operating Income and Expenses | 169,614 | 11,041 | 158,573 | 1436% |
| Pre-tax Income | 2,206,537 | 890,491 | 1,316,046 | 148% |
| Income Tax Expnesses | (399,158) | (169,667) | 229,491 | 135% |
| Net Income | 1,807,379 | 720,824 | 1,086,555 | 151% |

Recently, the annual change has reached more than 20%, and the amount of change has reached NT$10 million or more:
(1) Increase in operating income, cost and gross profit: Mainly due to good sales in the current period, proper cost control and corresponding growth in gross profit.
(2) Increase in income tax expenses: Mainly due to the good sales in the current period and the increase in net profit.

Note: Gross profit includes obtained/will be obatined benefits among all affiliated companies

2.Expected sales volume and its basis, possible impact on the Company's future financial business and response plan

Based on the existing and unsatisfied customers, and taking into account the new product development plan and consumer demand in the world, the operational objectives set by the Group's production capacity can be ensured. In addition to continuing to develop more effective and competitive raw materials, the Company has spared no effort in developing new dosage forms and new packaging materials. In addition to continuing to actively expand the markets in Europe, America and China, the Company will continue to develop new products in the future. In the South Central and Middle East markets, the Company will develop the global market with its full line of products (capsules, tablets, powders, drinks, etc.), special products (drinks, masks, etc.), and it is expected that the benefits of economies of scale will be benefited from sales. The performance will continue to grow. In addition, the Company will use financial leverage to reduce operating costs and establish trust and reciprocal relationships with banks to improve financial performance.

3.Cash Flow

(1)Liquidity Analysis within the last 2 years

Unit: NT$1,000

| Item \ Year | 2018 | 2017 | Increased or Decreased Amount | Chagne (%) |
|---|---|---|---|---|
| Cash Inflow (Outflow) from Operating Activities | 3,509,890 | 1,015,583 | 2,494,307 | 246% |
| Cash Inflow (Outflow) from Investmnet Activities | (1,325,587) | (749,729) | 575,858 | 77% |
| Cash Inflow (Outflow) from Financing Activities | 849,501 | (243,676) | 1,093,177 | 449% |

Liquidity Analysis:

(1) Net cash inflow from operating activities: During the period, the purchase of raw materials increased, the accounts payable increased; the number of employees increased, the personnel expenses increased; the operating activities were alive, and the advance payment was increased.

(2) Net cash outflow from investment activities: Mainly due to the increase in prepaid projects and equipment during the period.

(3) Net cash inflow from financing activities: Mainly due to the issuance of corporate bonds and the issuance of cash dividends in the current period.

(2) Plans to Improve Negative Liquidity：

The cash flow of the Company's 2018 annual business activities is a net inflow, and there is currently no liquidity shortage.

(3) Porjected Consolidated cash for 2019

| Cash Balance, Beginning of the Year | Forecast Net Cash Inflow from operational Activities | Forecast Net Cash Outflow from financial activities | Cash Balance, End of the Year | Forcast Cash Blance (Deficit) | Source of Funding for Negative Cash Balance | |
|---|---|---|---|---|---|---|
| | | | | | Investment Plan | Financial Plan |
| 4,417,545 | 4,500,000 | (3,800,000) | (750,000) | 4,367,545 | — | — |

1. Analysis of changes in cash flow in the coming year:

Business activity: Net cash inflow due to stable profit.

Investment activities: mainly to purchase cash outflows from real estate, plant and equipment.

| |
|---|
| Fundraising activities: mainly paying shareholders' cash dividends.<br>2. Remedial measures and liquidity analysis for estimated cash shortfalls: Not applicable. |

4. The effect of major capital expenditure on finance in the most recent year : None.

5. Recent year's investment policy, the main reason for its profit or loss, improvement plan and investment plan for the next year

A.Recent annual transfer policy

The Company has established the "Operational Procedures for Acquisition or Disposal of Assets" in compliance with the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" set by the competent authority as the basis for the Company's investment in the business to grasp the relevant business and financial conditions; The internal control system of the "Rules for Related Party Transaction" provides for the daily trading activities between the Company and the transfer investment company, and formulates relevant regulations for the management of its information disclosure, finance, business, inventory and finance, so that the Company can invest in the Company. The cause is fully utilized.

B. The root causes for the profit/loss gained from the investment in the most recent year and the improvement plans

As of December 31, 2018

Unit：NT$1,000

| Investment Target | Paid-In Capital | Recognized Profit/Loss of the Investment in 2018 | Root Cause for the Profit/Loss | Improvement Plan |
|---|---|---|---|---|
| TCI Firstek Corp. | 1,159,637 | 752,987 | Investment Profit from BioTrade, Shanghai BioTech Group | — |
| BioTrade, Shanghai BioTech Group | 15,665 | 766,471 | Investment Profit from BioScience, Shanghai BioTech Group | — |
| BioScience, Shanghai BioTech Group | 26,832 | 768,926 | Operational Profit | — |
| Shanghai BioCosme Co., Ltd. | 147,576 | 1,756 | Operational Profit | — |
| TCI HK LIMITED | 21,046 | 1,593 | Operational Profit | — |

| | | | | |
|---|---|---|---|---|
| GLUX HK LIMITED | 29,542 | (1,979) | After the integration with TCI Gene Inc., the business is consolidated and the business activities are reduced. | After the restructuring of the operation structure, market development will continue and sales will increase. |
| TCI BIOTECH LLC | 8,778 | (974) | — | — |
| TCI Gene Inc. | 105,000 | 19,979 | Operational Profit | — |
| BioFunction, Shanghai BioTech Group | 665,896 | 1,164,508 | Due to the good development of China's health food market | — |
| BioCosme, Shanghai BioTech Group | 5,000 | 0 | — | — |
| TCI Living Co., Ltd. | 115,000 (Note 2) | (15,532) | Due to adjustments in business items | After the restructuring of the operation structure, market development will continue and sales will increase. |
| SBI GROUP HK LIMITED | — | 43 | — | — |
| BIO DYNAMIC LABORATORIES INC. | 29,587 | 1,365 | Operational Profit | — |
| TCI JAPAN CO., LTD. | Note 1 | 0 | — | — |
| PT TCI BIOTEK INDO | Note 1 | 0 | — | — |

Data source: The 2018 Financial Statements approved by the CPAs.
Note 1: As of December 31, 2018, no capital has been invested.
Note 2: On August 30, 2018, Dajiang Gene acquired Dajiang Life.

C. Investment plan for the next year: None.

6. Risk Analysis and Evaluation

(1) Interest rates, exchange rates, and inflaction, their impact on the Company’s profit or loss, and future countermeasures.

A.Effect of interest rate changes

The financial costs of the Company for 2017 and 2018 were RMB 2,629,000 and RMB 4,763, respectively, accounting for 0.30% and 0.23% of the net operating profit, respectively; the Company has maintained good relations with banks to obtain preferential interest rates and is always available. Observing changes in the financial market interest rate and adjusting the use of funds in a timely manner, the interest rate changes have not had a significant impact on the Company's profit and loss.

Unit：NT$ 1,000

| Item | 2017 | 2018 |
|---|---|---|
| Financial Cost | 2,629 | 4,763 |
| Operating Porfit | 879,450 | 2,036,923 |
| Ratio between the Financial Cost and the Operating Profit | 0.30% | 0.23% |

Data source: The 2018 Financial Statements approved by the CPAs.

B.Effect of currency exchange rates

The Company's 2017 and 2018 exchange (loss) gains were (15,311) and 2,374 thousand, respectively, accounting for (0.38%) and 0.03% of operating revenue. In addition to the sales expenses of the same currency, the Company supports the purchase expenses and then achieves the natural hedging function. For those holding more foreign currency, it adopts the safe-haven measures for buying and selling forward foreign exchange, and pays close attention to the information on exchange rate fluctuations. Real-time understanding of exchange rate trends, timely adjustment of foreign currency assets and liabilities based on the global economy, exchange rate prices and future capital needs, in order to mitigate the impact of exchange rate fluctuations on the Company's revenue and profit.

Unit: NT$1,000

| Item | 2017 | 2018 |
|---|---|---|
| Net Exchange Loss/Profit | (15,311) | 2,374 |
| Operating Revenue | 4,072,168 | 8,098,414 |
| Ratio between the Net Exchange Loss/Profit and the Operating Revenue | (0.38%) | 0.03% |

Data source: The 2018 Financial Statements approved by the CPAs.

C. Effect of inflation

In recent years, due to the impact of rising global raw materials, the overall economic environment has shown a slight inflation trend, but the Company has not yet had a significant impact on profit and loss due to inflation. In addition to paying close attention to fluctuations in market prices and maintaining good interaction with customers and suppliers, the Company should appropriately adjust the price of products and the inventory of raw materials, which should effectively reduce the impact of inflation on the Company.

(2) Engage in the polices of high-rish, highly-leveraged investments, loaning of funds, endorsements and quarantees, and derivative transactions, the reasons for profit or loss resulted, and the future countermeasures.

A. The Company has not engaged in high-risk and highly leveraged investments based on the principle of conservative and sound.

B. The Company's procedures for engaging in loans and others are handled in accordance with the “Measures for the Management of Funds and Others” set by the Company. The Company has not been able to lend money to others in the most recent year and up to the date of the annual report.

C. The Company's procedures for endorsement guarantees for others are handled in accordance with the “Endorsement Guarantee Management Measures” set by the Company.

D. The Company is engaged in the use of forward foreign exchange and option transactions for derivative financial products. If other commodities are required, they must be approved by the Board of Directors before they can be traded. The Company has not engaged in derivative financial products in the most recent year and up to the date of publication of the annual report.

(3) Future R&D Plans and the Projected R&D Investment

The Company expects that the amount of R&D expenses will be gradually arranged according to the R&D unit's R&D new products and new technology development progress, in order to support future R&D plans; the Company's estimated R&D expenses are based on the Company's “Budget Management Measures” before the end of each year. The R&D unit estimates the scale of manpower requirements and the R&D plan, and estimates the estimated investment in R&D. In 2019, it is estimated to invest Rs 667,000 in R&D expenses. The main factors affecting the R&D project in the future are the research and development capabilities of the R&D team and the development and design of its own star products for the needs of customers. In the future, the Company will continue to cultivate excellent R&D talents and actively invest in R&D resources to respond to the changing market pulsations and improve its competitiveness.

(4)The impact of significant changes in doemestic and foreign policies and law on the Company’s financial operations and the countermeasures

The implementation of the Company's various businesses is handled in accordance with the laws and regulations of the competent authorities, and pay attention to the important policy development trends and regulatory changes at home and abroad, and provide management with timely reference as a strategy to fully grasp and respond to changes in the market environment. In the most recent year and the end of the annual report, the Company has not been affected by important policies and laws at home and abroad and has affected the financial business.

(5)The impact of changes in technology and industry on the Company’s financial operations and the countermeasures

The Company pays attention to the trend of industry-related technology development, grasps market trends, evaluates its impact on the Company's operations, and invests considerable R&D funds and manpower to develop new products, improve product quality and reduce production costs. In response. In the most recent year and the end of the annual report, the Company has not been affected by technological changes and industrial changes that have affected the financial business.

(6)The impact of changes in corporate image on the crisis management of the Company and the countermeasures

Since the establishment of the Company, the Company adheres to the business tenet of stable and honest, actively strengthens internal management and maintains harmonious labor relations, in order to establish a good corporate image, and after planning to develop into the capital market, it can absorb more talents to enter the Company's services. With the strength of the management team, it will be quite positive for the Company's image. In the most recent year and up to the date of publication of the annual report, there is no such thing as affecting the corporate image of the Company.

(7)The expect benefit of initiating acquisition, the possible risks, and the countermeasures

The Company has not acquired the plan of the Company in the most recent year and the end of the annual report. In the future, if there is a plan for merger and acquisition, it will carefully evaluate and consider the merger effect to ensure the interests of the original shareholders.

(8) The expected benefits of a plan expansion, the possible, and the countermeasures

Although the expansion of the plant has risks such as fundraising, technology acquisition, talent cultivation and market changes, the expansion of the Company's plant has undergone the evaluation process of complete, prudent and dedicated units, and has fully considered the investment recovery benefits and possible risks.

(9) Risks faced by the centralized purchase or sales and the countermeasures

A.Risks faced by the centralized purchase and the countermeasures

The main purchase items of the Company are related raw materials of various health foods and skin care products. In the most recent year and up to the date of publication of the annual report, there is no concentration of the purchase of a single supplier. The Company maintains long-term good cooperative relations with various suppliers, and the source of supply is still stable. There is no shortage of production operations due to shortage of supply. In the future, with the continuous development of new products, the Company will gradually increase the source of supply to ensure the supply of capacity is innocent.

B.Risks faced by the centralized sales and the countermeasures

The Company's main sales target is the brand of well-known health food and skin care products at home and abroad. In the most recent year and up to the date of publication of the annual report, there is no single customer's proportion of sales of goods. It is obvious that customers are still scattered, but the Company also continues Actively develop new customers, so the risk of sales of goods to the Company is limited.

(10)The impact of the massive equity transfer or exchange by the directors, supervisors, or shareholders holding more than 10% shareholding on the Company, the rish, and the countermeasures：None.

(11)The impact of the changes in the ownership on the Company, the risk, and the countermeasures：None.

(12)Litigation and non-litigation events

A. For litigation or non-litigation events, the closed or in-pending material litigation, non-litigation, or administrative contentious events in the most recent year and up to the publication of the annual report, which may have a significant impact on the shareholder’s equity or security price, of the Company, the Company’s directors, supervisors, President, responsible person, shareholders holding more than 10% shareholding, and the subsidiaries should be illustrated：None.

B.The Company's directors, supervisors, general managers, substantive principals, major shareholders and subordinate companies with a shareholding ratio of more than 10%, and the most recent major lawsuits that have been determined or are still in the system, In the case of a non-litigation or administrative dispute, the result may have a significant impact on the shareholders' equity or the price of the securities. The facts of the dispute, the amount of the subject matter, the commencement date of the lawsuit, the parties involved in the proceedings and the date of publication of the annual report shall be disclosed: None.

(13) Other Important Risks and Countermeasures：

Information Security Risk Management (ISRI):

The Company has long been committed to the implementation of information security and personal data protection management, and has a clear and strict internal control system for internal construction, which specifies the clear division and implementation of the functions and responsibilities of the information management department.

Taking system program development as an example, detailed system development or program modification should be handled after approval by the competent authority, and the acceptance should be checked and signed by the relevant department. In the internal file permission section, all personnel are set according to the authority of each department. When the personnel change is confirmed, the information management department immediately changes its various rights; when leaving the Company, the information management department immediately cancels its various rights, and each person is required to 6 months need to change the password to improve the security control. The system and files operated by the Company have established a complete backup mechanism, and a detailed system recovery plan and backup system has been established. In addition, on the personal information equipment, in addition to the unified installation of anti-virus software for prevention, the Company does not open the self-installation software. All software installations require the approval of the department head, and the information department evaluates the risk-free installation.

The Company adopts the best security technology for customer privacy and trade secret protection. Dajiang strictly abides by the client contract content and confidentiality commitments. The information, documents and materials related to customers and with trade secrets are uploaded to the authority control mechanism. The internal system is strictly regulated, and the account registration system must be used. The application can be accessed through the application and the documents are approved by the central department supervisor to enhance the confidentiality of customer information. In terms of trading behavior, all data transmission is based on the protection of 128-bit key encryption to ensure that the transaction information of both parties has no external doubts. In 2018, Dajiang did not violate any customer privacy or litigation records.

7. Other Important Items：None.

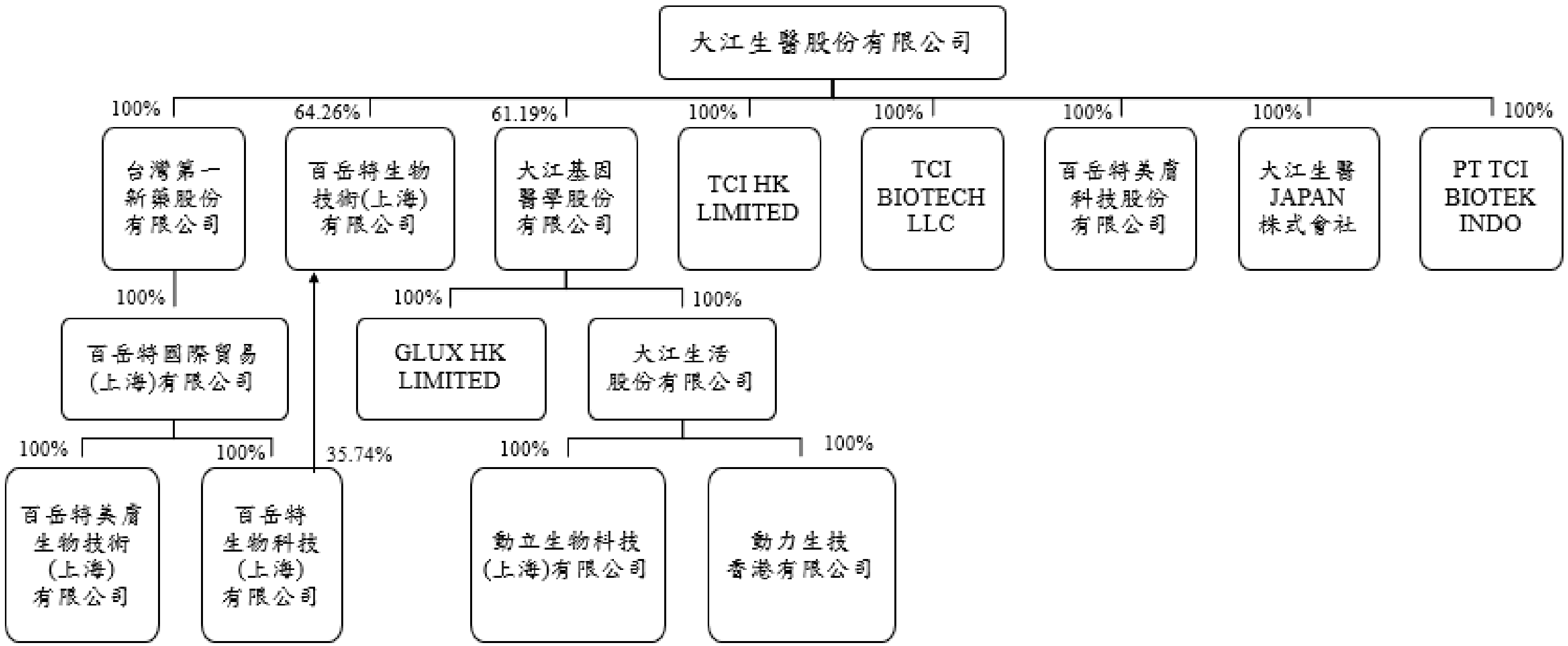
## VIII、Annotations

1.Information of the Company's Affiliates

(1)Overview

A.Organizational Chart

December 31, 2018



B. Affiliates' Profile

December 31, 2018

Unit: NT$ / RMB / US$ / HK$

| Name | Date of Establishment | Paid-In Capital |
|---|---|---|
| TCI Firstek Corp. | 2004/11/9 | NT$1,159,637,000 |
| BioTrade, Shanghai BioTech Group | 2005/9/20 | US$510,000 |
| BioScience, Shanghai BioTech Group | 2011/9/1 | RMB 6,000,000 |
| Shanghai BioCosme Co., Ltd. | 2012/12/12 | RMB 33,000,000 |
| BioCosme, Shanghai BioTech Group | 2018/7/31 | NT$5,000,000 |
| TCI Gene Inc. | 2011/7/13 | NT$105,000,000 |
| GLUX HK LIMITED | 2013/1/15 | US$1,000,000 |
| TCI Living Co., Ltd. | 2014/11/3 | NT$115,000,000 |
| SBI GROUP HK LIMITED | 2016/1/18 | HK$1,400,000 |
| BIO DYNAMIC LABORATORIES INC.. | 2010/4/6 | RMB 6,616,000 |
| BioFunction, Shanghai BioTech Group | 2012/5/22 | RMB 139,896,000 |
| TCI HK LIMITED | 2013/1/15 | US$ 700,000 |
| TCI BIOTECH LLC | 2017/9/26 | US$ 300,000 |
| PT TCI BIOTEK INDO | 2018/9/13 | (Note 1) |
| TCI JAPAN CO., LTD | 2018/11/6 | (Note 1) |

Note 1: As of December 31, 2018, no capital has been invested.

C. Affiliated Company’ s Director, Supervisor,and President

December 31, 2018

| Name | Title | Person or Representative | Shareholding | |
|---|---|---|---|---|
| | | | Share | % |
| TCI Firstek Corp. | Chairman and General Manager | Yung-Hsiang Lin | - | - |
| | Director | Yi-Chun Liu | - | - |
| | Director | Hsiu-Wei Lin | - | - |
| | Supervisor | Cheng-Hsien Chiang | - | - |
| BioTrade, Shanghai BioTech Group | Chairman and General Manager | Yung-Hsiang Lin | - | - |
| | Director | Yung-Hao Lin | - | - |
| | Director | Chih-Cheng Tsai | - | - |
| BioScience, Shanghai BioTech Group | Chairman and General Manager | Yung-Hsiang Lin | - | - |
| | Supervisor | Yi-Chun Liu | - | - |
| Shanghai BioCosme Co., Ltd. | Chairman and General Manager | Yung-Hao Lin | - | - |
| | Supervisor | Yi-Chun Liu | - | - |
| TCI Gene Inc. | Chairman and General Manager | Yung-Hsiang Lin | 500,000 | 4.76% |
| | Director | Yung-Hao Lin | - | - |
| | Director | Hung-Fu Wang | - | - |
| | Supervisor | Cheng-Hsien Chiang | - | - |
| BioFunction, Shanghai BioTech Group | Chairman and General Manager | Yung-Hsiang Lin | - | - |
| | Director | Yung-Hao Lin | - | - |
| | Director | Chih-Cheng Tsai | - | - |
| | Supervisor | Yi-Chun Liu | - | - |
| BioCosme, Shanghai BioTech Group | Chairman and General Manager | Yung-Hsiang Lin | - | - |
| | Director | Yung-Hao Lin | - | - |
| | Director | Chih-Cheng Tsai | - | - |

| | | | | |
|---|---|---|---|---|
| | Supervisor | Yi-Chun Liu | - | - |
| TCI Living Co., Ltd. | Chairman | Yung-Hsiang Lin | - | - |
| | Director | Jui-Han Chang | - | - |
| | Director | Wei-Chieh Liao | - | - |
| | Supervisor | Cheng-Hsien Chiang | - | - |
| BIO DYNAMIC LABORATORIES INC. | Director | Wei-Chun Chen | - | - |
| | Supervisor | Kuang-Chih Liu | - | - |
| GLUX HK LIMITED | Director | Yung-Hsiang Lin | - | - |
| TCI HK LIMITED | Director | Yung-Hsiang Lin | - | - |
| PT TCI BIOTEK INDO | Director | Cheng-Hsien Chiang | - | - |

D.Affiliated Company’ s Operating Results

December 31, 2018

Unit: US$1,000 / RMB 1,000

| Name | Booked Amount of Investment | Net Profit/Loss |
|---|---|---|
| TCI Firstek Corp. | 1,773,480 | 752,987 |
| BioTrade, Shanghai BioTech Group | 1,971,404 | 766,471 |
| BioTrade, Shanghai BioTech Group | 1,809,826 | 768,926 |
| BioFunction, Shanghai BioTech Group | 124,426 | 1,756 |
| TCI Gene Inc. | 71,196 | 19,979 |
| BioScience, Shanghai BioTech Group | 1,937,553 | 1,164,508 |
| TCI HKLIMITED | 14,113 | 1,593 |
| GLUX HK LIMITED | 9,524 | (1,979) |
| TCI BIOTECH LLC | 8,222 | (974) |
| BioCosme, Shanghai BioTech Group | 5,000 | - |
| TCI JAPAN CO., LTD. | Note | Note |

| | | |
|---|---|---|
| PT TCI BIOTEK INDO | Note | Note |
| TCI Living Co., Ltd. | 34,452 | (5,711) |
| SBI GROUP HK LIMITED | 4,087 | 5 |
| BIO DYNAMIC LABORATORIES INC. | 7,712 | 1,365 |

Note: As of December 31, 2018, no capital has been invested.

2.The status of issuing private placement securities in the most recent year and up to the publication of the annual report：None.

3.Acquistion or disposal of the Company’s stock shares by subsidiaries in the most recent year and up to the publication of the annual report：None.

4.Other necessary supplementary notes：None.

## IX.The occurrence of any events as stated in Section 3 Paragraph 2 in Article 36 of the Securities Exchange Act and had significant impact on shareholders’ equity or securities prices in the most recent year and up to the publication of the annual report：None.

# TCI Co., Ltd

C h a i r m a n:　Yung-Hsiang Lin

# TCI CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AND

## REPORT OF INDEPENDENT ACCOUNTANTS

## DECEMBER 31, 2018 AND 2017

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REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of TCI Co., Ltd.

## *Opinion*

We have audited the accompanying consolidated balance sheets of TCI Co., Ltd. and subsidiaries (the "Group") as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and 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 at December 31, 2018 and 2017, 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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

## *Basis for opinion*

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

**Existence and occurrence of top ten customers**

Description

The Group's sales revenue arise mainly from manufacturing and sales of health foods and cosmetics. Customers are mostly direct marketing companies in Europe and Asia and cosmetic companies. The sales revenue for the year of 2018 is significantly higher than for 2017.

With the expansion of direct marketing companies in Europe and Asia, the sales revenue from top ten customers has increased significantly and became a significant portion of operating income to the consolidated financial statements. Because of the rapid development in the internet sales market, more time and resources were required in performing the audit procedures. Thus, we consider the existence and occurrence of top ten customers as a key audit matter.

Please refer to Note 4(28) for accounting policies on revenue recognition and Note 6(20) for details of sales revenue.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

- Understanding and testing the internal control procedures of the top ten customers and testing the effective of internal control related to sales revenue.
- Selecting samples from sales transactions of the top ten customers and comparing against orders and delivery bill to confirm whether the sales transactions did occur.
- Examining sales returns and discounts from the top ten customers after the balance sheet date to confirm the existence of sales revenue.

**Allowance for inventory valuation losses**

Description

The Group is primarily engaged in developing, manufacturing and sales of health foods and cosmetics. As these kinds of products are substituted easily and have a highly competitive nature in the market, there is higher risk of incurring inventory valuation losses or obsolescence. The Group recognises inventories at the lower of cost and net realisable value. For those inventory with ages over a certain period and individually recognised as obsolete inventories, the net realisable value is calculated based on the inventory closeout and historical data of discounts.

Considering that the market demand has changed, the Group reinvents its products quickly. As the determination of the net realisable value used in the valuation of obsolete inventories involves subjective judgement and uncertainty, and considering the allowance for inventory valuation losses is material to the financial statements, we consider the allowance for inventory valuation losses a key audit matter.

Please refer to Note 4(12) for accounting policy on inventory valuation and Note 6(4) for details of allowance for inventory valuation losses.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

- Understanding the operations and industry of the Group to assess the reasonableness of policies and procedures on allowance for inventory valuation losses, including inventory classification, the degree of inventory closeout and historical data source of price discounts, and the reasonableness of the guidelines for obsolete and slow-moving inventory.
- Understanding the inventory management process, participating and examining annual physical counts to assess the effectiveness of management's classification and controls over obsolete and slow-moving inventory, and verifying whether it was in agreement with obsolete inventory lists.
- Evaluating the reasonableness of the logic of inventory aging statements used in valuation to confirm whether the information on such statements is in agreement with its policies.
- Interviewing management and reviewing sales after balance sheet date to assess the reasonableness of allowance for inventory valuation losses.

### *Other matter – Parent company only financial reports*

We have audited and expressed an unqualified opinion on the parent company only financial statements of TCI Co., Ltd. as at and for the years ended December 31, 2018 and 2017.

### *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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 audit committee, are responsible for overseeing the Group's financial reporting process.

### *Auditor's 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 auditor's 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 ROC GAAS 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 ROC GAAS, 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 auditor's 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 auditor's 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.

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 of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Hsu, Ming-Chuan Wang, Kuo-Hua

For and on behalf of PricewaterhouseCoopers, Taiwan

February 20, 2019

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

TCI CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Assets | Notes | December 31, 2018 AMOUNT | % | December 31, 2017 AMOUNT | % |
|---|---|---|---|---|---|---|
| | **Current assets** | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | $ 4,417,545 | 43 | $ 1,399,355 | 29 |
| 1110 | Financial assets at fair value through profit or loss - current | | - | - | 2 | - |
| 1150 | Notes receivable, net | 6(3) | 24,916 | - | 4,753 | - |
| 1170 | Accounts receivable, net | 6(3) | 520,049 | 5 | 430,779 | 9 |
| 1180 | Accounts receivable - related parties | | - | - | 6,603 | - |
| 1200 | Other receivables | | 38,282 | - | 17,576 | - |
| 1210 | Other receivables - related parties | | - | - | 1,162 | - |
| 130X | Inventories | 6(4) | 1,308,995 | 13 | 459,261 | 9 |
| 1410 | Prepayments | | 225,832 | 2 | 75,052 | 2 |
| 1470 | Other current assets | 6(1) | 692,016 | 7 | 436,491 | 9 |
| 11XX | **Total current assets** | | 7,227,635 | 70 | 2,831,034 | 58 |
| | **Non-current assets** | | | | | |
| 1517 | Non-current financial assets at fair value through other comprehensive income | 6(2) | 25,848 | - | - | - |
| 1523 | Available-for-sale financial assets - non-current | | - | - | 4,253 | - |
| 1600 | Property, plant and equipment | 6(5) | 1,925,376 | 19 | 1,682,933 | 35 |
| 1780 | Intangible assets | 6(6) | 25,266 | - | 25,667 | 1 |
| 1840 | Deferred income tax assets | | 51,187 | 1 | 12,109 | - |
| 1900 | Other non-current assets | 6(7) | 1,031,428 | 10 | 284,687 | 6 |
| 15XX | **Total non-current assets** | | 3,059,105 | 30 | 2,009,649 | 42 |
| 1XXX | **Total assets** | | $ 10,286,740 | 100 | $ 4,840,683 | 100 |

(Continued)

TCI CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Liabilities and Equity | Notes | December 31, 2018 AMOUNT | % | December 31, 2017 AMOUNT | % |
|---|---|---|---|---|---|---|
| | **Current liabilities** | | | | | |
| 2100 | Short-term borrowings | 6(8) | $ 12,000 | - | $ - | - |
| 2120 | Financial liabilities at fair value through profit or loss - current | 6(9) | 85 | - | - | - |
| 2130 | Current contract liabilities | 6(20) | 1,229,641 | 12 | - | - |
| 2150 | Notes payable | | 253,201 | 2 | 2,682 | - |
| 2170 | Accounts payable | | 1,335,590 | 13 | 521,173 | 11 |
| 2180 | Accounts payable - related parties | | - | - | 1,402 | - |
| 2200 | Other payables | 6(10) | 823,154 | 8 | 378,168 | 8 |
| 2220 | Other payables - related parties | | - | - | 345 | - |
| 2230 | Current income tax liabilities | | 294,096 | 3 | 120,063 | 2 |
| 2320 | Long-term liabilities, current portion | 6(12)(13) | - | - | 5,057 | - |
| 2399 | Other current liabilities, others | 6(11) | 60,863 | 1 | 243,661 | 5 |
| 21XX | **Total current liabilities** | | 4,008,630 | 39 | 1,272,551 | 26 |
| | **Non-current liabilities** | | | | | |
| 2530 | Corporate bonds payable | 6(12) | 494,446 | 5 | - | - |
| 2540 | Long-term borrowings | 6(13) | - | - | 137,938 | 3 |
| 2570 | Deferred income tax liabilities | | 2,940 | - | - | - |
| 2600 | Other non-current liabilities | | 11,682 | - | 11,922 | - |
| 25XX | **Total non-current liabilities** | | 509,068 | 5 | 149,860 | 3 |
| 2XXX | **Total liabilities** | | 4,517,698 | 44 | 1,422,411 | 29 |
| | **Equity attributable to owners of parent** | | | | | |
| | **Share capital** | 6(16) | | | | |
| 3110 | Share capital - common stock | | 1,022,321 | 10 | 870,117 | 18 |
| 3140 | Advance receipts for share capital | | 3,755 | - | - | - |
| | **Capital surplus** | 6(17) | | | | |
| 3200 | Capital surplus | | 2,256,871 | 22 | 1,453,414 | 30 |
| | **Retained earnings** | 6(18) | | | | |
| 3310 | Legal reserve | | 216,913 | 2 | 145,690 | 3 |
| 3320 | Special reserve | | 120,366 | 1 | 98,101 | 2 |
| 3350 | Unappropriated retained earnings | | 2,276,431 | 22 | 953,899 | 20 |
| | **Other equity interest** | 6(19) | | | | |
| 3400 | Other equity interest | | ( 172,771) | ( 1) | ( 135,143) | ( 3) |
| 31XX | **Equity attributable to owners of the parent** | | 5,723,886 | 56 | 3,386,078 | 70 |
| 36XX | **Non-controlling interest** | | 45,156 | - | 32,194 | 1 |
| 3XXX | **Total equity** | | 5,769,042 | 56 | 3,418,272 | 71 |
| | **Significant contingent liabilities and unrecognised contract commitments** | 9 | | | | |
| | **Significant subsequent events** | 11 | | | | |
| 3X2X | **Total liabilities and equity** | | $ 10,286,740 | 100 | $ 4,840,683 | 100 |

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

TCI CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share)

| | | | Years ended December 31 | | | |
|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | |
| | Items | Notes | AMOUNT | % | AMOUNT | % |
| 4000 | **Sales revenue** | 6(20) | $ 8,098,414 | 100 | $ 4,072,168 | 100 |
| 5000 | **Operating costs** | 6(4)(14) | ( 4,581,462) | ( 56) | ( 2,417,769) | ( 59) |
| 5900 | **Net operating margin** | | 3,516,952 | 44 | 1,654,399 | 41 |
| | **Operating expenses** | 6(14) | | | | |
| 6100 | Selling expenses | | ( 508,824) | ( 6) | ( 262,843) | ( 6) |
| 6200 | General and administrative expenses | | ( 493,294) | ( 6) | ( 329,830) | ( 8) |
| 6300 | Research and development expenses | | ( 438,046) | ( 5) | ( 182,276) | ( 5) |
| 6450 | Impairment loss determined in accordance with IFRS 9 | | ( 39,865) | ( 1) | - | - |
| 6000 | **Total operating expenses** | | ( 1,480,029) | ( 18) | ( 774,949) | ( 19) |
| 6900 | **Operating profit** | | 2,036,923 | 26 | 879,450 | 22 |
| | **Non-operating income and expenses** | | | | | |
| 7010 | Other income | 6(21) | 137,458 | 2 | 31,115 | 1 |
| 7020 | Other gains and losses | 6(22) | 36,919 | - | ( 17,445) | ( 1) |
| 7050 | Finance costs | 6(23) | ( 4,763) | - | ( 2,629) | - |
| 7000 | **Total non-operating income and expenses** | | 169,614 | 2 | 11,041 | - |
| 7900 | **Profit before income tax** | | 2,206,537 | 28 | 890,491 | 22 |
| 7950 | Income tax expense | | ( 399,158) | ( 5) | ( 169,667) | ( 4) |
| 8200 | **Profit for the year** | | $ 1,807,379 | 23 | $ 720,824 | 18 |
| | **Components of other comprehensive income that will not be reclassified to profit or loss** | | | | | |
| 8316 | Unrealised losses from investments in equity instruments measured at fair value through other comprehensive income | 6(2)(19) | ($ 631) | - | $ - | - |
| | **Components of other comprehensive income that will be reclassified to profit or loss** | | | | | |
| 8361 | Financial statements translation differences of foreign operations | 6(19) | ( 64,027) | ( 1) | ( 12,944) | ( 1) |
| 8362 | Unrealised loss on valuation of available-for-sale financial assets | 6(19) | - | - | ( 9,607) | - |
| 8300 | **Total other comprehensive loss for the year** | | ($ 64,658) | ( 1) | ($ 22,551) | ( 1) |
| 8500 | **Total comprehensive income for the year** | | $ 1,742,721 | 22 | $ 698,273 | 17 |
| | **Profit attributable to:** | | | | | |
| 8610 | Owners of the parent | | $ 1,794,899 | 23 | $ 712,226 | 18 |
| 8620 | Non-controlling interest | | 12,480 | - | 8,598 | - |
| | | | $ 1,807,379 | 23 | $ 720,824 | 18 |
| | **Comprehensive income attributable to:** | | | | | |
| 8710 | Owners of the parent | | $ 1,729,759 | 22 | $ 689,962 | 17 |
| 8720 | Non-controlling interest | | 12,962 | - | 8,311 | - |
| | | | $ 1,742,721 | 22 | $ 698,273 | 17 |
| | **Earnings per share (In dollars)** | | | | | |
| 9750 | **Basic earnings per share** | | $ | 17.79 | $ | 7.15 |
| 9850 | **Diluted earnings per share** | | $ | 17.32 | $ | 7.07 |

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

TCI CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

| | | Equity attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital | | | Retained Earnings | | | Other equity interest | | | | | | |
| | Notes | Common stock | Advance receipts for share capital | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Financial statements translation differences of foreign operations | Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income | Unrealised gain or loss on available-for-sale financial assets | Other equity - others | Total | Non-controlling interest | Total equity |
| 2017 | | | | | | | | | | | | | | |
| Balance at January 1, 2017 | | $ 754,470 | $ 1,743 | $ 1,400,258 | $ 94,065 | $ 3,859 | $ 652,215 | ($ 79,604 ) | $ - | ($ 14,768 ) | ($ 50,392 ) | $ 2,761,846 | $ 19,851 | $ 2,781,697 |
| Profit for the year | | - | - | - | - | - | 712,226 | - | - | - | - | 712,226 | 8,598 | 720,824 |
| Other comprehensive loss for the year | | - | - | - | - | - | - | ( 12,657 ) | - | ( 9,607 ) | - | ( 22,264 ) | ( 287 ) | ( 22,551 ) |
| Total comprehensive income (loss) | | - | - | - | - | - | 712,226 | ( 12,657 ) | - | ( 9,607 ) | - | 689,962 | 8,311 | 698,273 |
| Appropriations of 2016 earnings | | | | | | | | | | | | | | |
| Legal reserve | | - | - | - | 51,625 | - | ( 51,625 ) | - | - | - | - | - | - | - |
| Special reserve | | - | - | - | - | 94,242 | ( 94,242 ) | - | - | - | - | - | - | - |
| Stock dividends | | 113,432 | - | - | - | - | ( 113,432 ) | - | - | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | ( 151,243 ) | - | - | - | - | ( 151,243 ) | - | ( 151,243 ) |
| Exercise of employee stock purchase plans | 6(15)(16) | 2,190 | ( 1,730 ) | 1,196 | - | - | - | - | - | - | - | 1,656 | - | 1,656 |
| Conversion of convertible bonds into shares | 6(12)(16) | 25 | ( 13 ) | 84 | - | - | - | - | - | - | - | 96 | - | 96 |
| Changes in ownership interests in subsidiaries | | - | - | 1,434 | - | - | - | - | - | - | - | 1,434 | ( 1,434 ) | - |
| Changes in equity of associates and joint ventures accounted for using equity method | 6(15) | - | - | 734 | - | - | - | - | - | - | - | 734 | 466 | 1,200 |
| Share-based payments | 6(15)(19) | - | - | 49,708 | - | - | - | - | - | - | 31,885 | 81,593 | - | 81,593 |
| Changes in non-controlling interests | | - | - | - | - | - | - | - | - | - | - | - | 5,000 | 5,000 |
| Balance at December 31, 2017 | | $ 870,117 | $ - | $ 1,453,414 | $ 145,690 | $ 98,101 | $ 953,899 | ($ 92,261 ) | $ - | ($ 24,375 ) | ($ 18,507 ) | $ 3,386,078 | $ 32,194 | $ 3,418,272 |

(Continued)

TCI CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

| | | Equity attributable to owners of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital | | | Retained Earnings | | | Other equity interest | | | | | | |
| | Notes | Common stock | Advance receipts for share capital | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Financial statements translation differences of foreign operations | Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income | Unrealised gain or loss on available-for-sale financial assets | Other equity - others | Total | Non-controlling interest | Total equity |
| 2018 | | | | | | | | | | | | | | |
| Balance at January 1, 2018 | | $ 870,117 | $ - | $ 1,453,414 | $145,690 | $ 98,101 | $ 953,899 | ($ 92,261 ) | $ - | ($ 24,375 ) | ($ 18,507 ) | $ 3,386,078 | $ 32,194 | $ 3,418,272 |
| Effect of retrospective application | | - | - | - | - | - | - | - | ( 24,375 ) | 24,375 | - | - | - | - |
| Balance at 1 January after adjustments | | 870,117 | - | 1,453,414 | 145,690 | 98,101 | 953,899 | ( 92,261 ) | ( 24,375 ) | - | ( 18,507 ) | 3,386,078 | 32,194 | 3,418,272 |
| Profit for the year | | - | - | - | - | - | 1,794,899 | - | - | - | - | 1,794,899 | 12,480 | 1,807,379 |
| Other comprehensive income (loss) for the year | 6(19) | - | - | - | - | - | - | ( 64,509 ) | ( 631 ) | - | - | ( 65,140 ) | 482 | ( 64,658 ) |
| Total comprehensive income (loss) | | - | - | - | - | - | 1,794,899 | ( 64,509 ) | ( 631 ) | - | - | 1,729,759 | 12,962 | 1,742,721 |
| Appropriations of 2017 earnings | | | | | | | | | | | | | | |
| Legal reserve | | - | - | - | 71,223 | - | ( 71,223 ) | - | - | - | - | - | - | - |
| Special reserve | | - | - | - | - | 22,265 | ( 22,265 ) | - | - | - | - | - | - | - |
| Stock dividends | | 130,518 | - | - | - | - | ( 130,518 ) | - | - | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | ( 234,931 ) | - | - | - | - | ( 234,931 ) | - | ( 234,931 ) |
| Exercise of employee stock purchase plans | 6(15)(16) | 5,260 | 420 | 38,036 | - | - | - | - | - | - | - | 43,716 | - | 43,716 |
| Issuance of convertible bonds | 6(12) | - | - | 24,360 | - | - | - | - | - | - | - | 24,360 | - | 24,360 |
| Conversion of convertible bonds into shares | 6(12)(16) | 16,426 | 3,335 | 668,893 | - | - | - | - | - | - | - | 688,654 | - | 688,654 |
| Share-based payments | 6(15)(19) | - | - | 72,168 | - | - | - | - | - | - | 14,082 | 86,250 | - | 86,250 |
| Disposal of investment in equity instrument at fair value through other comprehensive income | 6(19) | - | - | - | - | - | ( 13,430 ) | - | 13,430 | - | - | - | - | - |
| Balance at December 31, 2018 | | $ 1,022,321 | $ 3,755 | $ 2,256,871 | $216,913 | $120,366 | $ 2,276,431 | ($ 156,770 ) | ($ 11,576 ) | $ - | ($ 4,425 ) | $ 5,723,886 | $ 45,156 | $ 5,769,042 |

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

TCI CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | $ 2,206,537 | $ 890,491 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Impairment loss determined in accordance with IFRS 9 | 6(3) | 39,865 | 1,172 |
| Gains on doubtful debt recoveries | | - | ( 318 ) |
| Net loss on financial assets or liabilities at fair value through profit or loss | 6(9)(22) | 386 | 34 |
| Gain on disposal of property, plant and equipment | 6(5)(22) | ( 41,982 ) | ( 848 ) |
| Impairment loss of intangible assets | 6(6)(22) | 6,440 | - |
| Depreciation | 6(5) | 160,828 | 107,122 |
| Amortisation | 6(6) | 13,699 | 7,645 |
| Long-term prepayment charged to expenses | 6(7) | 714 | 706 |
| Interest income | 6(21) | ( 26,751 ) | ( 14,158 ) |
| Dividend income | 6(21) | - | ( 1 ) |
| Interest expense | 6(23) | 4,763 | 2,629 |
| Compensation cost arising from employee stock options | 6(15) | 86,250 | 82,793 |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Notes receivable | | ( 19,767 ) | ( 3,003 ) |
| Accounts receivable | | ( 116,837 ) | ( 244,747 ) |
| Accounts receivable - related parties | | 6,603 | ( 6,603 ) |
| Other receivables | | ( 20,254 ) | 1,195 |
| Other receivables - related parties | | 1,162 | ( 1,162 ) |
| Inventories | | ( 845,864 ) | ( 34,451 ) |
| Prepayments | | ( 150,780 ) | ( 14,840 ) |
| Other current assets | | ( 40,261 ) | ( 457 ) |
| Changes in operating liabilities | | | |
| Current contract liabilities | | 1,229,641 | - |
| Notes payable | | 250,519 | ( 5,782 ) |
| Accounts payable | | 802,722 | 171,062 |
| Accounts payable - related parties | | ( 1,402 ) | 1,402 |
| Other payables | | 384,236 | 124,888 |
| Other payables - related parties | | ( 345 ) | 345 |
| Other current liabilities | | ( 195,932 ) | 66,333 |
| Cash inflow generated from operations | | 3,734,190 | 1,131,447 |
| Interest received | | 26,509 | 14,493 |
| Dividends received | | - | 1 |
| Interest paid | | ( 1,598 ) | ( 2,571 ) |
| Income tax paid | | ( 249,211 ) | ( 127,787 ) |
| Net cash flows from operating activities | | 3,509,890 | 1,015,583 |

(Continued)

TCI CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of non-current financial assets at fair value through other comprehensive income | | ($ 24,280 ) | $ - |
| Proceeds from disposal of non-current financial assets at fair value through other comprehensive income | 6(2) | 2,054 | - |
| Acquisition of property, plant and equipment | | ( 11,861 ) | ( 27,656 ) |
| Proceeds from disposal of property, plant and equipment | | 107,563 | 876 |
| Increase in other current assets | | ( 213,926 ) | ( 166,925 ) |
| Increase in refundable deposits | 6(7) | ( 12,999 ) | ( 6,655 ) |
| Acquisition of intangible assets | 6(6) | ( 11,539 ) | ( 6,819 ) |
| Acquisition of subsidiary company | | 7,459 | - |
| Decrease (increase) in other non-current assets | 6(7) | ( 6,795 ) | 1,596 |
| Increase in prepayments for purchase of equipment | | ( 1,161,263 ) | ( 544,146 ) |
| Net cash flows used in investing activities | | ( 1,325,587 ) | ( 749,729 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of short-term borrowings | | ( 20,000 ) | ( 98,952 ) |
| Repayment of long-term borrowings | | ( 139,044 ) | - |
| Decrease in guarantee deposits | | ( 240 ) | ( 137 ) |
| Employee stock options | | 43,716 | 1,656 |
| Proceeds from issuance of convertible bonds, net | 6(12) | 1,200,000 | - |
| Cash dividends paid | | ( 234,931 ) | ( 151,243 ) |
| Change in non-controlling interests | | - | 5,000 |
| Net cash flows from (used in) financing activities | | 849,501 | ( 243,676 ) |
| Effects due to changes in exchange rate | | ( 15,614 ) | ( 5,031 ) |
| Net increase in cash and cash equivalents | | 3,018,190 | 17,147 |
| Cash and cash equivalents at beginning of year | 6(1) | 1,399,355 | 1,382,208 |
| Cash and cash equivalents at end of year | 6(1) | $ 4,417,545 | $ 1,399,355 |

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

TCI CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars,
except as otherwise indicated)

1. HISTORY AND ORGANISATION

TCI Co., Ltd. (the "Company") was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in manufacturing, wholesale and retail of health food and cosmetics.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on February 20, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments 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 |
| 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 |
| Amendments to IAS 7, 'Disclosure initiative' | January 1, 2017 |
| Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised 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 |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities' | January 1, 2017 |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures' | January 1, 2018 |

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

A. IFRS 9, ‘Financial instruments’

(a) Classification of debt instruments is driven by the entity’s business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.

(b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity’s risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of ‘rebalancing’; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

(d) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 12(4)B and C.

B. IFRS 15, ‘Revenue from contracts with customers’ and amendments

(a) IFRS 15, ‘Revenue from contracts with customers’ replaces IAS 11, ‘Construction contracts’, IAS 18, ‘Revenue’ and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

Under IFRS 15, liabilities in relation to contracts are recognised as contract liabilities, but were previously presented as advance sales receipts (listed as other current liabilities) in the balance sheet. As of January 1, 2018, the balance amounted to $226,275.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments to IFRS 9, ‘Prepayment features with negative compensation’ | January 1, 2019 |
| IFRS 16, ‘Leases’ | January 1, 2019 |
| Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’ | January 1, 2019 |
| Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’ | January 1, 2019 |
| IFRIC 23, ‘Uncertainty over income tax treatments’ | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment:

A. IFRS 16, ‘Leases’

IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the “modified retrospective approach”). On January 1, 2019, it is expected that ‘right-of-use asset’ and lease liability will be increased by $131,657 and $100,907, respectively, and the land use right (listed as other non-current assets) will both be decreased by $30,750.

B. IFRIC 23, ‘Uncertainty over income tax treatments’

This Interpretation clarifies when there is uncertainty over income tax treatments, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 , ‘Income taxes’ based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

C. Annual improvements to IFRSs 2015-2017 cycle

(a) Amendments to IAS 12, ‘Income taxes’

The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends.

(b) Amendments to IAS 23, ‘Borrowing costs’

The amendments clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
| --- | --- |
| Amendment to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’ | January 1, 2020 |
| Amendments to IFRS 3, ‘Definition of a business’ | January 1, 2020 |
| 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 International Accounting Standards Board |
| IFRS 17, ‘Insurance contracts’ | January 1, 2021 |

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

A. Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'

The amendments clarify the definition of material that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

B. Amendments to IFRS 3, 'Definition of a business'

The amendments clarify the definition of a business that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together; narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. Also, add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

4. SUMMARY OF SIGNIFICANTACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Financial assets and liabilities at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(c) Liabilities on cash-settled share-based payment arrangements measured at fair value.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

| Name of investor | Name of subsidiary | Main business activities | Ownership (%) December 31, 2018 | Ownership (%) December 31, 2017 | Description |
|---|---|---|---|---|---|
| TCI CO., LTD. | TCI FIRSTEK CORP. | Wholesale and retail of health foods and cosmetics | 100 | 100 | Note 1 |
| TCI CO., LTD. | GENE & NEXT INC. | Research and develop biotechnology and genetic | 61.19 | 61.19 | Note 1 |
| TCI CO., LTD. | Shanghai BioFunction Co., Ltd. | Producing health foods | 64.26 | 61.85 | Note 1 |
| TCI CO., LTD. | TCI HK LIMITED | Trading health foods and cosmetics | 100 | 100 | Note 1 |
| TCI FIRSTEK CORP. | Shanghai BioTrade Co., Ltd. | Wholesale of health foods, cosmetics and chemical production; cosmetics manufacturing | 100 | 100 | Note 2 |
| GENE & NEXT INC. | GLUX HK LIMITED | Trading health foods and cosmetics | 100 | 100 | Note 2 |
| Shanghai BioTrade Co., Ltd. | Shanghai BioScience Co., Ltd. | Wholesale of health foods, cosmetics and chemical production; cosmetics manufacturing | 100 | 100 | Note 3 |
| Shanghai BioTrade Co., Ltd. | Shanghai BioCosme Co., Ltd. | Producing cosmetics | 100 | 100 | Note 3 |
| Shanghai BioScience Co., Ltd. | Shanghai BioFunction Co., Ltd. | Producing health foods | 35.74 | 38.15 | Note 1 |
| TCI CO., LTD. | TCI BIOTECH LLC | Trading health foods and cosmetics | 100 | 100 | Note 1<br>Note 4 |
| TCI CO., LTD. | BioCosme Co., Ltd. | Trading health foods and cosmetics | 100 | - | Note 1<br>Note 5 |
| GENE & NEXT INC. | TCI LIVING CO., LTD. | Trading health foods and cosmetics | 100 | - | Note 2<br>Note 6 |

| Name of investor | Name of subsidiary | Main business activities | Ownership (%) December 31, 2018 | 2017 | Description |
|---|---|---|---|---|---|
| TCI LIVING CO., LTD. | BIO DYNAMIC LABORATORIES INC. | Trading health foods and cosmetics | 100 | - | Note 3 Note 7 |
| TCI LIVING CO., LTD. | SBI GROUP HK LIMITED | Trading health foods and cosmetics | 100 | - | Note 3 Note 7 |
| TCI CO., LTD. | TCI JAPAN CO., LTD. | Trading health foods and cosmetics | 100 | - | Note 1 Note 8 |
| TCI CO., LTD. | PT TCI BIOTEK INDO | Trading health foods and cosmetics | 100 | - | Note 1 Note 9 |

Note 1: The Group holds more than 50% of the equity shares of this company.

Note 2: Subsidiary company holds more than 50% equity shares of this company.

Note 3: Subsidiary company indirectly holds more than 50% of equity shares of this company.

Note 4: The Board of Directors during its meeting on August 7, 2017 resolved to invest and set up TCI BIOTECH LLC. TCI BIOTECH LLC was established on September 26, 2017.

Note 5: The Board of Directors during its meeting on May 2, 2018 resolved to invest and set up BioCosme Co., Ltd.. BioCosme Co., Ltd. was established on July 31, 2018.

Note 6: The Board of Directors of the Group's subsidiary, GENE & NEXT INC., during its meeting on May 24, 2018 resolved the share transfer transaction with SBI CO., LTD. with August 30, 2018 as the effective date. Also, SBI CO., LTD. is renamed to TCI LIVING CO., LTD. on September 17, 2018.

Note 7: BIO DYNAMIC LABORATORIES INC. and SBI GROUP HK LIMITED were 100% held by SBI CO., LTD. before the share transfer transaction.

Note 8: The Board of Directors during its meeting on October 8, 2018 resolved to set up TCI JAPAN CO., LTD., and was established on November 6, 2018. There was no capital injection as of December 31, 2018.

Note 9: There was no capital injection as of December 31, 2018.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions:

Cash and short-term deposits of $1,500,666 deposited in mainland China are under local foreign exchange control which restricts the capital to be remitted outside the borders (except for normal dividend distribution).

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars (NTD), which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

(a) The operating results and financial position of all the group entities arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognised in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settle within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settle within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

(8) Financial assets at fair value through other comprehensive income

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

(a) The objective of the Group’s business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets’ contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

(a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(9) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings and structures | 3 ~ 50 years |
| Machinery and equipment | 2 ~ 10 years |
| Office equipment | 1 ~ 16 years |
| Others | 1 ~ 10 years |

(14) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(15) Intangible assets

A. Trademarks and royalties

Separately acquired trademarks and royalties are stated at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and royalties have a finite useful life and are amortised on a straight-line basis over their estimated useful lives of 3 to 10 years.

B. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 1 to 10 years.

C. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

(16) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(17) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(18) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Financial liabilities at fair value through profit or loss

A. Financial liabilities are designated as financial liabilities at fair value through profit or loss at initial recognition. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

(a) Hybrid (combined) contracts; or

(b) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(20) Convertible bonds payable

Convertible bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable upon issuance as a financial asset, a financial liability or an equity instrument in accordance with the contract terms. They are accounted for as follows:

(a) The embedded call options and put options are recognised initially at net fair value as ‘financial assets or financial liabilities at fair value through profit or loss’. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as ‘gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss’.

(b) The host contracts of bonds are initially recognised at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortised in profit or loss as an adjustment to ‘finance costs’ over the period of circulation using the effective interest method.

(c) The embedded conversion options which meet the definition of an equity instrument are initially recognised in ‘capital surplus—share options’ at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.

(d) Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.

(e)When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and ‘financial assets or financial liabilities at fair value through profit or loss’) shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and ‘capital surplus—share options’.

(21) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(22) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(24) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

B. Restricted stocks:

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.

(b) For restricted stocks where those stocks do not restrict distribution of dividends to employees but employees must return the dividends received if they resign during the vesting period, and the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.

(c) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Group and the Group must refund their payments on the stocks, the Group recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'capital surplus – others'.

(25) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(26) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(27) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(28) Revenue recognition

A. The Group manufactures and sells health foods and cosmetics products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer who has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

B. The products are often sold with price break based on aggregate sales. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated price break. Accumulated experience is used to estimate and provide for the price break, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected price break payable to customers in relation to sales made until the end of the reporting period.

(29) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received.

(30) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such ssumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was $1,308,995.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash on hand and revolving funds | $ 2,583 | $ 1,843 |
| Checking accounts and demand deposits | 2,509,360 | 1,284,658 |
| Time deposits | 2,554,042 | 547,368 |
| | 5,065,985 | 1,833,869 |
| Less: shown as 'other current assets' | ( 648,440) | ( 434,514) |
| | $ 4,417,545 | $ 1,399,355 |

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. As of December 31, 2018 and 2017, the Group recognised time deposits with maturity over 3 months of $648,440 and $434,514, respectively, and shown as "other current assets".

C. Details of the Group's cash and cash equivalents pledged to others are provided in Note 8.

(2) Financial assets at fair value through other comprehensive income

| Items | December 31, 2018 |
|---|---|
| Non-current items: | |
| Equity instruments | |
| Listed stocks | $ 12,604 |
| Unlisted stocks | 24,820 |
| | 37,424 |
| Valuation adjustment | ( 11,576) |
| | $ 25,848 |

A. The Group has elected to classify equity investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $25,848 as at December 31, 2018.

B. The Group, in order to expand the scale of operations, decided for TCI CO., LTD. to sell its shares of SBI CO., LTD. The Group's subsidiary, GENE & NEXT INC., acquired all shares of SBI CO., LTD. by cash on August 30, 2018. The fair value is $2,054 and the loss on disposal of $13,430 is accounted for in retained earnings.

C. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was $25,848.

D. The Group's financial assets at fair value through other comprehensive income were not pledge to others as collateral.

E. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

F. Information on available-for-sale financial assets as of December 31, 2017 is provided in Note 12(4).

(3) Notes and accounts receivable

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Notes receivable | $ 24,916 | $ 4,753 |
| Less: Allowance for uncollectible accounts | - | - |
| | $ 24,916 | $ 4,753 |
| Accounts receivable | $ 576,601 | $ 447,153 |
| Less: Allowance for uncollectible accounts | ( 56,552) | ( 16,374) |
| | $ 520,049 | $ 430,779 |

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Not past due | $ 447,762 | $ 407,466 |
| Up to 30 days | 62,127 | 23,101 |
| 31 to 90 days | 19,627 | 3,786 |
| Over 90 days | 15,449 | 1,179 |
| | $ 544,965 | $ 435,532 |

The above ageing analysis was based on past due date.

B. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were $24,916 and $520,049, respectively.

C. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(4) Inventories

| | December 31, 2018 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 666,907 | ($ 39,963) | $ 626,944 |
| Work in progress | 103,850 | ( 178) | 103,672 |
| Finished goods | 618,282 | ( 39,903) | 578,379 |
| | $ 1,389,039 | ($ 80,044) | $ 1,308,995 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 309,799 | ($ 29,928) | $ 279,871 |
| Work in progress | 70,115 | ( 182) | 69,933 |
| Finished goods | 123,265 | ( 13,808) | 109,457 |
| | $ 503,179 | ($ 43,918) | $ 459,261 |

A. The cost of inventories recognised as expense for the years ended December 31, 2018 and 2017, was $4,581,462 and $2,417,769, respectively, including the amounts of $36,126 and ($20,603), respectively, the Group wrote down from cost to net realisable value accounted for as cost of goods sold.

B. The Group reversed a previous inventory write-down which was accounted for as reduction of cost of goods sold as these inventories which had been written down from cost to its net realisable value were subsequently sold in 2017.

(5) Property, plant and equipment

| | Land | Buildings and structures | Machinery | Office equipment | Others | Total |
|---|---|---|---|---|---|---|
| At January 1, 2018 | | | | | | |
| Cost | $ 174,704 | $ 1,097,638 | $ 454,184 | $ 110,907 | $ 201,615 | $ 2,039,048 |
| Accumulated depreciation | - | ( 70,449) | ( 137,267) | ( 39,054) | ( 109,345) | ( 356,115) |
| | $ 174,704 | $ 1,027,189 | $ 316,917 | $ 71,853 | $ 92,270 | $ 1,682,933 |
| 2018 | | | | | | |
| At January 1 | $ 174,704 | $ 1,027,189 | $ 316,917 | $ 71,853 | $ 92,270 | $ 1,682,933 |
| Acquired from business combinations | - | - | 54 | 224 | 632 | 910 |
| Additions | - | 3,656 | 12,430 | 7,374 | 40,225 | 63,685 |
| Disposals | ( 15,403) | ( 46,804) | ( 1,081) | ( 472) | ( 1,821) | ( 65,581) |
| Reclassifications | - | 75,852 | 224,275 | 85,295 | 25,043 | 410,465 |
| Depreciation charge | - | ( 38,701) | ( 72,656) | ( 18,409) | ( 31,062) | ( 160,828) |
| Net exchange differences | - | ( 4,335) | ( 1,334) | 292 | ( 831) | ( 6,208) |
| At December 31 | $ 159,301 | $ 1,016,857 | $ 478,605 | $ 146,157 | $ 124,456 | $ 1,925,376 |
| At December 31, 2018 | | | | | | |
| Cost | $ 159,301 | $ 1,118,919 | $ 686,909 | $ 204,716 | $ 261,442 | $ 2,431,287 |
| Accumulated depreciation | - | ( 102,062) | ( 208,304) | ( 58,559) | ( 136,986) | ( 505,911) |
| | $ 159,301 | $ 1,016,857 | $ 478,605 | $ 146,157 | $ 124,456 | $ 1,925,376 |

| | Land | Buildings and structures | Machinery | Office equipment | Others | Total |
|---|---|---|---|---|---|---|
| At January 1, 2017 | | | | | | |
| Cost | $ 174,704 | $ 808,488 | $ 309,370 | $ 86,748 | $ 159,072 | $ 1,538,382 |
| Accumulated depreciation | - | ( 46,354) | ( 94,127) | ( 28,900) | ( 83,873) | ( 253,254) |
| | $ 174,704 | $ 762,134 | $ 215,243 | $ 57,848 | $ 75,199 | $ 1,285,128 |
| 2017 | | | | | | |
| At January 1 | $ 174,704 | $ 762,134 | $ 215,243 | $ 57,848 | $ 75,199 | $ 1,285,128 |
| Additions | - | 5,405 | 11,150 | 2,541 | 11,267 | 30,363 |
| Disposals | - | - | - | ( 13) | ( 15) | ( 28) |
| Reclassifications | - | 286,471 | 134,612 | 21,830 | 36,096 | 479,009 |
| Depreciation charge | - | ( 24,070) | ( 43,144) | ( 10,287) | ( 29,621) | ( 107,122) |
| Net exchange differences | - | ( 2,751) | ( 944) | ( 66) | ( 656) | ( 4,417) |
| At December 31 | $ 174,704 | $ 1,027,189 | $ 316,917 | $ 71,853 | $ 92,270 | $ 1,682,933 |
| At December 31, 2017 | | | | | | |
| Cost | $ 174,704 | $ 1,097,638 | $ 454,184 | $ 110,907 | $ 201,615 | $ 2,039,048 |
| Accumulated depreciation | - | ( 70,449) | ( 137,267) | ( 39,054) | ( 109,345) | ( 356,115) |
| | $ 174,704 | $ 1,027,189 | $ 316,917 | $ 71,853 | $ 92,270 | $ 1,682,933 |

Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(6) Intangible assets

| | Goodwill | Trademarks | Software | Royalty | Others | Total |
|---|---|---|---|---|---|---|
| At January 1, 2018 | | | | | | |
| Cost | $ 6,440 | $ 238 | $ 25,897 | $ 6,422 | $ - | $ 38,997 |
| Accumulated amortisation | - | ( 238) | ( 9,054) | ( 4,038) | - | ( 13,330) |
| | $ 6,440 | $ - | $ 16,843 | $ 2,384 | $ - | $ 25,667 |
| 2018 | | | | | | |
| At January 1 | $ 6,440 | $ - | $ 16,843 | $ 2,384 | $ - | $ 25,667 |
| Acquired through business combinations | 1,468 | - | 120 | - | 6,611 | 8,199 |
| Additions－acquired separately | - | - | 11,389 | 150 | - | 11,539 |
| Amortisation charge | - | - | ( 13,436) | ( 263) | - | ( 13,699) |
| Impairment loss | ( 6,440) | - | - | - | - | ( 6,440) |
| At December 31 | $ 1,468 | $ - | $ 14,916 | $ 2,271 | $ 6,611 | $ 25,266 |
| At December 31, 2018 | | | | | | |
| Cost | $ 1,468 | $ 238 | $ 35,391 | $ 2,750 | $ 6,611 | $ 46,458 |
| Accumulated amortisation | - | ( 238) | ( 20,475) | ( 479) | - | ( 21,192) |
| | $ 1,468 | $ - | $ 14,916 | $ 2,271 | $ 6,611 | $ 25,266 |

| | Goodwill | Trademarks | Software | Royalty | Total |
|---|---|---|---|---|---|
| At January 1, 2017 | | | | | |
| Cost | $ 6,440 | $ 238 | $ 24,253 | $ 3,822 | $ 34,753 |
| Accumulated amortisation | - | ( 214) | ( 5,343) | ( 2,703) | ( 8,260) |
| | $ 6,440 | $ 24 | $ 18,910 | $ 1,119 | $ 26,493 |
| 2017 | | | | | |
| At January 1 | $ 6,440 | $ 24 | $ 18,910 | $ 1,119 | $ 26,493 |
| Additions－acquired separately | - | - | 4,219 | 2,600 | 6,819 |
| Amortisation charge | - | ( 24) | ( 6,286) | ( 1,335) | ( 7,645) |
| At December 31 | $ 6,440 | $ - | $ 16,843 | $ 2,384 | $ 25,667 |
| At December 31, 2017 | | | | | |
| Cost | $ 6,440 | $ 238 | $ 25,897 | $ 6,422 | $ 38,997 |
| Accumulated amortisation | - | ( 238) | ( 9,054) | ( 4,038) | ( 13,330) |
| | $ 6,440 | $ - | $ 16,843 | $ 2,384 | $ 25,667 |

A. Details of amortisation on intangible assets are as follows:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Overhead | $ | 94 | $ | 654 |
| Selling expenses | | 86 | | - |
| Administrative expenses | | 13,106 | | 6,184 |
| Research and development expenses | | 413 | | 807 |
| | $ | 13,699 | $ | 7,645 |

B. Because of the stiff market competition, the Group's subsidiary, GLUX HK LIMITED, was evaluated to have no value in the future. Therefore, the Group recognised impairment loss of goodwill amounting to $6,440.

(7) Other non-current assets

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Prepayments for business facilities | $ | 961,348 | $ | 235,575 |
| Land use right | | 30,750 | | 32,104 |
| Guarantee deposits paid | | 27,280 | | 11,907 |
| Pledged deposit | | 500 | | - |
| Other non-current assets | | 11,550 | | 5,101 |
| | $ | 1,031,428 | $ | 284,687 |

In March 2013, the Group signed a land use right contract with Shanghai Municipal Planning, Land and Resources Administration for use of the land in Jinshan District, Shanghai City with a term of 50 years. All rentals had been paid on the contract date. The Group recognised rental expenses of $714 and $706 for the years ended December 31, 2018 and 2017, respectively.

(8) Short-term borrowings

| Type of borrowings | December 31, 2018 | | Interest rate range | Collateral |
|---|---|---|---|---|
| Bank borrowings | | | | |
| Secured borrowings | $ | 7,200 | 2.20% | SME Credit Guarantee Fund and associated guarantor guarantee |
| Unsecured borrowings | | 4,800 | 2.20% | NONE |
| | $ | 12,000 | | |

A. As of December 31, 2017, the Group has no short-term borrowings.

B. Interest expense recognised in profit or loss amounted to $1,553 and $2,547 for the years ended December 31, 2018 and 2017, respectively.

(9) Financial liabilities at fair value through profit or loss

| Items | December 31, 2018 | December 31, 2017 |
| --- | --- | --- |
| Current items: | | |
| Call and put options of corporate bonds | ($ 301) | $ 19 |
| Valuation adjustment | 386 | ( 21) |
| | $ 85 | ($ 2) |

Amounts recognised in net loss in relation to financial liabilities at fair value through profit or loss are $386 and $34 for the years ended December 31, 2018 and 2017, respectively.

(10) Other payables

| | December 31, 2018 | December 31, 2017 |
| --- | --- | --- |
| Wages and salaries payable | $ 359,012 | $ 171,609 |
| Employee bonus payable | 212,468 | 87,405 |
| Payable on machinery and equipment | 64,134 | 12,310 |
| Tax payables | 12,469 | 20,675 |
| Other payables | 175,071 | 86,169 |
| | $ 823,154 | $ 378,168 |

(11) Other current liabilities

| | December 31, 2018 | December 31, 2017 |
| --- | --- | --- |
| Advance sales receipts | $ - | $ 226,275 |
| Other current liabilities | 60,863 | 17,386 |
| | $ 60,863 | $ 243,661 |

(12) Bonds payable

| | December 31, 2018 | December 31, 2017 |
| --- | --- | --- |
| Bonds payable | $ 502,500 | $ 4,000 |
| Less: Discount on bonds payable | ( 8,054) | ( 49) |
| | 494,446 | 3,951 |
| Less: Current portion or exercise of put options | - | ( 3,951) |
| | $ 494,446 | $ - |

A. The issuance of first domestic convertible bonds by the Company in the year 2015:

(a) The terms of the first domestic unsecured convertible bonds issued are as follows:

i. The Company issued $500,000, 0% first domestic unsecured convertible bonds, as approved by the regulatory authority. The bonds mature 3 years from the issue date (October 16, 2015 ~ October 16, 2018) and will be redeemed in cash at face value at the maturity date. The bonds were listed on the Taipei Exchange on October 16, 2015.

ii. The bondholders have the right to ask for conversion of the bonds into common shares of the Company during the period from the date after one month of the bonds issue to 10 days before the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws/regulations. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.

iii. The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occurs subsequently. The conversion price will be reset based on the pricing model in the terms of the bonds on each effective date regulated by the terms. If the reset conversion price is higher than the conversion price before the reset, the conversion price will not be adjusted; however, the reset conversion price shall not be less than 80% of the conversion price set on the issue date.

iv. The bondholders have the right to require the Company to redeem any bonds at the price of the bonds' face value plus 1.0025% of the face value as interests upon two years from the issue date.

v. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after one month of the bonds issue to 40 days before the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after one months of the bonds issue to 40 days before the maturity date.

vi. Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.

(b) As of December 31, 2018, the bonds totaling $4,000 (face value) had been converted into 58 thousand shares of common stock.

(c) Regarding the issuance of convertible bonds, the equity conversion options amounting to $25,033 were separated from the liability component and were recognised in 'capital surplus—share options' in accordance with IAS 32. The call options and put options embedded in bonds payable were separated from their host contracts and were recognised in 'financial assets at fair value through profit or loss' in net amount of $2,350 in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 2.0781%.

B. The issuance of second domestic convertible bonds by the Company in the year 2018:

(a) The terms of the second domestic unsecured convertible bonds issued are as follows:

i. The Company issued $1,200,000, 0% second domestic unsecured convertible bonds, as approved by the regulatory authority. The bonds mature 3 years from the issue date (June 8, 2018 ~ June 8, 2021) and will be redeemed in cash at face value at the maturity date.

The bonds were listed on the Taipei Exchange on June 8, 2018.

ii. The bondholders have the right to ask for conversion of the bonds into common shares of the Company during the period from the date after three months of the bonds issue before the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws/regulations. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.

iii. The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occurs subsequently. The conversion price will be reset based on the pricing model in the terms of the bonds on each effective date regulated by the terms. If the reset conversion price is higher than the conversion price before the reset, the conversion price will not be adjusted; however, the reset conversion price shall not be less than 80% of the conversion price set on the issue date.

iv. The bondholders have the right to require the Company to redeem any bonds at the price of the bonds' face value plus 1.015075% of the face value as interests upon two years from the issue date.

v. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after three months of the bonds issue to 40 days before the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after three months of the bonds issue to 40 days before the maturity date.

vi. Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.

(b) As of December 31, 2018, the bonds totaling $697,500 (face value) had been converted into 1,918 thousand shares of common stock. Since the registration of certain shares is in process, the corresponding capital stock was recognised as "3140 advance receipts for ordinary share".

(c) Regarding the issuance of convertible bonds, the equity conversion options amounting to $24,360 were separated from the liability component and were recognised in 'capital surplus—share options' in accordance with IAS 32. The call options and put options embedded in bonds payable were separated from their host contracts and were recognised in 'financial assets at fair value through profit or loss' in net amount of $720 in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 0.6654%.

(13) Long-term borrowings

| Type of borrowings | Borrowing period and repayment term | Interest rate | Collateral | December 31, 2017 |
|---|---|---|---|---|
| Installment-repayment borrowings | | | | |
| Cathay United Bank secured borrowings | Borrowing period is from October 25, 2016 to September 25, 2121; principal and interest are repayable monthly in installments from November 2018. | 1.65% | Land and buildings and structures for pledges | $ 139,044 |
| Less: Current portion | | | | ( 1,106) |
| | | | | $ 137,938 |

A. As of December 31, 2018, the Group has no long-term borrowings. Long-term borrowings in 2017 was settled in advance.

B. As of December 31, 2018 and 2017, the Group has undrawn borrowing facilities of $904,344 and $1,213,123, respectively.

(14) Pensions

A. Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

B. The Group's mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. The contribution percentage for the years ended December 31, 2018 and 2017, were both 20%. Other than the monthly contributions, the Group has no further obligations.

C. The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were $36,190 and $27,686, respectively.

(15) Share-based payment

A. For the years ended December 31, 2018 and 2017, the Group's share-based payment arrangements were as follows:

| Type of arrangement | Grant date | Quantity granted | Contract period | Vesting conditions |
|---|---|---|---|---|
| Employee stock options | 2016.07.01 | 2,000 | 6 years | Employees with 2 service years are entitled to 30%<br>Employees with 3 service years are entitled to 60%<br>Employees with 4 service years are entitled to 100% |
| Restricted stocks to employees | 2016.08.05 | 600 | 3 years | Employees with 1 service years are entitled to 33%<br>Employees with 2 service years are entitled to 66%<br>Employees with 3 service years are entitled to 100%<br>Operating revenue growth rate 30% (year)<br>Maintaining profit rate after tax above 10%<br>Earnings per share exceeds \$3.0 (including \$3.0) |
| Cash capital increase reserved for employee preemption | 2017.02.23 | 500 | NA | Immediately |
| Employee stock options | 2018.05.15 | 2,000 | 6 years | Employees with 2 service years are entitled to 40%<br>Employees with 3 service years are entitled to 80%<br>Employees with 4 service years are entitled to 100% |

The restricted stocks issued by the Company cannot be transferred during the vesting period, but voting right and dividend right are not restricted on these stocks. Employees are required to return the stocks but not required to return the dividends received if they resign during the vesting period. The share-based payment arrangements above are settled by equity.

B. Details of the share-based payment arrangements are as follows:

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | No. of options | Weighted-average exercise price (in dollars) | | No. of options | Weighted-average exercise price (in dollars) | |
| Options outstanding at January 1 | 2,000 | $ | 100 | 2,000 | $ | 100 |
| Options expired | ( 169) | | 100 | | | |
| Options exercised | ( 568) | | 100 | - | | - |
| Options outstanding at the end of the year | 1,263 | $ | 100 | 2,000 | $ | 100 |
| Options exercisable at the end of the year | 17 | $ | 100 | - | $ | - |

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | No. of options | Weighted-average exercise price (in dollars) | | No. of options | Weighted-average exercise price (in dollars) | |
| Options outstanding at January 1 | - | $ | - | - | $ | - |
| Options granted | 2,000 | | 448 | - | | - |
| Options outstanding at the end of the year | 2,000 | $ | 448 | - | | - |
| Options exercisable at the end of the year | - | $ | - | - | $ | - |

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2018 and 2017 was $436.02 and $175.5, respectively.

D. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

| | | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|---|
| Issue date approved | Expiry date | No. of shares (in thousands) | Exercise price (in dollars) | | No. of shares (in thousands) | Exercise price (in dollars) | |
| 2016.07.01 | 2022.06.30 | 1,263 | $ | 100 | 2,000 | $ | 100 |
| 2018.05.15 | 2024.05.14 | 2,000 | | 448 | - | | - |

E. The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

| Type of arrangement | Grant date (in dollars) | Stock price (in dollars) | Exercise price | Expected price volatility (%) | Expected option life (year) | Expected dividends | Risk-free interest rate(%) | Fair value per unit (in dollars) |
|---|---|---|---|---|---|---|---|---|
| Employee stock options | 2016.07.01 | $ 145.50 | $ 100 | 41.92~ 44.63 | 3.50 | - | 0.605~ 0.719 | $ 72.32~ 82.12 |
| Restricted stocks to employee | 2016.08.05 | $ 139.00 | $ 10 | 32.73 | 1.00 | - | 0.52% | $ 111.65 |
| Cash capital increase reserved for employee preemption | 2017.02.23 | NA | $ 10 | NA | NA | - | NA | $ 1.96 |
| Employee stock options | 2018.05.15 | $ 440.00 | $ 448 | 26.10~ 30.25 | 5.50 | - | 0.5636~ 0.6814 | $ 63.16~ 106.15 |

Note: Expected price volatility rate was estimated by using the stock prices of the most recent period with length of this period approximate to the length of the stock options' expected life, and the standard deviation of return on the stock during this period.

F. Expenses incurred on share-based payment transactions are shown below:

| | Years ended December 31, 2018 | 2017 |
|---|---|---|
| Equity-settled | $ 86,250 | $ 82,793 |

(16) <u>Share capital</u>

As of December 31, 2018, the Company's authorised capital was $2,000,000, and the paid-in capital was $1,022,321, with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

| | 2018 Private placement of ordinary share | Unrestricted shares | Total |
|---|---|---|---|
| At January 1 | $ 4,600 | $ 82,412 | $ 87,012 |
| Private placement of ordinary share publicly issued | ( 4,600) | 4,600 | - |
| Stock dividends | - | 13,052 | 13,052 |
| Employee stock options exercised | - | 526 | 526 |
| Conversion of corporate bonds | - | 1,642 | 1,642 |
| At December 31 | $ - | $ 102,232 | $ 102,232 |

| | 2017 | | |
|---|---|---|---|
| | Private placement of ordinary share | Unrestricted shares | Total |
| At January 1 | $ 4,600 | $ 70,847 | $ 75,447 |
| Stock dividends | - | 11,343 | 11,343 |
| Employee stock options exercised | - | 219 | 219 |
| Conversion of corporate bonds | - | 3 | 3 |
| At December 31 | $ 4,600 | $ 82,412 | $ 87,012 |

(17) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(18) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder, if any, to be retained or to be appropriated shall be resolved by the stockholders at the stockholders' meeting.

B. The Company's dividend policy is summarised below: as the Company operates in a volatile business environment and is in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed. However, if the Company has sufficient retained earnings and capital, the Company may increase cash dividends in proportion to total dividends.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. Special reserve

(a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

E. On May 19, 2017, the stockholders approved the distribution of dividends from the 2016 earnings in the amount of $264,675, with cash dividends of $2 (in dollars) and stock dividends of $1.5 (in dollars) per share. On May 18, 2018, the stockholders approved the distribution of dividends from the 2017 earnings in the amount of $365,449, with cash dividends of $2.7 (in dollars) and stock dividends of $1.5 (in dollars) per share. On February 20, 2019, the Board of Directors proposed for the distribution of dividends from the 2018 earnings in the amount of $872,164, with cash dividends of $7 (in dollars) and stock dividends of $1.5 (in dollars) per share.

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(25).

(19) Other equity items

| | 2018 | | | |
|---|---|---|---|---|
| | Unrealized gains (losses) on valuation | Currency translation | Unearned employee compensation | Total |
| At January 1 | ($ 24,375) | ($ 92,261) | ($ 18,507) | ($ 135,143) |
| Revaluation – gross | ( 631) | - | - | ( 631) |
| Revaluation transferred to retained earnings– gross | 13,430 | - | - | 13,430 |
| Currency translation differences | - | ( 64,509) | - | ( 64,509) |
| Compensation cost of share–based payments | - | - | 14,082 | 14,082 |
| At December 31 | ($ 11,576) | ($ 156,770) | ($ 4,425) | ($ 172,771) |

| | 2017 | | | |
|---|---|---|---|---|
| | Unrealized gains (losses) on valuation | Currency translation | Unearned employee compensation | Total |
| At January 1 | ($ 14,768) | ($ 79,604) | ($ 50,392) | ($ 144,764) |
| Revaluation – gross | ( 9,607) | - | - | ( 9,607) |
| Currency translation differences | - | ( 12,657) | - | ( 12,657) |
| Compensation cost of share–based payments | - | - | 31,885 | 31,885 |
| At December 31 | ($ 24,375) | ($ 92,261) | ($ 18,507) | ($ 135,143) |

Amounts that the Group recognised in other comprehensive income due to the change in fair value are ($631) and ($9,607) for the years ended December 31, 2018 and 2017, respectively. Amounts that the Group transferred from other equity to profit and loss is $0.

(20) Operating revenue

| | Year ended December 31, 2018 |
|---|---|
| Revenue from contracts with customers | $ 8,098,414 |

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services at a point in time in the following major geographical regions:

| 2018 | Europe and America region | Asia Pacific region | Total |
|---|---|---|---|
| Total segment revenue | $ 363,674 | $ 11,898,367 | $ 12,262,041 |
| Inter-segment revenue | ( 26,392) | ( 4,137,235) | ( 4,163,627) |
| Revenue from external customer contracts | $ 337,282 | $ 7,761,132 | 8,098,414 |

Timing of revenue mentioned above is all at a point in time.

B. Contract assets and liabilities

As of December 31, 2018, the Group has not recognized any revenue-related contract assets, while the Group has recognized contract liabilities below:

| | December 31, 2018 |
|---|---|
| Contract liabilities – advance sales receipts | $ 1,229,641 |

(a) Significant changes in contract assets and liabilities: None.

(b) Revenue recognised that was included in the contract liability balance at the beginning of the period:

| | Year ended December 31, 2018 |
|---|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the period | |
| Advance sales receipts | $ 226,275 |

C. Related disclosures for 2017 operating revenue are provided in Note 12(5) B.

(21) Other income

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Interest income: | | |
| Interest income from bank deposits | $ 26,751 | $ 14,158 |
| Grant revenue | - | 3,525 |
| Gains on doubtful debt recoveries | - | 318 |
| Dividend income | - | 1 |
| Other income-others | 110,707 | 13,113 |
| | $ 137,458 | $ 31,115 |

(22) Other gains and losses

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Gains on disposal of property, plant and equipment | $ 41,982 | $ 848 |
| Foreign exchange gains (losses) | 2,374 | ( 15,311) |
| Gains (losses) on financial assets (liabilities) at fair value through profit or loss | ( 386) | ( 34) |
| Impairment loss recognised in profit or loss, intangible assets other than goodwill | ( 6,440) | - |
| Miscellaneous disbursements | ( 611) | ( 2,948) |
| | $ 36,919 | ($ 17,445) |

(23) Finance costs

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Interest expense | | |
| Bank borrowings | $ 1,553 | $ 2,547 |
| Convertible bonds | 3,210 | 82 |
| | $ 4,763 | $ 2,629 |

(24) Expenses by nature

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Employee benefit expense | $ 1,280,674 | $ 756,821 |
| Depreciation charges on property, plant and equipment | 160,828 | 107,122 |
| Operating lease payments | 63,850 | 41,735 |
| Amortisation charges on intangible assets | 13,699 | 7,645 |
| | $ 1,519,051 | $ 913,323 |

(25) Employee benefit expense

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Wages and salaries | $ 1,054,458 | $ 578,806 |
| Employee stock options (Note) | 86,250 | 82,793 |
| Labour and health insurance fees | 55,154 | 41,338 |
| Pension costs | 36,190 | 27,686 |
| Other personnel expenses | 48,622 | 26,198 |
| | $ 1,280,674 | $ 756,821 |

Note: It was equity-settled.

A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 5%~15% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.

B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at $150,000 and $58,000, respectively; while directors' and supervisors' remuneration was accrued at $3,150 and $2,100, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 5%~15% and not be higher than 3% of distributable profit of current year for the year ended December 31, 2018. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were $150,000 and $3,150, respectively, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved by the Board of Directors were $58,000 and $2,100, respectively, and were in agreement with those amounts recognised in the 2017 financial statements.

C. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

Components of income tax expense:

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Current tax: | | |
| Current tax on profits for the year | $ 399,665 | $ 174,541 |
| Tax on undistributed surplus earnings | 25,329 | 10,571 |
| Prior year income tax overestimation | 2,641 | ( 5,734) |
| Total current tax | 427,635 | 179,378 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | ( 22,880) | ( 644) |
| Prior year deferred tax asset underestimation | ( 1,594) | ( 9,067) |
| Impact of change in tax rate | ( 4,003) | - |
| Total deferred tax | ( 28,477) | ( 9,711) |
| Income tax expense | $ 399,158 | $ 169,667 |

B. Reconciliation between income tax expense and accounting profit:

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Tax calculated based on profit before tax and statutory tax rate | $ 350,237 | $ 132,104 |
| Effect from items not recognised in accordance with tax regulation | 9,567 | 33,600 |
| Tax on undistributed earnings | 25,329 | 10,571 |
| Prior year income tax overestimation | 2,641 | ( 5,734) |
| Change in assessment of realisation of deferred tax assets | 10,849 | ( 9,067) |
| Taxable loss not recognised as deferred tax assets | 4,538 | 8,193 |
| Impact of change in tax rate | ( 4,003) | - |
| Income tax expense | $ 399,158 | $ 169,667 |

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | January 1 | Recognised in profit or loss | Recognised in equity | Business combination | December 31 |
| Temporary differences: | | | | | |
| -Deferred tax assets: | | | | | |
| Allowance for obsolescence and decline in market value of inventories | $ 6,039 | $ 8,065 | $ - | $ - | $ 14,104 |
| Unrealised exchange loss (gain) | 1,613 | ( 1,613) | - | - | - |
| Unrealised gross profit | 4,457 | 32,626 | - | - | 37,083 |
| Loss deduction | - | ( 10,577) | - | 10,577 | - |
| | $ 12,109 | $ 28,501 | $ - | $ 10,577 | $ 51,187 |
| -Deferred tax liabilities: | | | | | |
| Unrealised exchange loss (gain) | $ - | ($ 1,618) | $ - | $ - | ($ 1,618) |
| Others | - | - | - | ( 1,322) | ( 1,322) |
| | $ - | ($ 1,618) | $ - | ($ 1,322) | ($ 2,940) |
| | $ 12,109 | $ 26,883 | $ - | $ 9,255 | $ 48,247 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | January 1 | Recognised in profit or loss | Recognised in equity | Business combination | December 31 |
| Temporary differences: | | | | | |
| -Deferred tax assets: | | | | | |
| Allowance for obsolescence and decline in market value of inventories | $ 9,439 | ($ 3,400) | $ - | $ - | $ 6,039 |
| Unrealised exchange loss (gain) | - | 1,613 | - | - | 1,613 |
| Unrealised gross profit | 2,281 | 2,176 | - | - | 4,457 |
| | $ 11,720 | $ 389 | $ - | $ - | $ 12,109 |
| -Deferred tax liabilities: | | | | | |
| Unrealised exchange loss (gain) | ($ 255) | $ 255 | $ - | $ - | $ - |
| | ($ 255) | $ 255 | $ - | $ - | $ - |
| | $ 11,465 | $ 644 | $ - | $ - | $ 12,109 |

D. The amounts of deductible temporary differences that were not recognised as deferred tax assets are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deductible temporary differences | $ 53,495 | $ 21,796 |

E. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

F. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(27) Earnings per share

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to the parent | $ 1,794,899 | 100,885 | $ 17.79 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 1,794,899 | | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Convertible bonds | 6,443 | 1,382 | |
| Employee' stock option | - | 1,214 | |
| Employees' compensation | - | 317 | |
| Restricted stocks | - | 191 | |
| Shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 1,801,342 | 103,989 | $ 17.32 |

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to the parent | $ 712,226 | 99,551 | $ 7.15 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 712,226 | | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Convertible bonds | 68 | 58 | |
| Employee' stock option | - | 623 | |
| Employees' compensation | - | 234 | |
| Restricted stocks | - | 299 | |
| Shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 712,294 | 100,765 | $ 7.07 |

The weighted average circulation of shares has been retrospectively adjusted to the number of shares of the Company's stock dividend in 2017.

(28) Transactions with non-controlling interest

A. The Group did not participate in the capital increase raised by a subsidiary proportionally to its interest to the subsidiary.

The Group's subsidiary, GENE & NEXT INC., issued 500 thousand new shares as employee exercised stock options in February 2017. Such transaction resulted to an increase in non-controlling interest by $3,566, and increase in equity attributable to owners of parent by $1,434.

B. The effect of changes in interests in GENE & NEXT INC. on the equity attributable to owners of the parent for the year ended December 31, 2017 is shown below:

| | Year ended December 31, 2017 |
|---|---|
| Cash | $ 5,000 |
| Increase in the carrying amount of non-controlling interest | ( 3,566) |
| Capital surplus | $ 1,434 |

(29) Business combination

A. On August 30, 2018, the Group's subsidiary, GENE & NEXT INC., acquired 100% of the share capital of TCI LIVING CO., LTD. for $13,175 and obtained the control over TCI LIVING CO., LTD., a health foods trader and market developing company. As a result of the acquisition, the Group is expected to increase its scale of operations and revenue.

B. The following table summarises the consideration paid for TCI LIVING CO., LTD. and the fair values of the assets acquired and liabilities assumed at the acquisition date at the acquisition date:

| | | August 30, 2018 |
|---|---|---|
| Purchase consideration | | |
| Cash paid | $ | 13,175 |
| | | |
| Fair value of the identifiable assets acquired and liabilities assumed | | |
| Cash | | 20,634 |
| Notes and accounts receivable | | 12,694 |
| Inventories | | 22,916 |
| Other current assets | | 1,668 |
| Property, plant and equipment | | 910 |
| Intangible assets | | 6,731 |
| Deferred tax assets | | 10,577 |
| Other non-current assets | | 2,699 |
| Bank borrowings | ( | 32,000) |
| Accounts payable | ( | 11,695) |
| Other payables | ( | 8,971) |
| Other current liabilities | ( | 13,134) |
| Deferred tax liabilities | ( | 1,322) |
| Total identifiable net assets | | 11,707 |
| Goodwill | $ | 1,468 |

C. The fair value of the acquired identifiable intangible assets of $1,468 (including trademarks and licences) is provisional pending receipt of the final valuations for those assets.

D. The Group recognised a gain(loss) of ($631) as a result of measuring at fair value its 15.58% equity interest in TCI LIVING CO., LTD. held before the business combination.

E. The operating revenue included in the consolidated statement of comprehensive income since August 30, 2018 contributed by TCI LIVING CO., LTD. was $35,198. TCI LIVING CO., LTD. also contributed loss before income tax of $1,051 over the same period. Had TCI LIVING CO., LTD. been consolidated from January 1, 2018, the consolidated statement of comprehensive income would show operating revenue of $8,123,929 and profit before income tax of $2,200,148.

(30) Operating leases

The Group leases land and plant under non-cancellable operating lease agreements. The lease terms are between 2 and 15 years. Some leases are charged extra rents following the changes of local price indexes. The Group recognised rental expenses of $63,850 and $41,735 for these leases in profit or loss for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Not later than one year | $ 43,304 | $ 25,721 |
| Later than one year but not later than five years | 59,901 | 48,917 |
| Later than five years | 7,929 | 5,154 |
| | $ 111,134 | $ 79,792 |

(31) Supplemental cash flow information

A. Investing activities with partial cash payments

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Purchase of property, plant and equipment | $ 63,685 | $ 30,363 |
| Add: Opening balance of payable on equipment | 12,310 | 9,603 |
| Less: Ending balance of payable on equipment | ( 64,134) | ( 12,310) |
| Cash paid during the year | $ 11,861 | $ 27,656 |

B. Financing activities with no cash flow effects

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Convertible bonds being converted to capital stocks | $ 688,654 | $ 96 |

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

| Names of related parties | Relationship with the Company |
|---|---|
| TCI LIVING CO., LTD. (Former name is SBI CO., LTD.) | Other related party (The company was an institutional shareholder of TCI LIVING CO., LTD. before August 30, 2018. Now, it is the Group's subsidiary.) |
| CHEN, WEI-QUN | The Chairman of the Board of TCI LIVING CO., LTD. before August 30, 2018. |

(2) Significant related party transactions

A. Operating revenue:

| | For the period from January 1 to August 30, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Sales of goods: | | |
| Other related parties | $ 15,617 | $ 21,225 |

Goods are sold based on the price lists in force and terms that would be available to third parties.

B. Purchases:

| | For the period from January 1 to August 30, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Purchases of goods: | | |
| Other related parties | $ 730 | $ - |

Goods are purchased from the related party on normal commercial terms and conditions.

C. Other expenses:

| | For the period from January 1 to August 30, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Service expense: | | |
| Other related parties | $ - | $ 1,462 |
| Rent expense: | | |
| Other related parties | 22 | 976 |
| | $ 22 | $ 2,438 |

(a) Service expense pertain to human resources and other services provided by the other related party.

(b) The lease terms and prices were both determined in accordance with mutual agreements.

D. Receivables from related parties:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Accounts receivable: | | |
| Other related party | $ - | $ 6,603 |
| Other receivables: | | |
| Other related party | - | 1,162 |
| | $ - | $ 7,765 |

The receivables from related parties arise mainly from sale transactions. The receivables are due 60-90 days after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

E. Payables to related parties:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Accounts payable: | | |
| Other related party | $ - | $ 1,402 |
| Other payables: | | |
| Other related party | - | 345 |
| | $ - | $ 1,747 |

(3) Key management compensation

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Salaries and other short-term employee benefits | $ 51,997 | $ 49,442 |
| Share-based payments | 39,004 | 55,168 |
| | $ 91,001 | $ 104,610 |

(4) Others

TCI LIVING CO., LTD. borrowed money from financial institutions for the year ended December 31, 2018. CHEN WEI-QUN was a joint guarantor and joint drawer of a guaranteed promissory note.

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

| | Book value | | |
|---|---|---|---|
| Pledged asset | December 31, 2018 | December 31, 2017 | Purpose |
| Property, plant and equipment | $ 410,222 | $ 669,750 | Short-term and long-term borrowings |
| Other non-current assets | 500 | - | Contract security deposit |
| | $ 410,722 | $ 669,750 | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A. Capital expenditures contracted for at the balance sheet date but not yet incurred are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Property, plant and equipment | $ 907,454 | $ 391,609 |

B. Operating lease agreements

Please refer to Note 6(30).

C. As of December 31, 2018 and 2017, the Group's total unused letters of credit was $311,694 and $52,354, respectively.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are based on the Group's operating industrial scale, considering the future growth of the industry and product development, setting up appropriate market share, and planning corresponding capital expenditures. Then, determining the required working capital based on the financial operation plan. Finally, taking into consideration the operating income and cash flows that can be generated by the product competitiveness to decide the appropriate capital structure.

(2) Financial instruments

A. Financial instruments by category

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Financial assets | | |
| Financial assets at fair value through profit or loss | | |
| Financial assets mandatorily measured at fair value through profit or loss | $ - | $ 2 |
| Financial assets at fair value through other comprehensive income | | |
| Designation of equity instrument | $ 25,848 | $ - |
| Available-for-sale financial assets | | |
| Available-for-sale financial assets | $ - | $ 4,253 |
| Financial assets at amortised cost/Loans and receivables | | |
| Cash and cash equivalents | $ 4,417,545 | $ 1,399,355 |
| Notes receivable | 24,916 | 4,753 |
| Accounts receivable | 520,049 | 430,779 |
| Accounts receivable-related parties | - | 6,603 |
| Other receivables | 38,282 | 17,576 |
| Other receivables-related parties | - | 1,162 |
| Guarantee deposits paid | 27,280 | 11,907 |
| Other financial assets | 648,440 | 434,514 |
| | $ 5,676,512 | $ 2,306,649 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Financial liabilities | | |
| Financial liabilities at fair value through profit or loss | | |
| Financial liabilities designated as at fair value through profit or loss | $ 85 | $ - |
| Financial liabilities at amortised cost | | |
| Short-term borrowings | $ 12,000 | $ - |
| Notes payable | 253,201 | 2,682 |
| Accounts payable | 1,335,590 | 521,173 |
| Accounts payable-related parties | - | 1,402 |
| Other accounts payable | 823,154 | 378,168 |
| Other accounts payable-related parties | - | 345 |
| Corporate bonds payable (including current portion) | 494,446 | 3,951 |
| Long-term borrowings (including current portion) | - | 139,044 |
| | $ 2,918,476 | $ 1,046,765 |

B. Financial risk management policies

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

ii. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | | December 31, 2018 | | |
|---|---|---|---|---|
| (Foreign currency: functional currency) | | Foreign currency amount (In thousands) | Exchange rate | Book value (NTD) |
| Financial assets | | | | |
| Monetary items | | | | |
| RMB:NTD | RMB | 266,412 | 4.4720 | $ 1,191,394 |
| USD:NTD | USD | 4,621 | 30.7150 | 141,934 |
| EUR:NTD | EUR | 2,334 | 35.2000 | 82,157 |
| SGD:NTD | SGD | 2,459 | 22.4800 | 55,278 |
| Financial liabilities | | | | |
| Monetary items | | | | |
| JPY:NTD | JPY | 196,020 | 0.2782 | $ 54,533 |
| EUR:NTD | EUR | 1,413 | 35.2000 | 49,738 |
| USD:NTD | USD | 1,294 | 30.7150 | 39,745 |
| RMB:NTD | RMB | 7,098 | 4.4720 | 31,742 |

| | | December 31, 2017 | | |
|---|---|---|---|---|
| (Foreign currency: functional currency) | | Foreign currency amount (In thousands) | Exchange rate | Book value (NTD) |
| Financial assets | | | | |
| Monetary items | | | | |
| RMB:NTD | RMB | 47,171 | 4.5650 | $ 215,336 |
| USD:NTD | USD | 5,908 | 29.7600 | 175,822 |
| JPY:NTD | JPY | 148,358 | 0.2642 | 39,196 |
| Financial liabilities | | | | |
| Monetary items | | | | |
| RMB:NTD | RMB | 10,103 | 4.5650 | $ 46,120 |
| EUR:NTD | EUR | 876 | 35.7500 | 31,317 |
| USD:NTD | USD | 348 | 29.7600 | 10,356 |

iii. The total exchange (loss) gain, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to $2,374 and ($15,311), respectively.

iv. Analysis of foreign currency market risk arising from significant foreign exchange variation:

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| | Sensitivity analysis | | |
| (Foreign currency: functional currency) | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| Financial assets | | | |
| Monetary items | | | |
| RMB:NTD | 1% | $ 11,914 | $ - |
| USD:NTD | " | 1,419 | - |
| EUR:NTD | " | 822 | - |
| SGD:NTD | " | 553 | - |
| Financial liabilities | | | |
| Monetary items | | | |
| JPY:NTD | 1% | $ 545 | $ - |
| EUR:NTD | " | 497 | - |
| USD:NTD | " | 397 | - |
| RMB:NTD | " | 317 | - |

| (Foreign currency: functional currency) | Year ended December 31, 2017 | | |
| --- | --- | --- | --- |
| | Sensitivity analysis | | |
| | Degree of variation | Effect on profit or loss | Effect on other comprehensive income |
| Financial assets | | | |
| Monetary items | | | |
| RMB:NTD | 1% | $ 2,153 | $ - |
| USD:NTD | " | 1,758 | - |
| JPY:NTD | " | 392 | - |
| Financial liabilities | | | |
| Monetary items | | | |
| RMB:NTD | 1% | $ 461 | $ - |
| EUR:NTD | " | 313 | - |
| USD:NTD | " | 104 | - |

Price risk

i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

ii. The Group's investments in equity securities comprise shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity for the years ended December 31, 2018 and 2017 would have increased/decreased by $258 and $43, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

i. The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. During 2018 and 2017, the Group's borrowings at variable rate were mainly denominated in New Taiwan dollars.

ii. If the borrowing interest rate of New Taiwan dollars had increased/decreased by 0.1% with all other variables held constant, profit, net of tax for the years ended December 31, 2018 and 2017 would have increased/decreased by $96 and $115, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.

ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

iii. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

iv. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

v. The Group classifies customers' accounts receivable in accordance with credit risk. The Group applies the modified approach using loss rate methodology to estimate expected credit loss.

vi. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2018, the loss rate methodology is as follows:

| | Group A | Group B | Group C | Group D | Total |
|---|---|---|---|---|---|
| At December 31, 2018 | | | | | |
| Expected loss rate | 0.23% | 20.23% | 100.00% | 100.00% | |
| Total book value | $ 480,856 | $ 81,754 | $ 15,449 | $ 23,458 | $ 601,517 |
| Loss allowance | $ 1,106 | $ 16,539 | $ 15,449 | $ 23,458 | $ 56,552 |

vii. Movements in relation to the Group applying the modified approach to provide loss allowance for accounts receivable are as follows:

| | 2018 | |
|---|---|---|
| | Accounts receivable | Notes receivable |
| At January 1_IAS 39 | $ 16,374 | $ - |
| Adjustments under new standards | - | - |
| At January 1_IFRS 9 | 16,374 | - |
| Provision for impairment | 39,865 | - |
| Business combination | 1,188 | - |
| Effect of foreign exchange | ( 875) | - |
| At December 31 | $ 56,552 | $ - |

| | 2017 | |
|---|---|---|
| | Accounts receivable | Notes receivable |
| At January 1 | $ 15,202 | $ 318 |
| Provision for impairment | 1,172 | - |
| Reversal of impairment loss | - | ( 318) |
| At December 31 | $ 16,374 | $ - |

viii. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 6(14)) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.

ii. As of December 31, 2018 and 2017, the Group has undrawn borrowing facilities of $904,344 and $1,213,123, respectively.

iii. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

| December 31, 2018 | Less than 3 months | 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|---|
| Short-term borrowings | $ 66 | $ 12,009 | $ - | $ - |
| Notes payable | 253,201 | - | - | - |
| Accounts payable (including related parties) | 1,335,590 | - | - | - |
| Other payables (including related parties) | 610,686 | 212,468 | - | - |
| Guarantee deposits received | - | - | 11,627 | - |
| Convertible bonds | - | - | - | 507,600 |

Non-derivative financial liabilities:

| December 31, 2017 | Less than 3 months | 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|---|
| Notes payable | $ 2,682 | $ - | $ - | $ - |
| Accounts payable (including related parties) | 522,575 | - | - | - |
| Other payables (including related parties) | 301,819 | 76,694 | - | - |
| Guarantee deposits received | 11,869 | - | - | - |
| Long-term borrowings (including current portion) | 566 | 2,834 | 8,934 | 135,023 |
| Convertible bonds | - | 4,040 | - | - |

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1:Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group’s investment in listed stocks is included in Level 1

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables are approximate to their fair values.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

(a) The related information of natures of the assets and liabilities is as follows:

| December 31, 2018 | Level 1 | Level 2 | Level 3 | Total |
| --- | --- | --- | --- | --- |
| **Assets** | | | | |
| Recurring fair value measurements | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity securities | $ 1,196 | $ - | $ 24,652 | $ 25,848 |
| **Liabilities** | | | | |
| Recurring fair value measurements | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Call and put options of corporate bonds | $ - | $ 85 | $ - | $ 85 |

| December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
| --- | --- | --- | --- | --- |
| **Assets** | | | | |
| Recurring fair value measurements | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Call and put options of corporate bonds | $ - | $ 2 | $ - | $ 2 |
| Available-for-sale financial assets | 1,196 | - | 3,057 | 4,253 |
| | $ 1,196 | $ 2 | $ 3,057 | $ 4,255 |

(b)The methods and assumptions the Group used to measure fair value are as follows:

i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

| | Listed shares |
| --- | --- |
| Market quoted price | Closing price |

ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

iii. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

iv. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

D. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| | Equity instrument-unlisted shares | |
| At January 1 | $ 3,057 | $ 12,399 |
| Acquired in the period | 24,280 | - |
| Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income | ( 631) | - |
| Sold in the period | ( 2,054) | - |
| Recognised in other comprehensive income | - | ( 9,342) |
| At December 31 | $ 24,652 | $ 3,057 |

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

G. Financial segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value. .

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

| | Fair value at December 31, 2018 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | $ 24,652 | Market comparable companies | Price to earnings ratio multiple | 1.38~1.83 | The higher the value of net assets, the higher the fair value; |
| | | | Discount for lack of marketability | 19.89% ~21.04% | the higher the discount for lack of marketability, the lower the fair value. |

| | Fair value at December 31, 2017 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | $ 3,057 | Market comparable companies | Price to earnings ratio multiple | 1.38~1.83 | The higher the value of net assets, the higher the fair value; |
| | | | Discount for lack of marketability | 19.89% ~21.04% | the higher the discount for lack of marketability, the lower the fair value. |

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

| | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|
| | | | Recognised in profit or loss | | Recognised in other comprehensive income | |
| | Input | Change | Favourable change | Unfavourable change | Favourable change | Unfavourable change |
| Financial assets | | | | | | |
| Equity instrument | Discount for lack of marketability | ±5% | $ - | $ - | $ 1,233 | $ 1,233 |

| | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|
| | | | Recognised in profit or loss | | Recognised in other comprehensive income | |
| | Input | Change | Favourable change | Unfavourable change | Favourable change | Unfavourable change |
| Financial assets | | | | | | |
| Equity instrument | Discount for lack of marketability | ±5% | $ - | $ - | $ 153 | $ 153 |

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Financial assets at fair value through profit or loss

i. They are financial assets designated as at fair value through profit or loss on initial recognition. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid (combined) contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(iii)They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

(b) Available for sale financial assets

i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.

ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

iii. They are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(c) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

(i) Significant financial difficulty of the issuer or debtor;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties;

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i)Financial assets at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii)Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transfered from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

(a) Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets, amounting to $4,253, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" on initial application of IFRS 9.

(b) Under IAS 39, the equity instruments, which were classified as: financial assets at fair value through profit or loss, amounting to $2, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" under IFRS 9.

C. There is no allowance for impairment and provision on December 31, 2017.

D. The significant accounts as of December 31, 2017 and for the year ended December 31, 2017 are as follows:

(a) Financial assets at fair value through profit or loss

| Items | | December 31, 2017 |
|---|---|---|
| Current items: | | |
| Financial assets designated as at fair value through profit or loss on initial recognition | | |
| Corporate bonds | $ | (19) |
| Valuation adjustment | | 21 |
| | $ | 2 |

i. The Group recognised net loss amounting to $34 on financial assets at fair value through profit or loss for the year ended December 31, 2017.

ii. The Group has no financial assets at fair value through profit or loss pledged to others.

(b)Available-for-sale financial assets

| Items | | December 31, 2017 |
|---|---|---|
| Non-current items: | | |
| Listed stocks | $ | 12,604 |
| Unlisted stocks | | 16,024 |
| | | 28,628 |
| Valuation adjustment | ( | 24,375) |
| | $ | 4,253 |

The Group has no available-for-sale financial assets pledged to others as collateral.

E. Credit risk information for the year ended December 2017 are as follows :

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group’s credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

(b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c) The credit quality information of notes and accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

| | December 31, 2017 |
|---|---|
| Group 1 | $ 2,522 |
| Group 2 | 404,944 |
| Group 3 | - |
| | $ 407,466 |

Note:

Group 1: New customers (less than 12 months from the first transaction).

Group 2: Customers without possibility of default.

Group 3: Customers with possibility of default.

(d) The ageing analysis of financial assets that were past due but not impaired is as follows:

| | December 31, 2017 |
|---|---|
| Up to 30 days | $ 23,101 |
| 31 to 90 days | 3,786 |
| Over 90 days | 1,179 |
| | $ 28,066 |

The above ageing analysis was based on past due date.

(e) Movements analysis of financial assets that were impaired is as follows:

i. As of December 31, 2017, the Group's impaired notes and accounts receivable amounted to $16,374.

ii. Movements on allowance for uncollectible accounts are as follows:

| | 2017 | | |
|---|---|---|---|
| | Individual provision | Group provision | Total |
| At January 1 | $ 15,520 | $ - | $ 15,520 |
| Provision for impairment | 1,172 | - | 1,172 |
| Reversal of impairment | ( 318) | - | ( 318) |
| At December 31 | $ 16,374 | $ - | $ 16,374 |

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

Sales of goods

The Group manufactures and sells health foods and cosmetics. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

| | Year ended December 31, 2017 |
|---|---|
| Sales revenue | $ 4,072,168 |

C. The effects and description of current balance sheet and comprehensive income statement items if the Group continues adopting above accounting policies are as follows:

| | | December 31, 2018 | | |
|---|---|---|---|---|
| Balance sheet items | Description | Balance by using IFRS 15 | Balance by using previous accounting policies | Effects from changes in accounting policy |
| Advance sales receipts | (1) | $ - | $ 1,229,641 | ($ 1,229,641) |
| Contract liabilities | (1) | 1,229,641 | - | 1,229,641 |

(1) Under IFRS 15, liabilities in relation to sales contracts are recognised as contract liabilities.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company’s paid-in capital: None.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 2.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 3.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2) and 12(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 5.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 7.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

There is no material change in the basis for formation of entities and division of segments in the Group or in the measurement basis for segment information during this period.

(2) Measurement of segment information

The Group's chief operating decision-maker evaluates the performances of the operating segments based on their net profit after tax.

(3) Segment information

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

| | Taiwan | Asia | Others | Adjustment and reversal | Total |
|---|---|---|---|---|---|
| Year ended December 31, 2018 | | | | | |
| Revenue from external customers | $ 1,884,624 | $ 6,184,899 | $ 28,891 | $ - | $ 8,098,414 |
| Revenue from internal customers | 3,339,759 | 823,868 | - | ( 4,163,627) | - |
| Segment revenue | $ 5,224,383 | $ 7,008,767 | $ 28,891 | ($ 4,163,627) | $ 8,098,414 |
| Segment income | $ 2,574,590 | $ 2,704,798 | ($ 974) | ($ 3,471,035) | $ 1,807,379 |
| Segment income / loss, including: | | | | | |
| Depreciation and amortisation | $ 141,681 | $ 32,846 | $ - | $ - | $ 174,527 |
| Interest income | 1,622 | 25,129 | - | - | 26,751 |
| Interest expense | 4,763 | - | - | - | 4,763 |
| Income tax expense | 134,880 | 264,278 | - | - | 399,158 |
| Investment profit or loss which is adopting equity method | 1,520,216 | 417,876 | - | ( 1,938,092) | $ - |
| Segment total assets | $ 10,800,976 | $ 8,605,178 | $ 36,923 | ($ 9,156,337) | $ 10,286,740 |
| Segment assets including: | | | | | |
| Investment which is adopting equity method | $ 3,117,064 | $ 692,500 | $ - | ($ 3,809,564) | $ - |
| Capital expenditure of non-current asset | 895,689 | 285,862 | 3,112 | - | 1,184,663 |
| Segment total liabilities | $ 2,964,678 | $ 2,704,831 | $ 28,701 | ($ 1,180,512) | $ 4,517,698 |

| | Taiwan | Asia | Adjustment and reversal | Total |
|---|---|---|---|---|
| Year ended December 31, 2017 | | | | |
| Revenue from external customers | $ 1,426,450 | $ 2,645,718 | $ - | $ 4,072,168 |
| Revenue from internal customers | 1,038,021 | 380,872 | ( 1,418,893) | - |
| Segment revenue | $ 2,464,471 | $ 3,026,590 | ($ 1,418,893) | $ 4,072,168 |
| Segment income | $ 1,207,364 | $ 1,260,003 | ($ 1,746,543) | $ 720,824 |
| Segment income / loss, including: | | | | |
| Depreciation and amortisation | $ 77,311 | $ 37,456 | $ - | $ 114,767 |
| Interest income | 2,503 | 11,655 | - | 14,158 |
| Interest expense | 2,586 | 43 | - | 2,629 |
| Income tax expense | 58,442 | 111,225 | - | 169,667 |
| Investment profit or loss which is adopting equity method | 627,306 | 73,795 | ( 701,101) | - |
| Segment total assets | $ 5,764,235 | $ 3,824,335 | ($ 4,747,887) | $ 4,840,683 |
| Segment assets including: | | | | |
| Investment which is adopting equity method | $ 1,765,970 | $ 294,420 | ($ 2,060,390) | $ - |
| Capital expenditure of non-current asset | 558,465 | 20,156 | - | 578,621 |
| Segment total liabilities | $ 1,037,196 | $ 550,348 | ($ 165,133) | $ 1,422,411 |

Sales to Europe and America of reporting department-Taiwan is $337,282 in 2018.

(4) Reconciliation for segment income

Sales between segments are carried out at arm's length. The revenue from external customers reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income. The reportable segment income or loss is in accordance with the income before tax from continuing operations for the years ended December 31, 2018 and 2017.

(5) Information on products

The Group operates business only in a single industry with business scope of healthy foods and beauty products; disclosure of financial information on industry is not applicable.

(6) Geographical information

Geographical information for the years ended December 31, 2018 and 2017 is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Revenue | Non-current assets | Revenue | Non-current assets |
| Taiwan | $ 1,884,624 | $ 2,291,804 | $ 1,426,450 | $ 1,609,399 |
| Mainland China | 6,184,856 | 687,154 | 2,638,453 | 382,751 |
| Others | 28,934 | 3,112 | 7,265 | 1,137 |
| | $ 8,098,414 | $ 2,982,070 | $ 4,072,168 | $ 1,993,287 |

Revenue is reported based on the countries in which the Group's subsidiaries are located.

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Revenue | Segment | Revenue | Segment |
| A | $ 1,598,916 | Asia | $ 1,479,517 | Asia |
| B | 46,612 | Taiwan | 268,772 | Taiwan |
| C | 2,163,991 | Asia | 160,777 | Asia |
| | $ 3,809,519 | | $ 1,909,066 | |

TCI CO., LTD. AND SUBSIDIARIES

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| Securities held by | Marketable securities | Relationship with the securities issuer | General ledger account | As of December 31, 2018 | | | | Footnote |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of shares | Book value | Ownership (%) | Fair value | |
| TCI CO., LTD | BILLION ELECTRIC CO., LTD. | None | Financial assets at fair value through other comprehensive income - non-current | 118,000 | $ 1,196 | 0.12 | $ 1,196 | |
| TCI CO., LTD | LIN LIE INTEGRATION CO., LTD. | None | Financial assets at fair value through other comprehensive income - non-current | 54,000 | 372 | 3.48 | 372 | |
| TCI CO., LTD | PURE MILK CO., LTD. | The company was an institutional shareholder of PURE MILK CO., LTD.. | Financial assets at fair value through other comprehensive income - non-current | 403,333 | 22,000 | 10.00 | 22,000 | |
| TCI LIVING CO., LTD | Chun Ling International Co., Ltd. | The company was an institutional shareholder of Chun Ling International Co., Ltd.. | Financial assets at fair value through other comprehensive income - non-current | 228,000 | 2,280 | 19.00 | 2,280 | |

TCI CO., LTD. AND SUBSIDIARIES

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | Transaction | | | | Differences in transaction terms compared to third party transactions | | Notes/accounts receivable (payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchaser/seller | Counterparty | Relationship with the counterparty | Purchases (sales) | Amount | Percentage of total purchases (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | Footnote |
| TCI CO., LTD | Shanghai BioScience Co., Ltd. | Second-tier subsidiary | (Sales) | $ 465,679 | ( 9.15) | 60-90 days | The prices and terms of sales and purchases are available to third parties. | Terms for collections are approximately the same as those with third parties. | $ 5,048 | 0.56 | |
| Shanghai BioScience Co., Ltd. | TCI CO., LTD | Parent | Purchases | 465,679 | 59.74 | 60-90 days | The prices and terms of sales and purchases are available to third parties. | Terms for payments are approximately the same as those with third parties. | ( 5,048) | ( 24.86) | |
| TCI CO., LTD | Shanghai BioFunction Co., Ltd. | Subsidiary | (Sales) | 3,146,833 | (61.82) | 60-90 days | The prices and terms of sales and purchases are available to third parties. | Terms for payments are approximately the same as those with third parties. | 639,866 | 70.47 | |
| Shanghai BioFunction Co., Ltd. | TCI CO., LTD | Parent | Purchases | 3,146,833 | 87.00 | 60-90 days | The prices and terms of sales and purchases are available to third parties. | Terms for payments are approximately the same as those with third parties. | ( 639,866) | ( 60.37) | |

Note: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to total operating revenues for income statement accounts.

TCI CO., LTD. AND SUBSIDIARIES

Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more

December 31, 2018

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as at December 31, 2018 | | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Amount | Action taken | | |
| TCI CO., LTD | Shanghai BioFunction Co., Ltd. | Subsidiary | Accounts receivable | $ 639,866 | 8.78 | $ - | - | $ 639,866 | $ - |

Note: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity.

TCI CO., LTD. AND SUBSIDIARIES

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | | Transaction | | | |
|---|---|---|---|---|---|---|---|
| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | General ledger account | Amount | Transaction terms | Percentage of consolidated total operating revenues or total assets (Note 3) |
| 0 | TCI CO., LTD | Shanghai BioScience Co., Ltd. | 1 | Sales of goods | $ 465,679 | The prices and terms of sales and purchases are available to third parties. | 5.75 |
| 0 | TCI CO., LTD | Shanghai BioScience Co., Ltd. | 1 | Accounts receivable | 5,048 | The prices and terms of sales and purchases are available to third parties. | 0.05 |
| 0 | TCI CO., LTD | Shanghai BioFunction Co., Ltd. | 1 | Sales of goods | 3,146,833 | The prices and terms of sales and purchases are available to third parties. | 38.86 |
| 0 | TCI CO., LTD | Shanghai BioFunction Co., Ltd. | 1 | Accounts receivable | 639,866 | The prices and terms of sales and purchases are available to third parties. | 6.22 |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories :

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to total operating revenues for income statement accounts.

TCI CO., LTD. AND SUBSIDIARIES

Information on investees

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | | Initial investment amount | | Shares held as at December 31, 2018 | | | Net profit (loss) of the investee for the year ended December 31, 2018 | Investment income(loss) recognised by the Company for the year ended December 31, 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investor | Investee | Location | Main business activities | Balance as at December 31, 2018 | Balance as at December 31, 2017 | Number of shares | Ownership (%) | Book value | | | Footnote |
| TCI CO., LTD | TCI FIRSTEK CORP. | R.O.C | Wholesale and retails of health food and cosmetics | $ 43,685 | $ 43,685 | 115,963,709 | 100.00 | $ 1,773,480 | $ 752,987 | $ 752,987 | None |
| TCI CO., LTD | GENE & NEXT INC. | R.O.C | Research and develop of biotechnology and genetics | 64,250 | 64,250 | 6,425,000 | 61.19 | 71,196 | 32,459 | 19,979 | None |
| TCI CO., LTD | TCI HK LIMITED | Hong Kong | Trading of health food and cosmetics | 21,046 | 21,046 | - | 100.00 | 14,113 | 1,593 | 1,593 | None |
| TCI CO., LTD | TCI BIOTECH LLC | U.S.A. | Trading of health food and cosmetics | 8,778 | - | - | 100.00 | 8,222 | ( 974) | ( 974) | None |
| TCI CO., LTD | BioCosme Co., Ltd. | R.O.C | Trading of health food and cosmetics | 5,000 | - | 500,000 | 100.00 | 5,000 | - | - | None |
| TCI CO., LTD | TCI JAPAN CO., LTD. | JAPAN | Trading of health food and cosmetics | - | - | - | 100.00 | - | - | - | Note 3 |
| GENE & NEXT INC. | GLUX HK LIMITED | Hong Kong | Trading of health food and cosmetics | 29,542 | 25,000 | - | 100.00 | 9,524 | ( 3,235) | ( 1,979) | None |
| GENE & NEXT INC. | TCI LIVING CO., LTD. | R.O.C | Trading of health food and cosmetics | 43,175 | - | 11,500,000 | 100.00 | 34,452 | ( 15,532) | ( 5,711) | None |
| TCI LIVING CO., LTD. | SBI GROUP HK LIMITED | Hong Kong | Trading of health food and cosmetics | - | - | - | 100.00 | 4,087 | 43 | 5 | None |
| TCI CO., LTD | PT TCI BIOTEK INDO | Indonesia | Trading of health food and cosmetics | - | - | - | 100.00 | - | - | - | Note 3 |

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

(1)The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at December 31, 2018' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column..

(2)The 'Net profit (loss) of the investee for the year ended December 31, 2018' column should fill in amount of net profit (loss) of the investee for this period.

(3)The 'Investment income (loss) recognised by the Company for the year ended December 31, 2018' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

Note 3: There was no capital injection as of December 31, 2018.

TCI CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

Year ended December 31, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018 | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 | Net income of investee as of December 31, 2018 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the year ended December 31, 2018 | Book value of investments in Mainland China as of December 31, 2018 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | |
| Shanghai BioTrade Co., Ltd. | Wholesale of health food, cosmetics and chemical productions; Commissioned cosmetic manufacturing | $ 15,665 | Note 3 | $ 15,440 | $ - | $ - | $ 15,440 | $ 766,471 | 100.00 | $ 766,471 | $ 1,971,404 | $ 289,047 | Note 4 Note 5 |
| Shanghai BioScience Co., Ltd. | Wholesale of health food, cosmetics and chemical productions; Commissioned cosmetic manufacturing | 26,832 | Note 2 | - | - | - | - | 768,926 | 100.00 | 768,926 | 1,809,826 | - | Note 4 Note 5 |
| Shanghai BioCosme Co., Ltd. | Manufacturing cosmetics | 147,576 | Note 2 | - | - | - | - | 1,756 | 100.00 | 1,756 | 124,426 | - | Note 4 Note 5 |
| Shanghai BioFunction Co., Ltd. | Producing health food | 665,896 | Note 1 | 397,504 | 40,803 | - | 438,307 | 1,164,508 | 100.00 | 1,164,508 | 1,937,553 | - | Note 4 Note 5 |
| BIO DYNAMIC LABORATORIES INC. | Trading of health food and cosmetics | 29,587 | Note 3 | - | - | - | - | ( 3,998) | 61.19 | 1,365 | 7,712 | - | Note 4 Note 5 |

Note 1：Reinvestments in a company in Mainland China through parent company in Taiwan and Shanghai BioScience Co., Ltd.. (USD$14,400 and RMB$50,000)

Note 2：Reinvestments in a company in Mainland China through Shanghai BioTrade Co., Ltd.

Note 3：Reinvestments in a company in Mainland China through domestic subsidiary company.

Note 4：The financial statements that are audited and attested by R.O.C. parent company's CPA.

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|---|---|---|---|
| TCI CO., LTD | $ 438,307 | $ 767,865 | $ 3,461,425 |
| TCI FIRSTEK CORP. | 15,440 | 15,440 | 1,175,338 |

Note 5：The numbers in this table are expressed in New Taiwan dollars, except for: assets and liabilities presents at RMB$1：NTD$4.472, USD$1：NTD$30.715; income presents at RMB$1：NTD$4.5601, USD$1：NTD$30.1492;

Note 6：The amount is the higher of limits on accumulated investment amounts or 60% of consolidated net assets was based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

TCI CO., LTD. AND SUBSIDIARIES

Significant transactions , either directly or indirectly through a third area, with investee companies in the Mainland Area

Year ended December 31, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Sale (purchase) Amount | Sale (purchase) % | Property transaction Amount | Property transaction % | Accounts receivable (payable) Balance at December 31, 2018 | Accounts receivable (payable) % | Provision of endorsements/guarantees or collaterals Balance at December 31, 2018 | Provision of endorsements/guarantees or collaterals Purpose | Financing Maximum balance during the year ended December 31, 2018 | Financing Balance at December 31, 2018 | Financing Interest rate | Financing Interest during the year ended December 31, 2018 | Others |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Shanghai BioScience Co., Ltd. | $ 465,679 | 9.15 | $ - | - | $ 5,048 | 0.56 | $ - | - | $ - | $ - | - | $ - | |
| Shanghai BioFunction Co., Ltd. | 3,146,833 | 61.82 | - | - | 639,886 | 70.47 | - | - | - | - | - | - | |

Note: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

## TCI CO., LTD.

**PARENT COMPANY ONLY FINANCIAL**

**STATEMENTS AND REPORT OF INDEPENDENT**

**ACCOUNTANTS**

**DECEMBER 31, 2018 AND 2017**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of TCI Co., Ltd.

## *Opinion*

We have audited the accompanying parent company only balance sheets of TCI Co., Ltd. (the "Company") as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of TCI Co., Ltd as at December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

## *Basis for opinion*

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the parent company only Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.
The key audit matters in relation to the parent company only financial statements for the year ended December 31, 2018 are outlined as follows:

**Existence and occurrence of top ten customers**

Description

The Company's and its subsidiaries' (listed as investments accounted for under equity method) sales revenue arise mainly from manufacturing and sales of health foods and cosmetics. Customers are mostly direct marketing companies in Europe and Asia and cosmetic companies. The sales revenue for the year of 2018 is significantly higher than for 2017.

With the expansion of direct marketing companies in Europe and Asia, the sales revenue from top ten customers has increased significantly and became a significant portion of operating income to the parent company only financial statements. Because of the rapid development in the internet sales market, more time and resources were required in performing the audit procedures. Thus, we consider the existence and occurrence of top ten customers as a key audit matter.

Please refer to Note 4(28) for accounting policies on revenue recognition and Note 6(20) for details of sales revenue and Note 6(5) for details of investments accounted for under equity method.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

- Understanding and testing the internal control procedures of the top ten customers and testing the effective of internal control related to sales revenue.
- Selecting samples from sales transactions of the top ten customers and comparing against orders and delivery bill to confirm whether the sales transactions did occur.
- Examining sales returns and discounts from the top ten customers after the balance sheet date to confirm the existence of sales revenue.

**Allowance for inventory valuation losses**

Description

The Company and its subsidiaries (listed as investments accounted for under equity method) are primarily engaged in developing, manufacturing and sales of health foods and cosmetics. As these kinds of products are substituted easily and have a highly competitive nature in the market, there is higher risk of incurring inventory valuation losses or obsolescence. The Company and its subsidiaries recognise inventories at the lower of cost and net realisable value. For those inventory with ages over a certain period and individually recognised as obsolete inventories, the net realisable value is calculated based on the inventory closeout and historical data of discounts.

Considering that the market demand has changed, the Company and its subsidiaries reinvents its products quickly. As the determination of the net realisable value used in the valuation of obsolete inventories involves subjective judgement and uncertainty, and considering the allowance for inventory valuation losses is material to the financial statements, we consider the allowance for inventory valuation losses as a key audit matter.

Please refer to Note 4(11) for accounting policy on inventory valuation and Note 6(4) for details of allowance for inventory valuation losses and Note 6(5) for details of investments accounted for under equity method.

How our audit addressed the matter

Our audit procedures in respect of the above key audit matter included:

- Understanding the operations and industry of the Group to assess the reasonableness of policies and procedures on allowance for inventory valuation losses, including inventory classification, the degree of inventory closeout and historical data source of price discounts, and the reasonableness of the guidelines for obsolete and slow-moving inventory.
- Understanding the inventory management process, participating and examining annual physical counts to assess the effectiveness of management’s classification and controls over obsolete and slow-moving inventory, and verifying whether it was in agreement with obsolete inventory lists.
- Evaluating the reasonableness of the logic of inventory aging statements used in valuation to confirm whether the information on such statements is in agreement with its policies.

- Interviewing management and reviewing sales after balance sheet date to assess the reasonableness of allowance for inventory valuation losses.

### *Responsibilities of management and those charged with governance for the parent company only financial statements*

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### *Auditor’s responsibilities for the audit of the parent company only financial statements*

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s 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 ROC GAAS 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 parent company only financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Hsu, Ming-Chuan Wang, Kuo-Hua
For and on behalf of PricewaterhouseCoopers, Taiwan
February 20, 2019

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The accompanying parent company only financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

TCI CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Assets | Notes | December 31, 2018 AMOUNT | % | December 31, 2017 AMOUNT | % |
|---|---|---|---|---|---|---|
| | **Current assets** | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | $ 1,424,323 | 17 | $ 374,838 | 9 |
| 1110 | Financial assets at fair value through profit or loss - current | 6(9) | - | - | 2 | - |
| 1150 | Notes receivable, net | 6(3) | 2,980 | - | 4,753 | - |
| 1170 | Accounts receivable, net | 6(3) | 191,618 | 2 | 185,430 | 4 |
| 1180 | Accounts receivable - related parties | 7 | 713,462 | 8 | 94,731 | 2 |
| 1200 | Other receivables | | 28,570 | 1 | 7,142 | - |
| 1210 | Other receivables - related parties | 7 | 20,504 | - | 9,810 | - |
| 1220 | Current income tax assets | 6(26) | 2,229 | - | 3,172 | - |
| 130X | Inventories | 6(4) | 520,249 | 6 | 295,065 | 7 |
| 1410 | Prepayments | | 152,939 | 2 | 46,174 | 1 |
| 1470 | Other current assets | | 23,130 | - | 1,526 | - |
| 11XX | **Current Assets** | | 3,080,004 | 36 | 1,022,643 | 23 |
| | **Non-current assets** | | | | | |
| 1517 | Non-current financial assets at fair value through other comprehensive income | 6(2) and 12(3) | 23,568 | - | - | - |
| 1523 | Available-for-sale financial assets - noncurrent | 12(4) | - | - | 4,253 | - |
| 1550 | Investments accounted for under equity method | 6(5) | 3,117,064 | 36 | 1,765,970 | 40 |
| 1600 | Property, plant and equipment | 6(6) | 1,555,891 | 18 | 1,341,941 | 31 |
| 1780 | Intangible assets | 6(7) | 15,954 | - | 17,755 | 1 |
| 1840 | Deferred income tax assets | 6(26) | 51,187 | 1 | 12,109 | - |
| 1900 | Other non-current assets | 6(8) | 757,760 | 9 | 233,064 | 5 |
| 15XX | **Non-current assets** | | 5,521,424 | 64 | 3,375,092 | 77 |
| 1XXX | **Total assets** | | $ 8,601,428 | 100 | $ 4,397,735 | 100 |

(Continued)

TCI CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Liabilities and Equity | Notes | December 31, 2018 AMOUNT | % | December 31, 2017 AMOUNT | % |
|---|---|---|---|---|---|---|
| | **Current liabilities** | | | | | |
| 2120 | Financial liabilities at fair value through profit or loss - current | 6(9) | $ 85 | - | $ - | - |
| 2130 | Current contract liabilities | 6(20) and 12(5) | 116,392 | 1 | - | - |
| 2150 | Notes payable | | 252,318 | 3 | 2,682 | - |
| 2170 | Accounts payable | | 1,092,086 | 13 | 427,219 | 10 |
| 2180 | Accounts payable - related parties | 7 | 91,918 | 1 | 40,492 | 1 |
| 2200 | Other payables | 6(10) | 590,688 | 7 | 277,196 | 6 |
| 2220 | Other payables - related parties | 7 | 32,257 | - | 18,039 | - |
| 2230 | Current income tax liabilities | 6(26) | 147,370 | 2 | 27,861 | 1 |
| 2320 | Long-term liabilities, current portion | 6(12)(13) | - | - | 5,057 | - |
| 2399 | Other current liabilities, others | 6(11) | 58,364 | - | 75,173 | 2 |
| 21XX | **Current Liabilities** | | 2,381,478 | 27 | 873,719 | 20 |
| | **Non-current liabilities** | | | | | |
| 2530 | Corporate bonds payable | 6(12) | 494,446 | 6 | - | - |
| 2540 | Long-term borrowings | 6(13) | - | - | 137,938 | 3 |
| 2570 | Deferred income tax liabilities | 6(26) | 1,618 | - | - | - |
| 25XX | **Non-current liabilities** | | 496,064 | 6 | 137,938 | 3 |
| 2XXX | **Total Liabilities** | | 2,877,542 | 33 | 1,011,657 | 23 |
| | **Equity** | | | | | |
| | **Share capital** | 6(16) | | | | |
| 3110 | Share capital - common stock | | 1,022,321 | 12 | 870,117 | 20 |
| 3140 | Advance receipts for share capital | | 3,755 | - | - | - |
| | **Capital surplus** | 6(17) | | | | |
| 3200 | Capital surplus | | 2,256,871 | 26 | 1,453,414 | 33 |
| | **Retained earnings** | 6(18) | | | | |
| 3310 | Legal reserve | | 216,913 | 3 | 145,690 | 3 |
| 3320 | Special reserve | | 120,366 | 1 | 98,101 | 2 |
| 3350 | Unappropriated retained earnings | | 2,276,431 | 27 | 953,899 | 22 |
| | **Other equity interest** | 6(19) | | | | |
| 3400 | Other equity interest | | ( 172,771) | ( 2) | ( 135,143) | ( 3) |
| 3XXX | **Total equity** | | 5,723,886 | 67 | 3,386,078 | 77 |
| | **Significant contingent liabilities and unrecognised contract commitments** | 9 | | | | |
| | **Significant subsequent events** | 11 | | | | |
| 3X2X | **Total liabilities and equity** | | $ 8,601,428 | 100 | $ 4,397,735 | 100 |

The accompanying notes are an integral part of these parent company only financial statements.

TCI CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings per share)

| | | | Years ended December 31 | | | |
|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | |
| | Items | Notes | AMOUNT | % | AMOUNT | % |
| 4000 | **Sales revenue** | 6(20) and 7 | $ 5,090,620 | 100 | $ 2,395,952 | 100 |
| 5000 | **Operating costs** | 6(4)(14)(24)(25) and 7 | ( 3,730,344) | ( 73) | ( 1,745,085) | ( 73) |
| 5900 | **Net operating margin** | | 1,360,276 | 27 | 650,867 | 27 |
| 5910 | Unrealized profit from sales | 6(5) | ( 185,417) | ( 4) | ( 26,222) | ( 1) |
| 5920 | Realized profit on from sales | 6(5) | 26,222 | - | 13,420 | 1 |
| 5950 | **Net operating margin** | | 1,201,081 | 23 | 638,065 | 27 |
| | **Operating expenses** | 6(14)(24)(25) | | | | |
| 6100 | Selling expenses | | ( 279,953) | ( 6) | ( 168,729) | ( 7) |
| 6200 | General and administrative expenses | | ( 351,638) | ( 7) | ( 237,725) | ( 10) |
| 6300 | Research and development expenses | | ( 329,232) | ( 6) | ( 162,718) | ( 7) |
| 6450 | Impairment loss determined in accordance with IFRS 9 | | ( 16,630) | - | - | - |
| 6000 | **Total operating expenses** | | ( 977,453) | ( 19) | ( 569,172) | ( 24) |
| 6900 | **Operating profit** | | 223,628 | 4 | 68,893 | 3 |
| | **Non-operating income and expenses** | | | | | |
| 7010 | Other income | 6(21) and 7 | 130,747 | 2 | 60,055 | 3 |
| 7020 | Other gains and losses | 6(22) | 37,207 | 1 | ( 14,269) | ( 1) |
| 7050 | Finance costs | 6(23) | ( 4,593) | - | ( 2,586) | - |
| 7070 | Share of profit of associates and joint ventures accounted for using equity method, net | 6(5) | 1,520,216 | 30 | 627,306 | 26 |
| 7000 | **Total non-operating income and expenses** | | 1,683,577 | 33 | 670,506 | 28 |
| 7900 | **Profit before income tax** | | 1,907,205 | 37 | 739,399 | 31 |
| 7950 | Income tax expense | 6(26) | ( 112,306) | ( 2) | ( 27,173) | ( 1) |
| 8200 | **Profit for the year** | | $ 1,794,899 | 35 | $ 712,226 | 30 |
| | **Other comprehensive income** | | | | | |
| | **Components of other comprehensive income that will not be reclassified to profit or loss** | | | | | |
| 8316 | Unrealised gains (losses) from investments in equity instruments measured at fair value through other comprehensive income | 6(2)(19) | ($ 631) | - | $ - | - |
| | **Components of other comprehensive income that will be reclassified to profit or loss** | | | | | |
| 8361 | Financial statements translation differences of foreign operations | 6(5)(19) | ( 64,509) | ( 1) | ( 12,657) | ( 1) |
| 8362 | Unrealized loss on valuation of available-for-sale financial assets | | - | - | ( 9,607) | - |
| 8300 | **Other comprehensive loss for the year** | | ($ 65,140) | ( 1) | ($ 22,264) | ( 1) |
| 8500 | **Total comprehensive income for the year** | | $ 1,729,759 | 34 | $ 689,962 | 29 |
| | **Earnings per share (In dollars)** | | | | | |
| 9750 | **Basic earnings per share** | 6(27) | $ 17.79 | | $ 7.15 | |
| 9850 | **Diluted earnings per share** | 6(27) | $ 17.32 | | $ 7.07 | |

The accompanying notes are an integral part of these parent company only financial statements.

TCI CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | | Share capital | | | Retained earnings | | | Other equity interest | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital - common stock | Advance receipts for share capital | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Financial statements translation differences of foreign operations | Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income | Unrealised gain or loss on available-for-sale financial assets | Other equity - others | Total |
| 2017 | | | | | | | | | | | | |
| Balance at January 1, 2017 | | $ 754,470 | $ 1,743 | $ 1,400,258 | $ 94,065 | $ 3,859 | $ 652,215 | ($ 79,604 ) | $ - | ($ 14,768 ) | ($ 50,392 ) | $ 2,761,846 |
| Profit for the year | | - | - | - | - | - | 712,226 | - | - | - | - | 712,226 |
| Other comprehensive loss for the year | 6(19) | - | - | - | - | - | - | ( 12,657 ) | - | ( 9,607 ) | - | ( 22,264 ) |
| Total comprehensive income (loss) | | - | - | - | - | - | 712,226 | ( 12,657 ) | - | ( 9,607 ) | - | 689,962 |
| Appropriations of 2016 earnings (Note 1) | | | | | | | | | | | | |
| Legal reserve | | - | - | - | 51,625 | - | ( 51,625 ) | - | - | - | - | - |
| Special reserve | | - | - | - | - | 94,242 | ( 94,242 ) | - | - | - | - | - |
| Stock dividends | | 113,432 | - | - | - | - | ( 113,432 ) | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | ( 151,243 ) | - | - | - | - | ( 151,243 ) |
| Exercise of employee stock purchase plans | 6(15)(16) | 2,190 | ( 1,730 ) | 1,196 | - | - | - | - | - | - | - | 1,656 |
| Conversion of convertible bonds into shares | 6(12)(16) | 25 | ( 13 ) | 84 | - | - | - | - | - | - | - | 96 |
| Changes in ownership interests in subsidiaries | 6(5) | - | - | 1,434 | - | - | - | - | - | - | - | 1,434 |
| Changes in equity of associates and joint ventures accounted for using equity method | 6(5) | - | - | 734 | - | - | - | - | - | - | - | 734 |
| Share-based payments | 6(15)(19)(25) | - | - | 49,708 | - | - | - | - | - | - | 31,885 | 81,593 |
| Balance at December 31, 2017 | | $ 870,117 | $ - | $ 1,453,414 | $ 145,690 | $ 98,101 | $ 953,899 | ($ 92,261 ) | $ - | ($ 24,375 ) | ($ 18,507 ) | $ 3,386,078 |
| 2018 | | | | | | | | | | | | |
| Balance at January 1, 2018 | | $ 870,117 | $ - | $ 1,453,414 | $ 145,690 | $ 98,101 | $ 953,899 | ($ 92,261 ) | $ - | ($ 24,375 ) | ($ 18,507 ) | $ 3,386,078 |
| Effect of retrospective application | 12(4) | - | - | - | - | - | - | - | ( 24,375 ) | 24,375 | - | - |
| Balance at 1 January after adjustments | | 870,117 | - | 1,453,414 | 145,690 | 98,101 | 953,899 | ( 92,261 ) | ( 24,375 ) | - | ( 18,507 ) | 3,386,078 |
| Profit for the year | | - | - | - | - | - | 1,794,899 | - | - | - | - | 1,794,899 |
| Other comprehensive loss for the year | 6(19) | - | - | - | - | - | - | ( 64,509 ) | ( 631 ) | - | - | ( 65,140 ) |
| Total comprehensive income (loss) | | - | - | - | - | - | 1,794,899 | ( 64,509 ) | ( 631 ) | - | - | 1,729,759 |
| Appropriations of 2017 earnings (Note 2) | | | | | | | | | | | | |
| Legal reserve | | - | - | - | 71,223 | - | ( 71,223 ) | - | - | - | - | - |
| Special reserve | | - | - | - | - | 22,265 | ( 22,265 ) | - | - | - | - | - |
| Stock dividends | | 130,518 | - | - | - | - | ( 130,518 ) | - | - | - | - | - |
| Cash dividends | | - | - | - | - | - | ( 234,931 ) | - | - | - | - | ( 234,931 ) |
| Exercise of employee stock purchase plans | 6(15)(16) | 5,260 | 420 | 38,036 | - | - | - | - | - | - | - | 43,716 |
| Issuance of convertible bonds | 6(12) | - | - | 24,360 | - | - | - | - | - | - | - | 24,360 |
| Conversion of convertible bonds into shares | 6(12)(16) | 16,426 | 3,335 | 668,893 | - | - | - | - | - | - | - | 688,654 |
| Share-based payments | 6(15)(19)(25) | - | - | 72,168 | - | - | - | - | - | - | 14,082 | 86,250 |
| Disposal of investment in equity instrument at fair value through other comprehensive income | 6(19) | - | - | - | - | - | ( 13,430 ) | - | 13,430 | - | - | - |
| Balance at December 31, 2018 | | $ 1,022,321 | $ 3,755 | $ 2,256,871 | $ 216,913 | $ 120,366 | $ 2,276,431 | ($ 156,770 ) | ($ 11,576 ) | $ - | ($ 4,425 ) | $ 5,723,886 |

Note 1: The directors' and supervisors' remuneration amounting to $2,500 and employees' bonus amounting to $27,522 have been deducted from total comprehensive income.
Note 2: The directors' and supervisors' remuneration amounting to $2,100 and employees' bonus amounting to $58,000 have been deducted from total comprehensive income.

The accompanying notes are an integral part of these parent company only financial statements.

TCI CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | $ 1,907,205 | $ 739,399 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Impairment loss determined in accordance with IFRS 9 | 6(3) | 16,630 | - |
| Gains on doubtful debt recoveries | 6(21) | - | ( 318 ) |
| Net loss on financial assets or liabilities at fair value through profit or loss | 6(9)(22) | 386 | 34 |
| Gain on disposal of property, plant and equipment | 6(22) | ( 37,161 ) | ( 286 ) |
| Share of profit of subsidiaries accounted for under equity method | 6(5) | ( 1,520,216 ) | ( 627,306 ) |
| Unrealized profit from sales | 6(5) | 159,195 | 12,802 |
| Depreciation | 6(6)(24) | 125,795 | 67,732 |
| Amortisation | 6(7)(24) | 13,339 | 7,375 |
| Interest income | 6(21) | ( 1,479 ) | ( 1,355 ) |
| Dividend income | 6(21) | - | ( 1 ) |
| Interest expense | 6(23) | 4,593 | 2,586 |
| Compensation cost arising from employee stock options | 6(15)(25) | 86,250 | 81,593 |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Accounts receivable | | ( 22,818 ) | ( 43,150 ) |
| Accounts receivable - related parties | 7 | ( 618,731 ) | ( 21,363 ) |
| Notes receivable | | 1,773 | ( 3,003 ) |
| Other receivables | | ( 21,187 ) | 3,062 |
| Other receivables - related parties | 7 | ( 10,694 ) | ( 938 ) |
| Inventories | | ( 225,184 ) | ( 92,202 ) |
| Prepayments | | ( 106,765 ) | ( 20,159 ) |
| Other current assets | | ( 21,604 ) | ( 152 ) |
| Changes in operating liabilities | | | |
| Notes payable | | 249,636 | ( 5,782 ) |
| Accounts payable | | 664,867 | 116,717 |
| Accounts payable - related parties | 7 | 51,426 | 12,524 |
| Other payables | | 380,656 | 93,624 |
| Other payables - related parties | 7 | 14,218 | 6,220 |
| Other current liabilities | | ( 16,809 ) | 28,203 |
| Cash inflow generated from operations | | 1,073,321 | 355,856 |
| Interest received | | 1,238 | 1,491 |
| Dividends received | | - | 1 |
| Interest paid | | ( 1,404 ) | ( 2,528 ) |
| Income tax paid | | ( 29,314 ) | ( 6,773 ) |
| Net cash flows from operating activities | | 1,043,841 | 348,047 |

(Continued)

TCI CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of non-current financial assets at fair value through other comprehensive income | | ($ 22,000 ) | $ - |
| Proceeds from disposal of non-current financial assets at fair value through other comprehensive income | 6(2) | 2,054 | - |
| Acquisition of investments accounted for under equity method | 6(5) | ( 54,582 ) | - |
| Earnings distribution of investments accounted for using equity method | 6(5) | - | 261,180 |
| Acquisition of property, plant and equipment | 6(29) | ( 1,398 ) | ( 17,577 ) |
| Proceeds from disposal of property, plant and equipment | | 99,368 | 286 |
| Acquisition of intangible assets | 6(7) | ( 11,538 ) | ( 5,232 ) |
| Increase in prepayments for purchase of equipment | | ( 875,394 ) | ( 531,904 ) |
| Increase in refundable deposits | | ( 12,051 ) | ( 7,617 ) |
| Decrease in other non-current assets | | 11,444 | 2,498 |
| Net cash flows used in investing activities | | ( 864,097 ) | ( 298,366 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of short-term borrowings | | - | ( 98,952 ) |
| Repayment of long-term borrowings | | ( 139,044 ) | - |
| Proceeds from issuance of convertible bonds, net | 6(12) | 1,200,000 | - |
| Cash dividends paid | | ( 234,931 ) | ( 151,243 ) |
| Employee stock options | | 43,716 | 1,656 |
| Net cash flows from (used in) financing activities | | 869,741 | ( 248,539 ) |
| Net increase (decrease) in cash and cash equivalents | | 1,049,485 | ( 198,858 ) |
| Cash and cash equivalents at beginning of year | 6(1) | 374,838 | 573,696 |
| Cash and cash equivalents at end of year | 6(1) | $ 1,424,323 | $ 374,838 |

The accompanying notes are an integral part of these parent company only financial statements.

TCI CO., LTD.

NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

TCI Co., Ltd. (the "Company") was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company is primarily engaged in manufacturing, wholesale and retail of health food and cosmetics.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These parent company only financial statements were authorised for issuance by the Board of Directors on February 20, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendments 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 |
| 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 |
| Amendments to IAS 7, 'Disclosure initiative' | January 1, 2017 |
| Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised 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 |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities' | January 1, 2017 |
| Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures' | January 1, 2018 |

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

A. IFRS 9, ‘Financial instruments’

(a) Classification of debt instruments is driven by the entity’s business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.

(b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity’s risk management strategy. Risk components of non-financial items and a Company of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of ‘rebalancing’; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

(d) The Company has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Notes 12(4)B and C.

B. IFRS 15, ‘Revenue from contracts with customers’ and amendments

(a) IFRS 15, ‘Revenue from contracts with customers’ replaces IAS 11, ‘Construction contracts’, IAS 18, ‘Revenue’ and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

(b) The Company has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Presentation of assets and liabilities in relation to contracts with customers

Under IFRS 15, liabilities in relation to contracts are recognised as contractliabilities, but were previously presented as advance sales receipts (shown as ‘othercurrent liabilities’) in the balance sheet. As of January 1, 2018, the balance would amount to $60,510.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
| --- | --- |
| Amendments to IFRS 9, ‘Prepayment features with negative compensation’ | January 1, 2019 |
| IFRS 16, ‘Leases’ | January 1, 2019 |
| Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’ | January 1, 2019 |
| Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’ | January 1, 2019 |
| IFRIC 23, ‘Uncertainty over income tax treatments’ | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

Except for the following, the above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

A. IFRS 16, ‘Leases’

IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Company expects to recognise the lease contract of lessees in line with IFRS 16. However, the Company does not intend to restate the financial statements of prior period (collectively referred herein as the “modified retrospective approach”). On January 1, 2019, it is expected that ‘right-of-use asset’ and lease liability will both be increased by $46,180.

B. Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’.

The amendment clarifies that, for any long-term interest that, in substance, form part of the entity's net investment in an associate or joint venture, an entity should apply IFRS 9 to such interests before it applies IAS 28 to recognise losses.

C. IFRIC 23, ‘Uncertainty over income tax treatments’

This Interpretation clarifies when there is uncertainty over income tax treatments, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 , ‘Income taxes’ based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

D. Annual improvements to IFRSs 2015-2017 cycle

(a) Amendments to IAS 12, ‘Income taxes’

The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends.

(b) Amendments to IAS 23, ‘Borrowing costs’

The amendments clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|---|
| Amendment to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’ | January 1, 2020 |
| Amendments to IFRS 3, ‘Definition of a business’ | January 1, 2020 |
| 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 International Accounting Standards Board |
| IFRS 17, ‘Insurance contracts’ | January 1, 2021 |

Except for the following, the above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

A. Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'

The amendments clarify the definition of material that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these parent company only financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

These parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Statements by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, the parent company only financial statements have been prepared under the historical cost convention:

(a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(b) Financial assets and liabilities at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.

(c) Liabilities on cash-settled share-based payment arrangements measured at fair value.

(d) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The parent company only financial statements are presented in New Taiwan Dollars (NTD), which is the Company's functional and presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

(a) The operating results and financial position of all the Company entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognised in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Company retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

C. At initial recognition, the Compant measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

(7) Financial assets at fair value through other comprehensive income

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

(a) The objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:

(a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(8) Accounts and notes receivable

A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Company recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognises the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

The Company derecognises a financial asset when one of the following conditions is met:

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Company has not retained control of the financial asset.

(11) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Investments accounted for using equity method / subsidiary

A. Subsidiaries are all entities (including structured entity) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

B. Unrealized gains on transactions between the Company and its subsidiaries are eliminated to the extent of the Company's interest in the subsidiaries. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acqusition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company should continue to recognize losses in proportion to its ownership.

D. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transaction with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. 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.

E. When the Company loses control of a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if all the related assets or liabilities were disposed of. That is, other comprehensive income in relation to the subsidiary should be reclassified to profit or loss.

F. According to "Regulations Governing the Preparation of Financial Reports by Securities Issuers", profit and other comprehensive income in the separate financial statements should be the same as profit and other comprehensive income attributable to shareholders of the parent in the consolidated financial statements, and the equity in the separate financial statements should be the same as the equity attributable to shareholders of the parent in the consolidated financial statements.

(13) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings and structures | 3 ~ 50 years |
| Machinery and equipment | 2 ~ 10 years |
| Office equipment | 1 ~ 16 years |
| Other | 1 ~ 10 years |

(14) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(15) Intangible assets

A. Trademarks and licences

Separately acquired trademarks and licences are stated at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are amortised on a straight-line basis over their estimated useful lives of 15 to 20 years.

B. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 10 years.

D. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

(16) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(17) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(18) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Financial liabilities at fair value through profit or loss

A. Financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

(a) Hybrid (combined) contracts; or

(b) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

B. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

(20) Convertible bonds payable

Convertible bonds issued by the Company contain conversion options (that is, the bondholders have the right to convert the bonds into the Company's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Company classifies the bonds payable upon issuance as a financial asset, a financial liability or an equity instrument in accordance with the contract terms. They are accounted for as follows:

A. The embedded call options and put options are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.

B. The host contracts of bonds are initially recognised at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortised in profit or loss as an adjustment to 'finance costs' over the period of circulation using the effective interest method.

C. The embedded conversion options which meet the definition of an equity instrument are initially recognised in 'capital surplus—share options' at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.

D. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.

E. When bondholders exercise conversion options, the liability component of the bonds (including bonds payable and 'financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and 'capital surplus—share options'.

(21) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

(22) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(24) Employee share-based payment

A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

B. Restricted stocks:

(a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.

(b) For restricted stocks where those stocks do not restrict distribution of dividends to employees but employees must return the dividends received if they resign during the vesting period, when the Company receives dividends from employees resigning during the vesting period, the Company credits related amounts that were previously debited from retained earnings, legal reserve or capital surplus at the date of dividends declared.

(c) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Company and the Company must refund their payments on the stocks, the Company recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'capital surplus – others'.

(25) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(26) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(27) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(28) Revenue recognition

A. The Company manufactures and sells health foods and cosmetics products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer who has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

B. The products are often sold with price break based on aggregate sales. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated price break. Accumulated experience is used to estimate and provide for the price break, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected price break payable to customers in relation to sales made until the end of the reporting period.

(29) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these separate financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Company's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2018, the carrying amount of inventories was $520,249.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash on hand and revolving funds | $ 2,028 | $ 1,610 |
| Checking accounts and demand deposits | 922,295 | 373,228 |
| Time deposits | 500,000 | - |
| | $ 1,424,323 | $ 374,838 |

A. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Company has no cash and cash equivalents pledged to others.

(2) Financial assets at fair value through other comprehensive income

| Items | December 31, 2018 |
|---|---|
| Non-current items: | |
| Equity instruments | |
| Listed stocks | $ 12,604 |
| Unlisted stocks | 22,540 |
| | 35,144 |
| Valuation adjustment | ( 11,576) |
| | $ 23,568 |

A. The Company has elected to classify equity investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $23,568 at December 31, 2018.

B. On August 30, 2018, the Company sold $2,054 of equity investments at fair value to its subsidiary, GENE & NEXT INC., and resulted in loss on disposal of $13,430 during the year ended December 31, 2018.

C. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Company was $23,568.

D. The Company's financial assets at fair value through other comprehensive income are not pledged to others as collateral.

E. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

F. Information on available-for-sale financial assets and financial assets at cost as of December 31, 2017 is provided in Note 12(4).

(3) Notes and accounts receivable

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Notes receivable | $ 2,980 | $ 4,753 |
| Less: Allowance for uncollectible accounts | - | - |
| | $ 2,980 | $ 4,753 |
| Accounts receivable | $ 223,450 | $ 200,632 |
| Less: Allowance for uncollectible accounts | ( 31,832) | ( 15,202) |
| | $ 191,618 | $ 185,430 |

A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Not past due | $ 150,375 | $ 172,599 |
| Up to 30 days | 44,223 | 15,012 |
| 31 to 90 days | - | 2,572 |
| Over 91 days | - | - |
| | $ 194,598 | $ 190,183 |

The above ageing analysis was based on past due date.

B. As at December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Company's notes and accounts receivable were $2,980 and $191,618, respectively.

C. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(4) Inventories

| | December 31, 2018 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 419,603 | ($ 34,175) | $ 385,428 |
| Work in progress | 64,063 | - | 64,063 |
| Finished goods | 107,104 | ( 36,346) | 70,758 |
| | $ 590,770 | ($ 70,521) | $ 520,249 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Cost | Allowance for valuation loss | Book value |
| Raw materials | $ 240,806 | ($ 24,175) | $ 216,631 |
| Work in progress | 50,316 | - | 50,316 |
| Finished goods | 39,464 | ( 11,346) | 28,118 |
| | $ 330,586 | ($ 35,521) | $ 295,065 |

A. The cost of inventories recognised as expense for the years ended December 31, 2018 and 2017, was $3,730,344 and $1,745,085, respectively, including the amounts of $35,000 and ($20,000), respectively, the Company wrote down from cost to net realisable value accounted for as cost of goods sold.

B. The Company reversed a previous inventory write-down which was accounted for as reduction of cost of goods sold as these inventories which had been written down from cost to its net realisable value were subsequently sold in 2017.

(5) Investments accounted for using equity method

| | 2018 | 2017 |
|---|---|---|
| At January 1 | $ 1,765,970 | $ 1,424,194 |
| Addition of investments accounted for using equity method | 54,582 | - |
| Share of profit or loss of investments accounted for using equity method | 1,520,216 | 627,306 |
| Earnings distribution of investments accounted for using equity method | - | ( 261,180) |
| Unrealized profit (loss) from sales | ( 185,417) | ( 26,222) |
| Realized profit (loss) from sales | 26,222 | 13,420 |
| Changes in capital surplus | - | 2,168 |
| Changes in other equity items | ( 64,509) | ( 12,657) |
| Other non-current liabilities | - | ( 1,059) |
| At December 31 | $ 3,117,064 | $ 1,765,970 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| TCI FIRSTEK CORP. | $ 1,773,480 | $ 1,225,704 |
| GENE & NEXT INC. | 71,196 | 50,760 |
| Shanghai BioFunction Co., Ltd. | 1,245,053 | 477,404 |
| TCI HK LIMITED | 14,113 | 12,102 |
| TCI BIOTECH | 8,222 | - |
| BioCosme Co., Ltd. | 5,000 | - |
| | $ 3,117,064 | $ 1,765,970 |

A. Information about the Company's subsidiaries is provided in Note 4(3) of the 2018 consolidated financial statements.

B. The Company's subsidiary, GENE & NEXT INC., issued new shares as employee exercised stock options in February 2017. Such transaction resulted to changes in interests in GENE & NEXT INC. on the equity attributable to owners of the parent. Information about this transaction is provided in Note 6(28) of the 2018 consolidated financial statements.

(6) Property, plant and equipment

| | Land | Buildings and structures | Machinery | Office equipment | Others | Total |
|---|---|---|---|---|---|---|
| At January 1, 2018 | | | | | | |
| Cost | $ 174,704 | $ 855,041 | $ 356,761 | $ 100,596 | $ 107,572 | $ 1,594,674 |
| Accumulated depreciation | - | ( 51,167) | ( 116,314) | ( 32,137) | ( 53,115) | ( 252,733) |
| | $ 174,704 | $ 803,874 | $ 240,447 | $ 68,459 | $ 54,457 | $ 1,341,941 |
| 2018 | | | | | | |
| At January 1 | $ 174,704 | $ 803,874 | $ 240,447 | $ 68,459 | $ 54,457 | $ 1,341,941 |
| Additions | - | 2,477 | 11,594 | 5,979 | 30,597 | 50,647 |
| Disposals | ( 15,403) | ( 46,804) | - | - | - | ( 62,207) |
| Reclassifications | - | 70,780 | 177,714 | 83,086 | 19,725 | 351,305 |
| Depreciation charge | - | ( 27,628) | ( 63,019) | ( 16,451) | ( 18,697) | ( 125,795) |
| At December 31 | $ 159,301 | $ 802,699 | $ 366,736 | $ 141,073 | $ 86,082 | $ 1,555,891 |
| At December 31, 2018 | | | | | | |
| Cost | $ 159,301 | $ 875,013 | $ 546,069 | $ 189,661 | $ 156,364 | $ 1,926,408 |
| Accumulated depreciation | - | ( 72,314) | ( 179,333) | ( 48,588) | ( 70,282) | ( 370,517) |
| | $ 159,301 | $ 802,699 | $ 366,736 | $ 141,073 | $ 86,082 | $ 1,555,891 |

| | Land | Buildings and structures | Machinery | Office equipment | Others | Total |
|---|---|---|---|---|---|---|
| At January 1, 2017 | | | | | | |
| Cost | $ 174,704 | $ 566,488 | $ 220,484 | $ 76,342 | $ 80,094 | $ 1,118,112 |
| Accumulated depreciation | - | ( 37,141) | ( 82,545) | ( 23,864) | ( 43,331) | ( 186,881) |
| | $ 174,704 | $ 529,347 | $ 137,939 | $ 52,478 | $ 36,763 | $ 931,231 |
| 2017 | | | | | | |
| At January 1 | $ 174,704 | $ 529,347 | $ 137,939 | $ 52,478 | $ 36,763 | $ 931,231 |
| Additions | - | 5,206 | 9,733 | 2,424 | 8,924 | 26,287 |
| Reclassifications | - | 283,347 | 126,544 | 21,830 | 20,434 | 452,155 |
| Depreciation charge | - | ( 14,026) | ( 33,769) | ( 8,273) | ( 11,664) | ( 67,732) |
| At December 31 | $ 174,704 | $ 803,874 | $ 240,447 | $ 68,459 | $ 54,457 | $ 1,341,941 |
| At December 31, 2017 | | | | | | |
| Cost | $ 174,704 | $ 855,041 | $ 356,761 | $ 100,596 | $ 107,572 | $ 1,594,674 |
| Accumulated depreciation | - | ( 51,167) | ( 116,314) | ( 32,137) | ( 53,115) | ( 252,733) |
| | $ 174,704 | $ 803,874 | $ 240,447 | $ 68,459 | $ 54,457 | $ 1,341,941 |

Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(7) Intangible assets

| | Trademarks and licences | Software | Royalty | Total |
|---|---|---|---|---|
| At January 1, 2018 | | | | |
| Cost | $ 238 | $ 24,835 | $ 5,322 | $ 30,395 |
| Accumulated amortisation | ( 238) | ( 8,380) | ( 4,022) | ( 12,640) |
| | $ - | $ 16,455 | $ 1,300 | $ 17,755 |
| 2018 | | | | |
| At January 1 | $ - | $ 16,455 | $ 1,300 | $ 17,755 |
| Additions－acquired separately | - | 11,388 | 150 | 11,538 |
| Amortisation charge | - | ( 13,177) | ( 162) | ( 13,339) |
| At December 31 | $ - | $ 14,666 | $ 1,288 | $ 15,954 |
| At December 31, 2018 | | | | |
| Cost | $ - | $ 33,552 | $ 1,650 | $ 35,202 |
| Accumulated amortisation | - | ( 18,886) | ( 362) | ( 19,248) |
| | $ - | $ 14,666 | $ 1,288 | $ 15,954 |

| | Trademarks and licences | Software | Royalty | Total |
|---|---|---|---|---|
| At January 1, 2017 | | | | |
| Cost | $ 238 | $ 23,679 | $ 3,822 | $ 27,739 |
| Accumulated amortisation | ( 214) | ( 4,924) | ( 2,703) | ( 7,841) |
| | $ 24 | $ 18,755 | $ 1,119 | $ 19,898 |
| 2017 | | | | |
| At January 1 | $ 24 | $ 18,755 | $ 1,119 | $ 19,898 |
| Additions－acquired separately | - | 3,732 | 1,500 | 5,232 |
| Amortisation charge | ( 24) | ( 6,032) | ( 1,319) | ( 7,375) |
| At December 31 | $ - | $ 16,455 | $ 1,300 | $ 17,755 |
| At December 31, 2017 | | | | |
| Cost | $ - | $ 24,835 | $ 5,322 | $ 30,157 |
| Accumulated amortisation | - | ( 8,380) | ( 4,022) | ( 12,402) |
| | $ - | $ 16,455 | $ 1,300 | $ 17,755 |

Details of amortisation on intangible assets are as follows:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Overhead | $ 94 | $ 517 |
| Administrative expenses | 13,095 | 6,039 |
| Research and development expenses | 150 | 819 |
| | $ 13,339 | $ 7,375 |

(8) Other non-current assets

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Prepayments for purchase of equipment | $ 735,846 | $ 223,201 |
| Refundable deposits | 21,914 | 9,863 |
| | $ 757,760 | $ 233,064 |

(9) Financial liabilities at fair value through profit or loss

| Items | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Current items: | | |
| Financial liabilities held for trading | | |
| Call and put option of corporate bonds | ($ 301) | $ 19 |
| Valuation adjustment | 386 | ( 21) |
| | $ 85 | ($ 2) |

Amounts recognised in net loss in relation to financial liabilities at fair value through profit or loss are $386 and $34 for the years ended December 31, 2018 and 2017, respectively.

(10) Other payables

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Wages and salaries payable | $ 234,054 | $ 125,132 |
| Employee bonus payable | 191,662 | 74,207 |
| Payable on machinery and equipment | 58,370 | 9,121 |
| Other expense payables | 106,586 | 68,699 |
| Other payables | 16 | 37 |
| | $ 590,688 | $ 277,196 |

(11) Other current liabilities

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Advance sales receipts | $ - | $ 60,510 |
| Other current liabilities | 58,364 | 14,663 |
| | $ 58,364 | $ 75,173 |

(12) Bonds payable

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Bonds payable | $ 502,500 | $ 4,000 |
| Less: Discount on bonds payable | ( 8,054) | ( 49) |
| | 494,446 | 3,951 |
| Less: Current portion or exercise of put options | - | ( 3,951) |
| | $ 494,446 | $ - |

A. The issuance of first domestic convertible bonds by the Company in the year 2015:

(a) The terms of the first domestic unsecured convertible bonds issued are as follows:

i. The Company issued $500,000, 0% first domestic unsecured convertible bonds, as approved by the regulatory authority. The bonds mature 3 years from the issue date (October 16, 2015 ~ October 16, 2018) and will be redeemed in cash at face value at the maturity date. The bonds were listed on the Taipei Exchange on October 16, 2015.

ii. The bondholders have the right to ask for conversion of the bonds into common shares of the Company during the period from the date after one month of the bonds issue to 10 days before the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws/regulations. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.

iii. The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occurs subsequently. The conversion price will be reset based on the pricing model in the terms of the bonds on each effective date regulated by the terms. If the reset conversion price is higher than the conversion price before the reset, the conversion price will not be adjusted; however, the reset conversion price shall not be less than 80% of the conversion price set on the issue date.

iv. The bondholders have the right to require the Company to redeem any bonds at the price of the bonds' face value plus 1.0025% of the face value as interests upon two years from the issue date.

v. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after one month of the bonds issue to 40 days before the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after one months of the bonds issue to 40 days before the maturity date.

vi. Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.

(b) As of December 31, 2018, the bonds totaling $4,000 (face value) had been converted into 58 thousand shares of common stock.

(c) Regarding the issuance of convertible bonds, the equity conversion options amounting to $25,033 were separated from the liability component and were recognised in 'capital surplus—share options' in accordance with IAS 32. The call options and put options embedded in bonds payable were separated from their host contracts and were recognised in 'financial assets at fair value through profit or loss' in net amount of $2,350 in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 2.0781%.

B. The issuance of second domestic convertible bonds by the Company in the year 2018:

(a) The terms of the second domestic unsecured convertible bonds issued are as follows:

i. The Company issued $1,200,000, 0% second domestic unsecured convertible bonds, as approved by the regulatory authority. The bonds mature 3 years from the issue date (June 8, 2018 ~ June 8, 2021) and will be redeemed in cash at face value at the maturity date. The bonds were listed on the Taipei Exchange on June 8, 2018.

ii. The bondholders have the right to ask for conversion of the bonds into common shares of the Company during the period from the date after three months of the bonds issue before the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws/regulations. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.

iii. The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and is subject to adjustments if the condition of the anti-dilution provisions occurs subsequently. The conversion price will be reset based on the pricing model in the terms of the bonds on each effective date regulated by the terms. If the reset conversion price is higher than the conversion price before the reset, the conversion price will not be adjusted; however, the reset conversion price shall not be less than 80% of the conversion price set on the issue date.

iv. The bondholders have the right to require the Company to redeem any bonds at the price of the bonds' face value plus 1.015075% of the face value as interests upon two years from the issue date.

v. The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after three months of the bonds issue to 40 days before the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after three months of the bonds issue to 40 days before the maturity date.

vi. Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.

(b) As of December 31, 2018, the bonds totaling $697,500 (face value) had been converted into 1,918 thousand shares of common stock. Since the registration of certain shares is in process, the corresponding capital stock was recognised as "3140 advance receipts for ordinary share".

(c) Regarding the issuance of convertible bonds, the equity conversion options amounting to $24,360 were separated from the liability component and were recognised in 'capital surplus—share options' in accordance with IAS 32. The call options and put options embedded in bonds payable were separated from their host contracts and were recognised in 'financial assets at fair value through profit or loss' in net amount of $720 in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 0.6654%.

(13) Long-term borrowings

| Type of borrowings | Borrowing period and repayment term | Interest rate | Collateral | December 31, 2017 |
| --- | --- | --- | --- | --- |
| Installment-repayment borrowings | | | | |
| Cathay United Bank secured borrowings | Borrowing period is from October 25, 2016 to September 25, 2121; principal and interest are repayable monthly in installments from November 2018. | 1.65% | Land and buildings and structures for pledges | $ 139,044 |
| Less: Current portion | | | | ( 1,106) |
| | | | | $ 137,938 |

A. As of December 31, 2018, the Company has no long-term borrowings. Long-term borrowings in 2017 was settled in advance.

B. As of December 31, 2018 and 2017, the Company has undrawn borrowing facilities of $884,344 and $1,213,123, respectively.

(14) Pensions

A. Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

B. The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were $16,969 and $13,666, respectively.

(15) Share-based payment

A. For the years ended December 31, 2018 and 2017, the Company's share-based payment arrangements were as follows:

| Type of arrangement | Grant date | Quantity granted | Contract period | Vesting conditions |
|---|---|---|---|---|
| Employee stock options | 2016.07.01 | 2,000 | 6 years | Employees with 2 service years are entitled to 30%<br>Employees with 3 service years are entitled to 60%<br>Employees with 4 service years are entitled to 100% |
| Restricted stocks to employees | 2016.08.05 | 600 | 3 years | Employees with 1 service years are entitled to 33%<br>Employees with 2 service years are entitled to 66%<br>Employees with 3 service years are entitled to 100%<br>Operating revenue growth rate 30% (year)<br>Maintaining profit rate after tax above 10%<br>Earnings per share exceeds \$3.0 (including \$3.0) |
| Employee stock options | 2018.05.15 | 2,000 | 6 years | Employees with 2 service years are entitled to 40%<br>Employees with 3 service years are entitled to 80%<br>Employees with 4 service years are entitled to 100% |

The restricted stocks issued by the Company cannot be transferred during the vesting period, but voting right and dividend right are not restricted on these stocks. Employees are required to return the stocks but not required to return the dividends received if they resign during the vesting period. The share-based payment arrangements above are settled by equity.

B. Details of the share-based payment arrangements are as follows:

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | No. of options | Weighted-average exercise price (in dollars) | No. of options | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | 2,000 | $ 100 | 2,000 | $ 100 |
| Options expired | ( 169) | 100 | | |
| Options exercised | ( 568) | 100 | - | - |
| Options outstanding at the end of the year | 1,263 | $ 100 | 2,000 | $ 100 |
| Options exercisable at the end of the year | 17 | $ 100 | - | $ - |

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | No. of options | Weighted-average exercise price (in dollars) | No. of options | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | - | $ - | - | $ - |
| Options granted | 2,000 | 448 | - | - |
| Options outstanding at the end of the year | 2,000 | $ 448 | - | - |
| Options exercisable at the end of the year | - | $ - | - | $ - |

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2018 and 2017 was $436.02 and $175.5, respectively.

D. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

| | | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|---|
| Issue date approved | Expiry date | No. of shares (in thousands) | Exercise price (in dollars) | No. of shares (in thousands) | Exercise price (in dollars) |
| 2016.07.01 | 2022.06.30 | 1,263 | $ 100 | 2,000 | $ 100 |
| 2018.05.15 | 2024.05.14 | 2,000 | 448 | - | - |

E. The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

| Type of arrangement | Grant date (in dollars) | Stock price (in dollars) | Exercise price | Expected price volatility (%) | Expected option life (year) | Expected dividends | Risk-free interest rate(%) | Fair value per unit (in dollars) |
|---|---|---|---|---|---|---|---|---|
| Employee stock options | 2016.07.01 | $ 145.50 | $ 100 | 41.92~ 44.63 | 3.50 | - | 0.605~ 0.719 | $ 72.32~ 82.12 |
| Restricted stocks to employee | 2016.08.05 | $ 139.00 | $ 10 | 32.73 | 1.00 | - | 0.52% | $ 111.65 |
| Employee stock options | 2018.05.15 | $ 440.00 | $ 448 | 26.10~ 30.25 | 5.50 | - | 0.5636~ 0.6814 | $ 63.16~ 106.15 |

Note: Expected price volatility rate was estimated by using the stock prices of the most recent period with length of this period approximate to the length of the stock options' expected life, and the standard deviation of return on the stock during this period.

F. Expenses incurred on share-based payment transactions are shown below:

| | Years ended December 31, 2018 | 2017 |
|---|---|---|
| Equity-settled | $ 86,250 | $ 81,593 |

(16) Share capital

As of December 31, 2018, the Company's authorised capital was $2,000,000, and the paid-in capital was $1,022,321, with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

| | 2018 Private placement of ordinary share | Unrestricted shares | Total |
|---|---|---|---|
| At January 1 | $ 4,600 | $ 82,412 | $ 87,012 |
| Private placement of ordinary share publicly issued | ( 4,600) | 4,600 | - |
| Stock dividends | - | 13,052 | 13,052 |
| Employee stock options exercised | - | 526 | 526 |
| Conversion of corporate bonds | - | 1,642 | 1,642 |
| At December 31 | $ - | $ 102,232 | $ 102,232 |

| | 2017 | | |
|---|---|---|---|
| | Private placement of ordinary share | Unrestricted shares | Total |
| At January 1 | $ 4,600 | $ 70,847 | $ 75,447 |
| Stock dividends | - | 11,343 | 11,343 |
| Employee stock options exercised | - | 219 | 219 |
| Conversion of corporate bonds | - | 3 | 3 |
| At December 31 | $ 4,600 | $ 82,412 | $ 87,012 |

(17) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(18) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder, if any, to be retained or to be appropriated shall be resolved by the stockholders at the stockholders' meeting.

B. The Company's dividend policy is summarised below: as the Company operates in a volatile business environment and is in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed. However, if the Company has sufficient retained earnings and capital, the Company may increase cash dividends in proportion to total dividends.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. Special reserve

(a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

E. On May 18, 2018, the stockholders approved the distribution of dividends from the 2017 earnings in the amount of $365,449, with cash dividends of $2.7 (in dollars) and stock dividends of $1.5 (in dollars) per share. On February 20, 2019, the Board of Directors proposed for the distribution of dividends from the 2018 earnings in the amount of $872,164, with cash dividends of $7 (in dollars) and stock dividends of $1.5 (in dollars) per share.

F. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(25).

(19) Other equity items

| | 2018 | | | |
|---|---|---|---|---|
| | Unrealized gains (losses) on valuation | Currency translation | Unearned employee compensation | Total |
| At January 1 | ($ 24,375) | ($ 92,261) | ($ 18,507) | ($ 135,143) |
| Revaluation – gross | ( 631) | - | - | ( 631) |
| Revaluation transferred to retained earnings– gross | 13,430 | - | - | 13,430 |
| Currency translation differences | - | ( 64,509) | - | ( 64,509) |
| Compensation cost of share–based payments | - | - | 14,082 | 14,082 |
| At December 31 | ($ 11,576) | ($ 156,770) | ($ 4,425) | ($ 172,771) |

| | 2017 | | | |
|---|---|---|---|---|
| | Unrealized gains (losses) on valuation | Currency translation | Unearned employee compensation | Total |
| At January 1 | ($ 14,768) | ($ 79,604) | ($ 50,392) | ($ 144,764) |
| Revaluation – gross | ( 9,607) | - | - | ( 9,607) |
| Currency translation differences | - | ( 12,657) | - | ( 12,657) |
| Compensation cost of share–based payments | - | - | 31,885 | 31,885 |
| At December 31 | ($ 24,375) | ($ 92,261) | ($ 18,507) | ($ 135,143) |

Amounts that the Company recognised in other comprehensive income due to the change in fair value are ($631) and ($9,607) for the years ended December 31, 2018 and 2017, respectively. Amount that the Company transferred from other equity to profit and loss is $0.

(20) Operating revenue

| | Year ended December 31, 2018 |
|---|---|
| Revenue from contracts with customers | $ 5,090,620 |

A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services at a point in time in the following major geographical regions:

| 2018 | Europe and America region | Asia Pacific region | Total |
|---|---|---|---|
| Timing of revenue | | | |
| At a point in time | $ 334,783 | $ 4,755,837 | $ 5,090,620 |

B. Contract assets and liabilities

As of December 31, 2018, the Company has not recognized any revenue-related contract assets, while the Company has recognized contract liabilities below:

| | December 31, 2018 |
|---|---|
| Contract liabilities – advance sales receipts | $ 116,392 |

(a) Significant changes in contract assets and liabilities: None.

(b) Revenue recognised that was included in the contract liability balance at the beginning of the period:

| | Year ended December 31, 2018 |
|---|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the period | |
| Advance sales receipts | $ 60,510 |

C. Related disclosures for 2017 operating revenue are provided in Note 12(5) B.

(21) Other income

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Service income | $ 88,144 | $ 41,873 |
| Rent income | 2,286 | 1,714 |
| Interest income | 1,479 | 1,355 |
| Grant revenue | - | 2,624 |
| Gains on doubtful debt recoveries | - | 318 |
| Dividend income | - | 1 |
| Other income-others | 38,838 | 12,170 |
| | $ 130,747 | $ 60,055 |

(22) Other gains and losses

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Gains on disposal of property, plant and equipment | $ 37,161 | $ 286 |
| Gains (losses) on financial assets (liabilities) at fair value through profit or loss | ( 386) | ( 34) |
| Foreign exchange gains (losses) | 541 | ( 13,657) |
| Miscellaneous disbursements | ( 109) | ( 864) |
| | $ 37,207 | ($ 14,269) |

(23) Finance costs

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Interest expense | | |
| Bank borrowings | $ 1,383 | $ 2,504 |
| Convertible bonds | 3,210 | 82 |
| | $ 4,593 | $ 2,586 |

(24) Expenses by nature

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Employee benefit expense | $ 911,579 | $ 556,495 |
| Processing fee | 309,975 | 135,640 |
| Depreciation charges on property, plant and equipment | 125,795 | 67,732 |
| Operating lease payments | 29,953 | 16,685 |
| Amortisation charges on intangible assets | 13,339 | 7,375 |
| | $ 1,390,641 | $ 783,927 |

(25) Employee benefit expense

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Wages and salaries | $ 738,196 | $ 415,188 |
| Employee stock options (Note) | 86,250 | 81,593 |
| Labour and health insurance fees | 36,774 | 28,242 |
| Pension costs | 16,969 | 13,666 |
| Other personnel expenses | 33,390 | 17,806 |
| | $ 911,579 | $ 556,495 |

Note: It was equity-settled.

A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 5%~15% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.

B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$150,000 and \$58,000, respectively; while directors' and supervisors' remuneration was accrued at \$3,150 and \$2,100, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 5%~15% and not be higher than 3% of distributable profit of current year for the year ended December 31, 2018. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$150,000 and \$3,150, respectively, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved by the Board of Directors were \$58,000 and \$2,100, respectively, and were in agreement with those amounts recognised in the 2017 financial statements.

C. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

Components of income tax expense:

| | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|
| Current tax: | | |
| Current tax on profits for the year | $ 117,633 | $ 19,590 |
| Tax on undistributed surplus earnings | 25,329 | 10,571 |
| Prior year income tax overestimation | 6,804 | ( 2,344) |
| Total current tax | 149,766 | 27,817 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | ( 35,323) | ( 644) |
| Impact of change in tax rate | ( 2,137) | - |
| Total deferred tax | ( 37,460) | ( 644) |
| Income tax expense | $ 112,306 | $ 27,173 |

B. Reconciliation between income tax expense and accounting profit:

| | Years ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Tax calculated based on profit before tax and statutory tax rate | $ 381,441 | $ 125,698 |
| Effect from items not recognised in accordance with tax regulation | ( 299,131) | ( 106,752) |
| Prior year income tax underestimation (overestimation) | 6,804 | ( 2,344) |
| Tax on undistributed earnings | 25,329 | 10,571 |
| Impact of change in tax rate | ( 2,137) | - |
| Income tax expense | $ 112,306 | $ 27,173 |

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

| | 2018 | | | |
|---|---|---|---|---|
| | January 1 | Recognised in profit or loss | Recognised in equity | December 31 |
| Temporary differences: | | | | |
| -Deferred tax assets: | | | | |
| Allowance for obsolescence and decline in market value of inventories | $ 6,039 | $ 8,065 | $ - | $ 14,104 |
| Unrealised exchange loss (gain) | 1,613 | ( 1,613) | - | - |
| Unrealised gross profit | 4,457 | 32,626 | - | 37,083 |
| | $ 12,109 | $ 39,078 | $ - | $ 51,187 |
| -Deferred tax liabilities: | | | | |
| Unrealised exchange loss (gain) | $ - | ($ 1,618) | $ - | ($ 1,618) |
| | $ - | ($ 1,618) | $ - | ($ 1,618) |
| | $ 12,109 | $ 37,460 | $ - | $ 49,569 |

| | 2017 | | | |
|---|---|---|---|---|
| | January 1 | Recognised in profit or loss | Recognised in equity | December 31 |
| Temporary differences: | | | | |
| -Deferred tax assets: | | | | |
| Allowance for obsolescence and decline in market value of inventories | $ 9,439 | ($ 3,400) | $ - | $ 6,039 |
| Unrealised exchange loss (gain) | - | 1,613 | - | 1,613 |
| Unrealised gross profit | 2,281 | 2,176 | - | 4,457 |
| | $ 11,720 | $ 389 | $ - | $ 12,109 |
| -Deferred tax liabilities: | | | | |
| Unrealised exchange loss (gain) | ($ 255) | $ 255 | $ - | $ - |
| | ($ 255) | $ 255 | $ - | $ - |
| | $ 11,465 | $ 644 | $ - | $ 12,109 |

D. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(27) Earnings per share

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to the parent | $ 1,794,899 | 100,885 | $ 17.79 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 1,794,899 | | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Convertible bonds | 6,443 | 1,382 | |
| Employee' stock option | - | 1,214 | |
| Employees' compensation | - | 317 | |
| Restricted stocks | - | 191 | |
| Shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 1,801,342 | 103,989 | $ 17.32 |

| | Year ended December 31, 2017 | | |
|---|---|---|---|
| | Amount after tax | Weighted average number of ordinary shares outstanding (shares in thousands) | Earnings per share (in dollars) |
| Basic earnings per share | | | |
| Profit attributable to the parent | $ 712,226 | 99,551 | $ 7.15 |
| Diluted earnings per share | | | |
| Profit attributable to ordinary shareholders of the parent | $ 712,226 | | |
| Assumed conversion of all dilutive potential ordinary shares | | | |
| Convertible bonds | 68 | 58 | |
| Employee' stock option | - | 623 | |
| Employees' compensation | - | 234 | |
| Restricted stocks | - | 299 | |
| Shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | $ 712,294 | 100,765 | $ 7.07 |

The weighted average circulation of shares has been retrospectively adjusted to the number of shares of the company's stock dividend in 2017.

(28) Operating leases

The Company leases land and plant under non-cancellable operating lease agreements. The lease terms are between 2 and 15 years. Some leases are charged extra rents following the changes of local price indexes. The Company recognised rental expenses of $29,953 and $16,685 for these leases in profit or loss for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Not later than one year | $ 12,973 | $ 7,734 |
| Later than one year but not later than five years | 32,971 | 18,847 |
| Later than five years | 1,106 | 5,154 |
| | $ 47,050 | $ 31,735 |

The present value of rent payable for more than five years are $837 and $3,874 for the years ended December 31, 2018 and 2017 respectively.

(29) Supplemental cash flow information

A. Investing activities with partial cash payments

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Purchase of property, plant and equipment | $ 50,647 | $ 26,287 |
| Add: Opening balance of payable on equipment | 9,121 | 411 |
| Less: Ending balance of payable on equipment | ( 58,370) | ( 9,121) |
| Cash paid during the year | $ 1,398 | $ 17,577 |

B. Financing activities with no cash flow effects

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Convertible bonds being converted to capital stocks | $ 688,654 | $ 96 |

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

| Names of related parties | Relationship with the Company |
|---|---|
| GENE & NEXT INC. (GENE & NEXT) | Subsidiary |
| Shanghai BioFunction Co., Ltd. (BioFunction) | Subsidiary |
| Shanghai BioScience Co., Ltd. (BioScience) | Subsidiary |
| Shanghai BioCosme Co., Ltd. (BioCosme) | Subsidiary |
| TCI BIOTECH LLC(TCI BIOTECH) | Subsidiary |
| TCI LIVING CO., LTD. (Former name is SBI CO., LTD.) | Other related party (The company was an institutional shareholder of TCI LIVING CO., LTD. before August 30, 2018. Now, it is the Company's subsidiary.) |

(2) Significant related party transactions

A. Operating revenue:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Sales of goods: | | |
| Subsidiary | | |
| BioFunction | $ 3,146,833 | $ 470,812 |
| Other | 565,486 | 511,615 |
| Other related parties | 15,549 | 19,364 |
| | $ 3,727,868 | $ 1,001,791 |

Goods are sold based on the price lists in force and terms that would be available to third parties.

B. Purchases:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Purchases of goods: | | |
| Subsidiary | $ 167,122 | $ 143,916 |

Goods are purchased from the related party on normal commercial terms and conditions.

C. Service and rent revenue:

| | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Service revenue: | | |
| Subsidiary | | |
| BioFunction | $ 58,206 | $ 18,102 |
| BioScience | 24,435 | 17,003 |
| Other | 5,503 | 6,768 |
| Rent revenue: | | |
| Subsidiary | | |
| Other | 2,286 | 1,714 |
| | $ 90,430 | $ 43,587 |

(a) Service revenue pertain to providing human resources and R&D services to subsidiaries.

(b) The lease terms and prices were both determined in accordance with mutual agreements.

D. Service expenses:

| | Year ended December 31, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| Purchases of services: | | | | |
| Subsidiary | | | | |
| GENE & NEXT | $ | 84,785 | $ | 51,770 |
| Other | | 143 | | 23 |
| | $ | 84,928 | $ | 51,793 |

Service expense pertain to human resources and other services provided by subsidiaries.

E. Receivables from related parties:

| | Year ended December 31, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| Accounts receivable: | | | | |
| Subsidiary | | | | |
| BioFunction | $ | 639,866 | $ | 76,973 |
| Other | | 73,596 | | 11,351 |
| Other related party | | - | | 6,407 |
| | | 713,462 | | 94,731 |
| Other receivables: | | | | |
| Subsidiary | | | | |
| BioFunction | $ | 13,317 | $ | 1,926 |
| TCI BIOTECH | | 6,043 | | - |
| Other | | 1,144 | | 7,884 |
| | | 20,504 | | 9,810 |
| | $ | 733,966 | $ | 104,541 |

The receivables from related parties arise mainly from sale transactions. The receivables are due 60-90 days after the date of sales. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

F. Payables to related parties:

| | Year ended December 31, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| Accounts payable: | | | | |
| Subsidiary | | | | |
| Other | $ | 91,918 | $ | 39,414 |
| Other related party | | - | | 1,078 |
| | $ | 91,918 | $ | 40,492 |

Payables to related parties are incurred from purchases and expired two months after the purchase date and do not have collateral nor bear interests.

G. Other payables to related parties:

| | Year ended December 31, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| Other payables: | | | | |
| Subsidiary | | | | |
| Other | $ | 32,257 | $ | 18,039 |

Other payables to related parties are incurred from services received.

(3) Key management compensation

| | Years ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Salaries and other short-term employee benefits | $ | 21,990 | $ | 27,299 |
| Share-based payments | | 39,004 | | 55,168 |
| | $ | 60,994 | $ | 82,467 |

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

| | Book value | | | | |
|---|---|---|---|---|---|
| Pledged asset | December 31, 2018 | | December 31, 2017 | | Purpose |
| Property, plant and equipment | $ | 410,222 | $ | 669,750 | Short-term and long-term borrowings |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A. Capital expenditures contracted for at the balance sheet date but not yet incurred are as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Property, plant and equipment | $ | 834,077 | $ | 391,609 |

B. Operating lease agreements

Please refer to Note 6(29).

C. As of December 31, 2018 and 2017, the Company's total unused letters of credit was $307,757 and $48,963, respectively.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

## 12. OTHERS

### (1) Capital management

The Company's objectives when managing capital are based on the Company's operating industrial scale, considering the future growth of the industry and product development, setting up appropriate market share, and planning corresponding capital expenditures. Then, determining the required working capital based on the financial operation plan. Finally, taking into consideration the operating income and cash flows that can be generated by the product competitiveness to decide the appropriate capital structure.

### (2) Financial instruments

A. Financial instruments by category

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Financial assets | | |
| Financial assets at fair value through other comprehensive income | | |
| Designation of equity instrument | $ 23,568 | $ - |
| Available-for-sale financial assets | | |
| Available-for-sale financial assets | $ - | $ 4,253 |
| Financial assets at amortised cost/Loans and receivables | | |
| Cash and cash equivalents | $ 1,424,323 | $ 374,838 |
| Notes receivable | 2,980 | 4,753 |
| Accounts receivable | 191,618 | 185,430 |
| Accounts receivable-related parties | 713,462 | 94,731 |
| Other receivables | 28,570 | 7,142 |
| Other receivables-related parties | 20,504 | 9,810 |
| Guarantee deposits paid | 21,914 | 9,863 |
| | $ 2,403,371 | $ 686,567 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Financial liabilities | | |
| Financial liabilities at fair value through profit or loss | | |
| Financial liabilities designated as at fair value through profit or loss | $ 85 | $ - |
| Financial liabilities at amortised cost | | |
| Notes payable | $ 252,318 | $ 2,682 |
| Accounts payable | 1,092,086 | 427,219 |
| Accounts payable-related parties | 91,918 | 40,492 |
| Other accounts payable | 590,688 | 277,196 |
| Other accounts payable-related parties | 32,257 | 18,039 |
| Corporate bonds payable (including current portion) | 494,446 | 3,951 |
| Long-term borrowings (including current portion) | - | 137,938 |
| | $ 2,553,713 | $ 907,517 |

B. Financial risk management policies

Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

ii. The Company's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| | | December 31, 2018 | | |
|---|---|---|---|---|
| (Foreign currency: functional currency) | | Foreign currency amount (In thousands) | Exchange rate | Book value (NTD) |
| Financial assets | | | | |
| Monetary items | | | | |
| RMB:NTD | RMB | 266,301 | 4.4720 | $ 1,190,898 |
| USD:NTD | USD | 4,610 | 30.7150 | 141,596 |
| EUR:NTD | EUR | 2,334 | 35.2000 | 82,157 |
| SGD:NTD | SGD | 2,459 | 22.4800 | 55,278 |
| JPY:NTD | JPY | 149,452 | 0.2782 | 41,578 |
| Financial liabilities | | | | |
| Monetary items | | | | |
| JPY:NTD | JPY | 196,020 | 0.2782 | $ 54,533 |
| EUR:NTD | EUR | 1,413 | 35.2000 | 49,738 |
| USD:NTD | USD | 1,294 | 30.7150 | 39,745 |
| RMB:NTD | RMB | 7,098 | 4.4720 | 31,742 |

| | | December 31, 2017 | | |
|---|---|---|---|---|
| (Foreign currency: functional currency) | | Foreign currency amount (In thousands) | Exchange rate | Book value (NTD) |
| Financial assets | | | | |
| Monetary items | | | | |
| RMB:NTD | RMB | 46,987 | 4.5650 | $ 214,496 |
| USD:NTD | USD | 5,908 | 29.7600 | 175,822 |
| JPY:NTD | JPY | 148,358 | 0.2642 | 39,196 |
| EUR:NTD | EUR | 910 | 35.7500 | 32,533 |
| SGD:NTD | SGD | 1,381 | 22.1700 | 30,617 |
| Financial liabilities | | | | |
| Monetary items | | | | |
| RMB:NTD | RMB | 10,103 | 4.5650 | $ 46,120 |
| EUR:NTD | EUR | 876 | 35.7500 | 31,317 |
| USD:NTD | USD | 348 | 29.7600 | 10,356 |
| JPY:NTD | JPY | 11,670 | 0.2642 | 3,083 |

iii. The total exchange (loss) gain, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2018 and 2017, amounted to $541 and ($13,657), respectively.

iv. Analysis of foreign currency market risk arising from significant foreign exchange variation:

| | Year ended December 31, 2018 | | | |
|---|---|---|---|---|
| | Sensitivity analysis | | | |
| (Foreign currency: functional currency) | Degree of variation | Effect on profit or loss | | Effect on other comprehensive income |
| Financial assets | | | | |
| Monetary items | | | | |
| RMB:NTD | 1% | $ | 11,909 | $ - |
| USD:NTD | " | | 1,416 | - |
| EUR:NTD | " | | 822 | - |
| SGD:NTD | " | | 553 | - |
| JPY:NTD | " | | 416 | - |
| Financial liabilities | | | | |
| Monetary items | | | | |
| JPY:NTD | 1% | $ | 545 | $ - |
| EUR:NTD | " | | 497 | - |
| USD:NTD | " | | 397 | - |
| RMB:NTD | " | | 317 | - |

| | Year ended December 31, 2017 | | | |
|---|---|---|---|---|
| | Sensitivity analysis | | | |
| (Foreign currency: functional currency) | Degree of variation | Effect on profit or loss | | Effect on other comprehensive income |
| Financial assets | | | | |
| Monetary items | | | | |
| RMB:NTD | 1% | $ | 2,145 | $ - |
| USD:NTD | " | | 1,758 | - |
| JPY:NTD | " | | 392 | - |
| EUR:NTD | " | | 325 | - |
| SGD:NTD | " | | 306 | - |
| Financial liabilities | | | | |
| Monetary items | | | | |
| RMB:NTD | 1% | $ | 461 | $ - |
| EUR:NTD | " | | 313 | - |
| USD:NTD | " | | 104 | - |
| JPY:NTD | " | | 31 | - |

Price risk

i. The Company’s equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

ii. The Company’s investments in equity securities comprise shares issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity for the years ended December 31, 2018 and 2017 would have increased/decreased by $236 and $43, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

<u>Cash flow and fair value interest rate risk</u>

i. The Company’s main interest rate risk arises from long-term borrowings with variable rates, which expose the Company to cash flow interest rate risk. During 2018 and 2017, the Company’s borrowings at variable rate were mainly denominated in New Taiwan dollars.

ii. If the borrowing interest rate of New Taiwan dollars had increased/decreased by 0.1% with all other variables held constant, profit, net of tax for the years ended December 31, 2018 and 2017 would have increased/decreased by $0 and $115, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.

ii. The Company manages their credit risk taking into consideration the entire Company’s concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Company’s credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.

iii. The Company adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.

iv. The Company adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.

v. The Company classifies customers’ accounts receivable in accordance with credit risk. The Company applies the modified approach using loss rate methodology to estimate expected credit loss.

vi. The Company used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. On December 31, 2018, the loss rate methodology is as follows:

| | Group A | Group B | Group C | Group D | Total |
|---|---|---|---|---|---|
| At December 31, 2018 | | | | | |
| Expected loss rate | 0.23% | 20.23% | 100.00% | 100.00% | |
| Total book value | $ 159,688 | $ 44,223 | $ - | $ 22,519 | $ 226,430 |
| Loss allowance | $ 366 | $ 8,946 | $ - | $ 22,519 | $ 31,832 |

vii. Movements in relation to the Company applying the modified approach to provide loss allowance for accounts receivable are as follows:

| | 2018 | |
|---|---|---|
| | Accounts receivable | Notes receivable |
| At January 1_IAS 39 | $ 15,202 | $ - |
| Adjustments under new standards | - | - |
| At January 1_IFRS 9 | 15,202 | - |
| Provision for impairment | 16,630 | - |
| At December 31 | $ 31,832 | $ - |

| | 2017 | |
|---|---|---|
| | Accounts receivable | Notes receivable |
| At January 1 | $ 15,202 | $ 318 |
| Reversal of impairment loss | - | ( 318) |
| At December 31 | $ 15,202 | $ - |

viii. Credit risk information of 2017 is provided in Note 12(4).

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 6(14)) at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.

ii. As of December 31, 2018 and 2017, the Company has undrawn borrowing facilities of $904,344 and $1,213,123, respectively.

iii. The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

| December 31, 2018 | Less than 3 months | 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|---|
| Notes payable | $ 252,318 | $ - | $ - | $ - |
| Accounts payable (including related parties) | 1,184,004 | - | - | - |
| Other payables (including related parties) | 431,283 | 191,662 | - | - |
| Convertible bonds | - | - | - | 507,600 |

Non-derivative financial liabilities:

| December 31, 2017 | Less than 3 months | 3 months and 1 year | Between 1 and 2 years | Between 2 and 5 years |
|---|---|---|---|---|
| Notes payable | $ 2,682 | $ - | $ - | $ - |
| Accounts payable (including related parties) | 467,711 | - | - | - |
| Other payables (including related parties) | 212,451 | 82,784 | - | - |
| Long-term borrowings (including current portion) | 566 | 2,834 | 8,934 | 135,023 |
| Convertible bonds | - | 4,040 | - | - |

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks is included in Level 1

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables are approximate to their fair values.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

(a) The related information of natures of the assets and liabilities is as follows:

| December 31, 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Recurring fair value measurements | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity securities | $ 1,196 | $ - | $ 22,372 | $ 23,568 |
| **Liabilities** | | | | |
| Recurring fair value measurements | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Call and put options of corporate bonds | $ - | $ 85 | $ - | $ 85 |

| December 31, 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Recurring fair value measurements | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Call and put options of corporate bonds | $ - | $ 2 | $ - | $ 2 |
| Available-for-sale financial assets | 1,196 | - | 3,057 | 4,253 |
| | $ 1,196 | $ 2 | $ 3,057 | $ 4,255 |

(b)The methods and assumptions the Company used to measure fair value are as follows:

i. The instruments the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

| | Listed shares |
|---|---|
| Market quoted price | Closing price |

ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

iii. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company’s financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

iv. The Company takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Company's credit quality.

D. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| | Equity instrument-unlisted shares | |
| At January 1 | $ 3,057 | $ 12,399 |
| Acquired in the period | 22,000 | - |
| Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income | ( 631) | - |
| Sold in the period | ( 2,054) | - |
| Recognised in other comprehensive income | - | ( 9,342) |
| At December 31 | $ 22,372 | $ 3,057 |

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

G Financial segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

| | Fair value at December 31, 2018 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | $ 22,372 | Market comparable companies | Price to earnings ratio multiple | 1.38~1.83 | The higher the value of net assets, the higher the fair value; |
| | | | Discount for lack of marketability | 19.89% ~21.04% | the higher the discount for lack of marketability, the lower the fair value. |

| | Fair value at December 31, 2017 | Valuation technique | Significant unobservable input | Range (weighted average) | Relationship of inputs to fair value |
|---|---|---|---|---|---|
| Non-derivative equity instrument: | | | | | |
| Unlisted shares | $ 3,057 | Market comparable companies | Price to earnings ratio multiple | 1.38~1.83 | The higher the value of net assets, the higher the fair value; |
| | | | Discount for lack of marketability | 19.89% ~21.04% | the higher the discount for lack of marketability, the lower the fair value. |

I. The Company has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

| | Input | Change | December 31, 2018 | | | |
|---|---|---|---|---|---|---|
| | | | Recognised in profit or loss | | Recognised in other comprehensive income | |
| | | | Favourable change | Unfavourable change | Favourable change | Unfavourable change |
| Financial assets | | | | | | |
| Equity instrument | Discount for lack of marketability | ±5% | $ - | $ - | $ 1,119 | $ 1,119 |

| | Input | Change | December 31, 2017 | | | |
|---|---|---|---|---|---|---|
| | | | Recognised in profit or loss | | Recognised in other comprehensive income | |
| | | | Favourable change | Unfavourable change | Favourable change | Unfavourable change |
| Financial assets | | | | | | |
| Equity instrument | Discount for lack of marketability | ±5% | $ - | $ - | $ 153 | $ 153 |

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Financial assets at fair value through profit or loss

i. They are financial assets designated as at fair value through profit or loss on initial recognition. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(i) Hybrid (combined) contracts; or

(ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(iii)They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

(b) Available for sale financial assets

i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.

ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.

iii. They are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in ‘financial assets measured at cost’.

(c) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(d) Impairment of financial assets

i. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Company of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’ ) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated.

ii. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:

(i) Significant financial difficulty of the issuer or debtor;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The Company, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties;

(vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a Company of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the Company, including adverse changes in the payment status of borrowers in the Company or national or local economic conditions that correlate with defaults on the assets in the Company;

(vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;

(viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(i) Financial assets at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transfered from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

(a) Under IAS 39, because the equity instruments, which were classified as available-for-sale financial assets, amounting to \$4,253, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" on initial application of IFRS 9.

(b) Under IAS 39, the equity instruments, which were classified as: financial assets at fair value through profit or loss, amounting to \$2, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" under IFRS 9.

C. There is no allowance for impairment and provision on December 31, 2017.

D. The significant accounts as of December 31, 2017 and for the year ended December 31, 2017 are as follows:

(a) Financial assets at fair value through profit or loss

| Items | December 31, 2017 |
|---|---|
| Current items: | |
| Financial assets designated as at fair value through profit or loss on initial recognition | |
| Corporate bonds | $ (19) |
| Valuation adjustment | 21 |
| | $ 2 |

i. The Company recognised net loss amounting to $34 on financial assets at fair value through profit or loss for the year ended December 31, 2017.

ii. The Company has no financial assets at fair value through profit or loss pledged to others.

(b)Available-for-sale financial assets

| Items | December 31, 2017 |
|---|---|
| Non-current items: | |
| Listed stocks | $ 12,604 |
| Unlisted stocks | 16,024 |
| | 28,628 |
| Valuation adjustment | ( 24,375) |
| | $ 4,253 |

The Company has no available-for-sale financial assets pledged to others as collateral.

E. Credit risk information for the year ended December 2017 are as follows :

(a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company’s credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

(b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c) The credit quality information of notes and accounts receivable that were neither past due nor impaired was in the following categories based on the Company's Credit Quality Control Policy:

| | December 31, 2017 |
|---|---|
| Group 1 | $ 2,097 |
| Group 2 | 170,502 |
| Group 3 | - |
| | $ 172,599 |

Note:

Company 1: New customers (less than 12 months from the first transaction).

Company 2: Customers without possibility of default.

Company 3: Customers with possibility of default.

(d) The ageing analysis of financial assets that were past due but not impaired is as follows:

| | December 31, 2017 |
|---|---|
| Up to 30 days | $ 15,012 |
| 31 to 90 days | 2,572 |
| Over 90 days | - |
| | $ 17,584 |

The above ageing analysis was based on past due date.

(e) Movements analysis of financial assets that were impaired is as follows:

i. As of December 31, 2017, the Company's impaired notes and accounts receivable amounted to $15,202.

ii. Movements on allowance for uncollectible accounts are as follows:

| | 2017 | | |
|---|---|---|---|
| | Individual provision | Group provision | Total |
| At January 1 | $ 15,520 | $ - | $ 15,520 |
| Reversal of impairment | ( 318) | - | ( 318) |
| At December 31 | $ 15,202 | $ - | $ 15,202 |

(5) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

Sales of goods

The Company manufactures and sells health foods and cosmetics. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

| | Year ended December 31, 2017 |
|---|---|
| Sales revenue | $ 2,395,952 |

C. The effects and description of current balance sheets and comprehensive income statement items if the Company continues adopting above accounting policies are as follows:

| | | December 31, 2018 | | |
|---|---|---|---|---|
| Balance sheet items | Description | Balance by using IFRS 15 | Balance by using previous accounting policies | Effects from changes in accounting policy |
| Advance sales receipts | (1) | $ - | $ 116,392 | ($ 116,392) |
| Contract liabilities | (1) | 116,392 | - | 116,392 |

(1) Under IFRS 15, liabilities in relation to sales contracts are recognised as contract liabilities.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company’s paid-in capital: None.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 2.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 3.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(9) and 12(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 5.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 7.

14. SEGMENT INFORMATION

None.

TCI CO., LTD.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| Securities held by | Marketable securities | Relationship with the securities issuer | General ledger account | As of December 31, 2018 | | | | Footnote |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of shares | Book value | Ownership (%) | Fair value | |
| TCI CO., LTD | BILLION ELECTRIC CO., LTD. | None | Financial assets at fair value through other comprehensive income - non-current | 118,000 | $ 1,196 | 0.12 | $ 1,196 | |
| TCI CO., LTD | LIN LIE INTEGRATION CO., LTD. | None | Financial assets at fair value through other comprehensive income - non-current | 54,000 | 372 | 3.48 | 372 | |
| TCI CO., LTD | PURE MILK CO., LTD. | The company was an institutional shareholder of PURE MILK CO., LTD.. | Financial assets at fair value through other comprehensive income - non-current | 403,333 | 22,000 | 10.00 | 22,000 | |
| TCI LIVING CO., LTD | Chun Ling International Co., Ltd. | The company was an institutional shareholder of Chun Ling International Co., Ltd.. | Financial assets at fair value through other comprehensive income - non-current | 228,000 | 2,280 | 19.00 | 2,280 | |

TCI CO., LTD.

Purchases or sales of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

Year ended December 31, 2018

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| | | | Transaction | | | | Differences in transaction terms compared to third party transactions | | Notes/accounts receivable (payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchaser/seller | Counterparty | Relationship with the counterparty | Purchases (sales) | Amount | Percentage of total purchases (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable) | Footnote |
| TCI CO., LTD | Shanghai BioScience Co., Ltd. | Second-tier subsidiary | (Sales) | $ 465,679 | (9.15) | 60-90 days | The prices and terms of sales and purchases are available to third parties. | Terms for collections are approximately the same as those with third parties. | $ 5,048 | 0.56 | |
| Shanghai BioScience Co., Ltd. | TCI CO., LTD | Parent | Purchases | 465,679 | 59.74 | 60-90 days | The prices and terms of sales and purchases are available to third parties. | Terms for payments are approximately the same as those with third parties. | (5,048) | (24.86) | |
| TCI CO., LTD | Shanghai BioFunction Co., Ltd. | Subsidiary | (Sales) | 3,146,833 | (61.82) | 60-90 days | The prices and terms of sales and purchases are available to third parties. | Terms for payments are approximately the same as those with third parties. | 639,866 | 70.47 | |
| Shanghai BioFunction Co., Ltd. | TCI CO., LTD | Parent | Purchases | 3,146,833 | 87.00 | 60-90 days | The prices and terms of sales and purchases are available to third parties. | Terms for payments are approximately the same as those with third parties. | (639,866) | (60.37) | |

Note: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to total operating revenues for income statement accounts.

TCI CO., LTD.

Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more

December 31, 2018

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as at December 31, 2018 | | | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Amount | Action taken | | |
| TCI CO., LTD | Shanghai BioFunction Co., Ltd. | Subsidiary | Accounts receivable | $ | 639,866 | 8.78 | $ - | - | $ 639,866 | $ - |

Note: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity.

TCI CO., LTD.

Significant inter-company transactions during the reporting periods

Year ended December 31, 2018

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction: General ledger account | Transaction: Amount | Transaction: Transaction terms | Transaction: Percentage of consolidated total operating revenues or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | TCI CO., LTD | Shanghai BioScience Co., Ltd. | 1 | Sales of goods | $ 465,679 | The prices and terms of sales and purchases are available to third parties. | 5.75 |
| 0 | TCI CO., LTD | Shanghai BioScience Co., Ltd. | 1 | Accounts receivable | 5,048 | The prices and terms of sales and purchases are available to third parties. | 0.05 |
| 0 | TCI CO., LTD | Shanghai BioFunction Co., Ltd. | 1 | Sales of goods | 3,146,833 | The prices and terms of sales and purchases are available to third parties. | 38.86 |
| 0 | TCI CO., LTD | Shanghai BioFunction Co., Ltd. | 1 | Accounts receivable | 639,866 | The prices and terms of sales and purchases are available to third parties. | 6.22 |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is ‘0’.

(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories :

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to total operating revenues for income statement accounts.

TCI CO., LTD.

Information on investees

Year ended December 31, 2018

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount: Balance as at December 31, 2018 | Initial investment amount: Balance as at December 31, 2017 | Shares held as at December 31, 2018: Number of shares | Shares held as at December 31, 2018: Ownership (%) | Shares held as at December 31, 2018: Book value | Net profit (loss) of the investee for the year ended December 31, 2018 | Investment income(loss) recognised by the Company for the year ended December 31, 2018 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|
| TCI CO., LTD | TCI FIRSTEK CORP. | R.O.C | Wholesale and retails of health food and cosmetics | $ 43,685 | $ 43,685 | 115,963,709 | 100.00 | $ 1,773,480 | $ 752,987 | $ 752,987 | None |
| TCI CO., LTD | GENE & NEXT INC. | R.O.C | Research and develop of biotechnology and genetics | 64,250 | 64,250 | 6,425,000 | 61.19 | 71,196 | 32,459 | 19,979 | None |
| TCI CO., LTD | TCI HK LIMITED | Hong Kong | Trading of health food and cosmetics | 21,046 | 21,046 | - | 100.00 | 14,113 | 1,593 | 1,593 | None |
| TCI CO., LTD | TCI BIOTECH LLC | U.S.A. | Trading of health food and cosmetics | 8,778 | - | - | 100.00 | 8,222 | ( 974) | ( 974) | None |
| TCI CO., LTD | BioCosme Co., Ltd. | R.O.C | Trading of health food and cosmetics | 5,000 | - | 500,000 | 100.00 | 5,000 | - | - | None |
| TCI CO., LTD | TCI JAPAN CO., LTD. | JAPAN | Trading of health food and cosmetics | - | - | - | 100.00 | - | - | - | Note 3 |
| GENE & NEXT INC. | GLUX HK LIMITED | Hong Kong | Trading of health food and cosmetics | 29,542 | 25,000 | - | 100.00 | 9,524 | ( 3,235) | ( 1,979) | None |
| GENE & NEXT INC. | TCI LIVING CO., LTD. | R.O.C | Trading of health food and cosmetics | 43,175 | - | 11,500,000 | 100.00 | 34,452 | ( 15,532) | ( 5,711) | None |
| TCI LIVING CO., LTD. | SBI GROUP HK LIMITED | Hong Kong | Trading of health food and cosmetics | - | - | - | 100.00 | 4,087 | 43 | 5 | None |
| TCI CO., LTD | PT TCI BIOTEK INDO | Indonesia | Trading of health food and cosmetics | - | - | - | 100.00 | - | - | - | Note 3 |

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

(1)The columns of ‘Investee’, ‘Location’, ‘Main business activities’, ‘Initial investment amount’ and ‘Shares held as at December 31, 2018’ should fill orderly in the Company’s (public company’s) information on investees and every directly or indirectly controlled investee’s investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the ‘footnote’ column..

(2)The ‘Net profit (loss) of the investee for the year ended December 31, 2018’ column should fill in amount of net profit (loss) of the investee for this period.

(3)The ‘Investment income (loss) recognised by the Company for the year ended December 31, 2018’ column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary’s net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

Note 3: There was no capital injection as of December 31, 2018.

TCI CO., LTD.

Information on investments in Mainland China

Year ended December 31, 2018

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018: Remitted to Mainland China | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018: Remitted back to Taiwan | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 | Net income of investee as of December 31, 2018 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the year ended December 31, 2018 | Book value of investments in Mainland China as of December 31, 2018 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018 | Footnote |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Shanghai BioTrade Co., Ltd. | Wholesale of health food, cosmetics and chemical productions; Commissioned cosmetic manufacturing | $ 15,665 | Note 3 | $ 15,440 | $ - | $ - | $ 15,440 | $ 766,471 | 100.00 | $ 766,471 | $ 1,971,404 | $ 289,047 | Note 4 Note 5 |
| Shanghai BioScience Co., Ltd. | Wholesale of health food, cosmetics and chemical productions; Commissioned cosmetic manufacturing | 26,832 | Note 2 | - | - | - | - | 768,926 | 100.00 | 768,926 | 1,809,826 | - | Note 4 Note 5 |
| Shanghai BioCosme Co., Ltd. | Manufacturing cosmetics | 147,576 | Note 2 | - | - | - | - | 1,756 | 100.00 | 1,756 | 124,426 | - | Note 4 Note 5 |
| Shanghai BioFunction Co., Ltd. | Producing health food | 665,896 | Note 1 | 397,504 | 40,803 | - | 438,307 | 1,164,508 | 100.00 | 1,164,508 | 1,937,553 | - | Note 4 Note 5 |
| BIO DYNAMIC LABORATORIES INC. | Trading of health food and cosmetics | 29,587 | Note 3 | - | - | - | - | ( 3,998) | 61.19 | 1,365 | 7,712 | - | Note 4 Note 5 |

Note 1：Reinvestments in a company in Mainland China through parent company in Taiwan and Shanghai BioScience Co., Ltd.. (USD$14,400 and RMB$50,000)
Note 2：Reinvestments in a company in Mainland China through Shanghai BioTrade Co., Ltd.
Note 3：Reinvestments in a company in Mainland China through domestic subsidiary company.
Note 4：The financial statements that are audited and attested by R.O.C. parent company's CPA.

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|---|---|---|---|
| TCI CO., LTD | $ 438,307 | $ 767,865 | $ 3,461,425 |
| TCI FIRSTEK CORP. | 15,440 | 15,440 | 1,175,338 |

Note 5：The numbers in this table are expressed in New Taiwan dollars, except for: assets and liabilities presents at RMB$1：NTD$4.472, USD$1：NTD$30.715; income presents at RMB$1：NTD$4.5601, USD$1：NTD$30.1492;
Note 6：The amount is the higher of limits on accumulated investment amounts or 60% of consolidated net assets was based on Investment Commission, MOEA Regulation No. 09704604680 announced on August 29, 2008.

TCI CO., LTD.

Significant transactions , either directly or indirectly through a third area, with investee companies in the Mainland Area

Year ended December 31, 2018

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

| | Sale (purchase) | | Property transaction | | Accounts receivable (payable) | | Provision of endorsements/guarantees or collaterals | | Financing | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investee in Mainland China | Amount | % | Amount | % | Balance at December 31, 2018 | % | Balance at December 31, 2018 | Purpose | Maximum balance during the year ended December 31, 2018 | Balance at December 31, 2018 | Interest rate | Interest during the year ended December 31, 2018 | Others |
| Shanghai BioScience Co., Ltd. | $ 465,679 | 9.15 | $ - | - | $ 5,048 | 0.56 | $ - | - | $ - | $ - | - | $ - | |
| Shanghai BioFunction Co., Ltd. | 3,146,833 | 61.82 | - | - | 639,886 | 70.47 | - | - | - | - | - | - | |

Note: Regarding percentage of transaction amount to total operating revenues or total assets, it is computed based on period-end balance of transaction to total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.