

English Translation of Financial Statements and a Report Originally Issued in Chinese

TWSE Stock Code: 6469
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Great Tree Pharmacy Co., Ltd.
Consolidated Financial Statements
With Report Of Independent Accountants
For the Years Ended December 31, 2018 and 2017

Company address: No. 143, Chengzhang 4th Street, Zhongli District, Taoyuan City
Company phone: 886-3-433-3123

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

MANAGEMENT REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Great Tree Pharmacy Co., Ltd. as of December 31, 2018 and for the year then ended under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard No. 10. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Great Tree Pharmacy Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Great Tree Pharmacy Co., Ltd..

By

Liu Yu Teng
Chairman

May 28th, 2019

English Translation of a Report Originally Issued in Chinese
Independent Auditors' Report

To Great Tree Pharmacy Co., Ltd.

Audit Opinion

We have audited the accompanying consolidated balance sheets of Great Tree Pharmacy Co., Ltd. (the “Company”) and its subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2018 and 2017, and their consolidated financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Basis of Audit Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, 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 2018 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Great Tree Pharmacy Co., Ltd. and its subsidiaries recognized operating revenue of NT\$4,900,729 thousand in 2018. Since the Group's sources of revenue include different selling models such as retail transactions at pharmacies and revenue from management services and more, the judgment over performance obligation and the timing of its fulfillment over customer orders or contracts was needed, therefore leading to significant risk of revenue recognition. Hence, we have decided to include this as a key audit matter. Our audit procedures include (but are not limited to): understanding each selling model, evaluating the appropriateness of revenue recognition policy related to obligation fulfillment under each model, evaluating and testing the effectiveness of the relevant internal control to the timing of revenue recognition in the sales cycle, conducting detailed testing by sampling the sales receipts, and conducting analytical review procedure and carrying out cut-off tests and more. We have also taken the appropriateness of operating revenue disclosure in Note 4 and Note 6 in the Notes to Consolidated Financial Statements into consideration.

Inventory Valuation

As of December 31, 2018, the net inventory of Great Tree Pharmacy Co., Ltd. and its subsidiaries was NT\$716,655 thousand, accounting for 31% of the consolidated total asset. The main businesses of Great Tree Pharmacy Co., Ltd. and its subsidiaries include trading of baby, kids and maternity products as well as various drugs. Most of their products have shelf lives, leading evaluations of allowance for inventory valuation and obsolescence loss to require material judgment by the Group's management. Therefore, this was included as a key audit matter. Our audit procedures include (but are not limited to): evaluating the appropriateness of the policy of allowance for inventory valuation and obsolescence loss, evaluating the management method for near expiring goods and identification of expired inventory and testing the effectiveness of the relevant internal control, sampling the inventory aging report to test its accuracy and selecting significant inventory location for physical inventory observation and count, and inspecting current inventory and utilization status and more. We have also taken the appropriateness of inventory disclosure in Note 5 and Note 6 in the Notes to Consolidated Financial Statements into consideration.

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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

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 auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
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 ability to continue as a going concern of the Company and its subsidiaries. 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 Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated 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 and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion..

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2018 consolidated financial statements 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.

Others

We have audited and expressed an unqualified opinion including and Other Matter Paragraph on the parent company only financial statements of the Company as of and for the years ended December 31, 2018 and 2017.

Ernst & Young
Financial Report of TWSE Listed Company as Authorized by
the Competent Authority
Auditing and Attestation No. (2017) FSC No. 1060026003
(2014) FSC No. 1030025503

Lo Hsiao Chin

Certified Public Accountant (CPA)

Cheng Ching Piao

May 28, 2019

English Translation of Consolidated Financial Statements Originally Issued in Chinese
Great Tree Pharmacy Co., Ltd.
Consolidated Balance Sheet
As of December 31, 2018 and 2017
(Amounts Expressed in thousands of New Taiwan Dollars)

Asset			December 31, 2018		December 31, 2017	
Code	Accounting Item	Note	Amount	%	Amount	%
11xx	Current asset					
1100	Cash and cash equivalents	4 and 6.1	\$633,661	28	\$274,672	18
1136	Financial assets measured at amortized cost	4, 6.2, and 8	24,000	1	-	-
1147	Debt instrument investments without active market	4, 6.3, and 8	-	-	51,240	4
1150	Notes receivable, net	4 and 6.4	2,072	-	531	-
1170	Accounts receivable, net	4 and 6.5	347,894	15	275,555	18
1200	Other receivables		80,164	4	43,835	3
1220	Income tax asset for the period		37	-	-	-
1310	Inventories, net	4 and 6.6	716,655	31	512,048	33
1410	Prepayments		28,773	1	34,251	2
1470	Other current assets		2,831	-	2,264	-
	Total current assets		1,836,087	80	1,194,396	78
15xx	Non-current assets					
1535	Financial assets measured at amortized cost	4, 6.2, and 8	3,000	-	-	-
1546	Debt instrument investments without active market	4, 6.3, and 8	-	-	3,000	-
1600	Property, plant, and equipment	4 and 6.7	385,621	17	281,558	18
1780	Intangible asset	4 and 6.8	3,061	-	2,997	-
1840	Deferred tax assets	4 and 6.24	2,409	-	1,329	-
1900	Other non-current assets	4 and 6.9	75,610	3	53,835	4
	Total non-current assets		469,701	20	342,719	22
1xxx	Total assets		\$2,305,788	100	\$1,537,115	100

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Great Tree Pharmacy Co., Ltd.
Consolidated Balance Sheet (continued)
As of December 31, 2018 and 2017

(Amounts Expressed in thousands of New Taiwan Dollars)

Liabilities and Equity			December 31, 2018		December 31, 2017	
Code	Accounting Item	Note	Amount	%	Amount	%
21xx	Current liabilities					
2100	Short-term borrowings	4 and 6.10	\$-	-	\$70,000	4
2130	Contract liabilities	4 and 6.18	4,398	-	-	-
2150	Notes payable		368,504	16	249,978	16
2170	Accounts payable		420,482	18	302,416	20
2200	Other payables	4 and 6.12	106,144	5	76,957	5
2230	Current tax liabilities	4 and 6.24	19,432	1	11,087	1
2300	Other current liabilities	6.13	7,292	-	12,651	1
	Total current liabilities		926,252	40	723,089	47
25xx	Non-current liabilities					
2500	Financial liabilities at fair value through profit and loss	4 and 6.11	3,690	-	-	-
2530	Bonds payable	4 and 6.14	286,569	12	-	-
2640	Net defined benefit liabilities	4 and 6.15	3,656	-	3,486	-
2645	Guarantee deposits		9,968	1	3,887	-
	Total non-current liabilities		303,883	13	7,373	-
2xxx	Total liabilities		1,230,135	53	730,462	47
31xx	Equity attributable to shareholders of the parent company					
3100	Capital	6.16				
3110	Common stock		365,516	16	305,015	20
3200	Additional paid-in capital	6.16				
3210	Share premium		421,308	18	265,308	18
3271	Employee stock options	6.17	2,928	-	2,952	-
3272	Stock options		10,001	1	-	-
3280	Others		1,562	-	1,279	-
3300	Retained earnings	6.16				
3310	Legal capital reserve		49,220	2	38,978	3
3350	Unappropriated earnings		201,201	9	191,181	12
36xx	Non-controlling interests		23,917	1	1,940	-
3xxx	Total equity		1,075,653	47	806,653	53
	Total liabilities and equity		\$2,305,788	100	\$1,537,115	100

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
Great Tree Pharmacy Co., Ltd.
Consolidated Statement of Comprehensive Income
For the years ended December 31, 2018 and 2017
(Amounts Expressed in thousands of New Taiwan Dollars ,except for earnings per share)

Code	Item	Note	2018		2017	
			Amount	%	Amount	%
4000	Operating revenue	4 and 6.18	\$4,900,729	100	\$3,623,734	100
5000	Operating costs		(3,694,983)	(75)	(2,703,732)	(75)
5900	Gross profit		1,205,746	25	920,002	25
6000	Operating expenses					
6100	Sales and marketing		(876,875)	(18)	(651,902)	(18)
6200	General and administrative		(204,280)	(4)	(159,813)	(4)
6450	Expected credit impairment loss	6.19	(59)	-	-	-
	Total operating expenses		(1,081,214)	(22)	(811,715)	(22)
6900	Operating income		124,532	3	108,287	3
7000	Non-operating income and expenses					
7010	Other income	6.22	16,390	-	18,039	1
7020	Other gains and losses	6.22	(2,648)	-	(2,266)	-
7050	Finance costs		(3,414)	-	(217)	-
	Total non-operating income and expenses		10,328	-	15,556	1
7900	Income from continuing operations before income tax		134,860	3	123,843	4
7950	Income tax expenses	4 and 6.24	(28,881)	(1)	(21,485)	(1)
8200	Net income		105,979	2	102,358	3
8300	Other comprehensive income (loss)	6.23				
8310	Items that will not be reclassified to profit or loss:					
8311	Actuarial gain(loss) from defined benefit plans		(337)	-	(250)	-
	Total other comprehensive income (loss) ,net of tax		(337)	-	(250)	-
8500	Total comprehensive income		\$105,642	2	\$102,108	3
8600	Net income attributable to:					
8610	Stockholders of the parent		\$106,002	2	\$102,418	3
8620	Non-controlling interests		(23)	-	(60)	-
			\$105,979	2	\$102,358	3
8700	Total Comprehensive Income Attributable to:					
8710	Stockholders of the parent		\$105,665	2	\$102,168	3
8720	Non-controlling interests		(23)	-	(60)	-
			\$105,642	2	\$102,108	3
	Earnings per share, EPS (NT\$)					
9750	Basic earnings per share	6.25	\$3.01		\$3.05	
9850	Diluted earnings per share	6.25	\$2.82		\$3.02	

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Great Tree Pharmacy Co., Ltd.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2018 and 2017

(Amounts expressed in thousands of New Taiwan Dollars)

Code	Item	Equity attributable to the parent company					Non-controlling interests	Total equity
		Common Stock	Additional paid-in capital	Legal capital reserve	Unappropriated earnings	Total		
		3100	3200	3310	3350	31XX	36XX	3XXX
A1	Balance as of January 1, 2017	\$265,230	\$268,939	\$29,692	\$172,564	\$736,425	\$-	\$736,425
B1	Appropriations of prior year's earnings							
B5	Legal capital reserve			9,286	(9,286)	-		-
B9	Cash dividends				(34,480)	(34,480)		(34,480)
	Stock dividends	39,785			(39,785)	-		-
D1	Net income, 2017				102,418	102,418	(60)	102,358
D3	Other comprehensive income (loss) in 2017				(250)	(250)	-	(250)
D5	Total comprehensive income (loss)	-	-	-	102,168	102,168	(60)	102,108
N1	Share-based payment transactions		600			600		600
O1	Increase/decrease in non-controlling interests						2,000	2,000
Z1	Balance as of December 31, 2017	<u>\$305,015</u>	<u>\$269,539</u>	<u>\$38,978</u>	<u>\$191,181</u>	<u>\$804,713</u>	<u>\$1,940</u>	<u>\$806,653</u>
A1	Balance as of January 1, 2018	<u>\$305,015</u>	<u>\$269,539</u>	<u>\$38,978</u>	<u>\$191,181</u>	<u>\$804,713</u>	<u>\$1,940</u>	<u>\$806,653</u>
B1	Appropriations of prior year's earnings			10,242	(10,242)	-		-
B5	Legal capital reserve				(54,902)	(54,902)		(54,902)
B9	Cash dividends				(30,501)	-		-
	Stock dividends	30,501						
C5	Equity component item recognized for issuance of convertible bonds - arising from recognition of equity		10,001			10,001		10,001
D1	Net income, 2018				106,002	106,002	(23)	105,979
D3	Other comprehensive income (loss) in 2018				(337)	(337)	-	(337)
D5	Total comprehensive income (loss)	-	-	-	105,665	105,665	(23)	105,642
E1	Cash capital increase		156,000			186,000		186,000
N1	Share-based payment transactions	30,000	259			259		259
O1	Increase/decrease in non-controlling interests						22,000	22,000
Z1	Balance as of December 31, 2018	<u>\$365,516</u>	<u>\$435,799</u>	<u>\$49,220</u>	<u>\$201,201</u>	<u>\$1,051,736</u>	<u>\$23,917</u>	<u>\$1,075,653</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Great Tree Pharmacy Co., Ltd.

Consolidated Statement of Cash Flows

For the years ended December 31, 2018 and 2017

(Amounts expressed in thousands of New Taiwan Dollars)

Code	Item	2018	2017
		Amount	Amount
AAAA	Cash flow from operating activities:		
A10000	Net income before tax	\$134,860	\$123,843
A20000	Adjustment items:		
A20010	Gain or loss items that do not affect cash flow:		
A20100	Depreciation expenses	62,060	46,054
A20200	Amortization expenses	5,571	1,503
A20300	Expected credit impairment loss	59	-
A20400	Valuation loss on financial liabilities measured at fair value through profit or loss	2,250	-
A20900	Interest expenses	3,414	217
A21200	Interest income	(1,431)	(1,009)
A21900	Cost of share-based payments	259	600
A22500	Loss on disposal of property, plant, and equipment	482	5
A23100	Gain on disposal of investments	-	(16)
A30000	Changes in operating assets and liabilities:		
A31110	Financial assets held for trading	-	16
A31130	Notes receivable	(1,541)	919
A31150	Accounts receivable	(72,398)	(2,322)
A31180	Other receivables	(36,329)	(19,296)
A31200	Inventories	(204,607)	(90,334)
A31230	Prepayments	5,478	1,423
A31240	Other current assets	(710)	1,111
A31990	Other non-current assets	(6,432)	-
A32125	Contract liabilities	1,701	-
A32130	Notes payable	118,526	16,898
A32150	Accounts payable	118,066	85,057
A32180	Other payables	25,389	17,352
A32230	Other current liabilities	(2,662)	(3,236)
A32240	Net defined benefit liabilities	(167)	(161)
A33000	Cash generated from operations	<u>151,838</u>	<u>178,624</u>
A33100	Interest received	1,431	1,009
A33300	Interest paid	(428)	(217)
A33500	Income tax paid	<u>(21,510)</u>	<u>(22,565)</u>
AAAA	Net cash provided by(used in) operating activities	<u>131,331</u>	<u>156,851</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

Great Tree Pharmacy Co., Ltd.

Consolidated Statement of Cash Flows(continued)

For the years ended December 31, 2018 and 2017

(Amounts expressed in thousands of New Taiwan Dollars)

Code	Item	2018	2017
		Amount	Amount
BBBB	Cash flow from investing activities:		
B00050	Disposal of financial assets measured at amortized cost	27,240	-
B00700	Decreases (increase) in debt instrument investments without active market	-	14,211
B02200	Acquisition of property, plant, and equipment	(176,759)	(116,286)
B02800	Disposal of property, plant, and equipment	4,476	-
B03700	Decrease (increase) in guarantee deposits	(5,843)	(9,605)
B04500	Acquisition of intangible assets	(5,635)	(4,060)
BBBB	Net cash provided by (used in) investing activities	(156,521)	(115,740)
CCCC	Cash flow from financing activities:		
C00100	Increase(decrease) of short-term loans	(70,000)	70,000
C02600	Cash received from issuance of debenture	295,000	-
C03000	Increase (decrease) in guarantee deposits received	6,081	1,163
C04500	Distribution of cash dividends	(54,902)	(34,480)
C04600	Cash capital increase	186,000	-
C05800	Increase (decrease) in non-controlling interest	22,000	2,000
CCCC	Net cash provided by (used in) financing activities	384,179	38,683
EEEE	Net increase (decrease) in cash and cash equivalents	358,989	79,794
E00100	Cash and cash equivalents at beginning of period	274,672	194,878
E00200	Cash and cash equivalents at end of period	\$633,661	\$274,672

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

I. Company overview

Great Tree Pharmacy Co., Ltd. (hereinafter referred to as "the Company") was authorized to be established on May 15, 2001. Our main businesses include management and trade of various drugs, health products, goods for mothers and babies, and cosmetics products. We also provide coordinated medicine procurement services to various clinics, outpatient centers, and medical communities. Besides, we are also an agency for domestic and foreign health care products sold in clinics, outpatient centers, and medical communities.

The Company's initial public offering (IPO) was on March 29, 2016 at the Taipei Exchange (TPEX). The Company's registered address and the main business operating site is at No. 143, Chengzhang 4th Street, Zhongli District, Taoyuan City.

II. Dates and procedures of approving financial statements

The 2018 and 2017 Consolidated Financial Statements Company and its subsidiaries (hereinafter referred to as "the Group") have been approved and announced by the Board of Directors on March 28, 2019.

III. Applicability of new and amended accounting principles and explanations

1. Changes in accounting policy from first-time adoption of International Financial Reporting Standards (IFRS):

The Group has adopted the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Standing Interpretations approved by the Financial Supervisory Commission (FSC) and have been applicable since January 1, 2018. First-time adoption has not had significant influences on the Group besides the following explanations on the characters and impacts from the new standards and amendments:

(1) IFRS 15 - Revenue from Contracts with Customers (including interpretations of IFRS 15 - Revenue from Contracts with Customers):

IFRS 15 has replaced IAS 11 - Construction Contracts, IAS 18 - Revenue, and related interpretations and announcements. The Group has chosen to recognize the accumulated effects on the date of first-time adoption (i.e. January 1, 2018) in accordance with the rules on transitional treatment of IFRS 15, and we chose to adopt retrospective applications for the incomplete contracts on January 1, 2018.

The Group's revenues from contracts with customers mostly come from sales of products and provision of service. The following is an explanation on the impacts on the Group's revenue recognition from IFRS 15:

- A. An explanation of the Group's applicable accounting policies before and after January 1, 2018 can be found at Note 4.
- B. Prior to January 1, 2018, revenue from sales of product was recognized at product delivery. After January 1, 2018, pursuant to regulations in IFRS 15, the aforementioned revenue would be recognized when the Group fulfills a performance obligation by transferring the committed goods to the customer. Adoption of IFRS 15 does not affect the Group's sales of goods. Nevertheless, for partial contracts, when goods are transferred to customers but conditions to receive considerations for exchange, contract asset would be recognized as opposed to recognition of accounts receivable prior to January 1, 2018. Additionally, contract asset needs to be evaluated for loss allowances in accordance with IFRS 9 - Financial Instruments. Compared with adoption of IFRS 18, the aforementioned difference has not had any effect on the Group's financial statements.
- C. For partial contracts, the Group receives partial advance considerations from the customers at the signing of contracts. The Group shoulders the obligation of having to provide product sales afterwards. Prior to January 1, 2018, the advance considerations would be recognized as other current liabilities, and are now recognized as contract liabilities according to IFRS 15. The Group has reclassified NT\$2,697,000 of other current liabilities as contract liabilities since January 1, 2018. Additionally, compared to the adoption of IFRS 18, other current liabilities have decreased by NT\$4,398,000 and contract liabilities has increased by NT\$4,398,000 as of December 31, 2018.
- D. Prior to January 1, 2018, revenue from the Group's provision of management service would be recognized at the completion of service. After January 1, 2018, the aforementioned revenue would be recognized when the Group fulfills performance obligation when the committed service is transferred to the customer in accordance with IFRS 15. This does not pose any effect to the recognition of service revenue.
- E. Additional required note disclosure in accordance with IFRS 15 can be found at Notes 4, 5, and 6.

(2) IFRS 9: Financial Instruments

IFRS 9 has replaced IAS 39, and the Group has chosen not to recompile the comparison period during the date of first-time adoption (i.e. January 1, 2018) in accordance with the rules on transitional treatment for IFRS 9. Effects from adoption of IFRS will be explained in the following:

- A. Rules of IFRS 9 are adopted as of January 1, 2018, and IAS 39 was adopted prior to January 1, 2018. Please see Note 4 for explanations of the accounting policies.
- B. Pursuant to rules on transitional treatment for IFRS 9, the business model was evaluated based on existing matters and condition as of January 1, 2018, and financial assets were reclassified to appropriate categories pursuant to IFRS 9. Classifications and book values of financial assets as of January 1, 2018 can be found at the table below:

IAS 39		IFRS 9	
Type of measurement	Carrying Amount	Type of measurement	Carrying Amount
Cost evaluation after amortization		Cost evaluation after	\$648,833
Loans and receivables (including cash and cash equivalents, notes receivable, accounts receivable, debt instrument investments without active market, and other receivables)	<u>\$648,833</u>	amortization (including cash and cash equivalents, notes receivable, accounts receivable, financial assets measured at amortized cost and other receivables)	

- C. During transition from IAS 39 to IFRS 9 on January 1, 2018, changes in classification of financial assets and financial liabilities can be further denoted as the following:

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IAS 39		IFRS 9		Differential	Retained earnings	Other equity
Accounting item	Carrying Amount	Accounting item	Carrying Amount		Adjustment	Adjustment
Loans and receivables (Note 1)						
Cash and cash equivalents	\$274,672	Cash and cash equivalents	\$274,672	\$-	\$-	\$-
Debt instrument investments without active market	54,240	Financial assets measured at amortized cost	54,240	-	-	-
Notes receivable	531	Notes receivable	531	-	-	-
Accounts receivable	275,555	Accounts receivable	275,555	-	-	-
Other receivables	43,835	Other receivables	43,835	-	-	-
Total	\$648,833	Total	\$648,833	\$-	\$-	\$-

Note:

1. Pursuant to IFRS 39, for the Group's classifications of loans and receivables, the characteristics of their cash flow are in line with the interest paid solely on the principal and the outstanding principal. Based on existing matters and conditions as of January 1, 2018, since the business model receives cash flow from contracts and meets the regulations for measurement of cost after amortizations; furthermore, since the impairment test on the aforementioned assets based on IFRS 9 on January 1, 2018 did not produce any difference, hence, there was no impact to the book value on January 1, 2018, and only the debt instrument investments without active market of NT\$54,240,000 was reclassified as financial assets measured at amortized cost.

D. Note disclosure in accordance with IFRS 7 and IFRS 9 can be found at Notes 4, 5, and 6, and 12.

(3) Disclosure Initiative (Amendments to IFRS 7 - Statement of Cash Flows)

Information on adjustments from beginning to end is added for fundraising activities related to the Group's liabilities. Please see Note 12 for related disclosures.

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2. The Group has yet to adopt the following standards that have been announced by the International Accounting Standards Board (IASB) and have been approved by the FSC as either newly announced, revised, and amended standards or interpretations:

Item	Newly announced/amended/revised standard and interpretation	Effective date from IASB
1	IFRS 16 - Leases	January 1, 2019
2	IFRIC 23 - Uncertainty over Income Tax Treatment	January 1, 2019
3	IFRS 28 - Investments in Associates and Joint Ventures	January 1, 2019
4	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	January 1, 2019
5	Enhancements of the IFRS from 2015 to 2017	January 1, 2019
6	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019

(1) IFRS 16 - Lease

On top of meeting and selecting assets short-term lease or lowest-pricing objective in a lease, this new standard also requires the lessee to adopt a single accounting model for all leases, i.e. recognition of right-of-use asset and lease liabilities will be recognized in the balance sheet, while the comprehensive income statement will recognize depreciation expense and interest expense related to the lease. Additionally, lease from lessor is still classified as operating lease and financing lease; nevertheless, more relevant information disclosure is required.

(2) IFRIC 23 - Uncertainty over Income Tax Treatments

This interpretation provides guidance on how to apply the recognition and measurement of IAS 12 - Income Taxes, when there is uncertainty about the resulting tax treatment.

(3) Amendments to IAS 28 - Investments in Associates and Joint Ventures

These amendments clarify that a company's long-term interest in a portion of a joint venture or a joint venture's net investment should be applied to IFRS 9 prior to the application of IAS 28. Moreover, any adjustments resulting from the application of IAS 28 are not considered when IFRS 9 is applied.

(4) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

These amendments allow financial assets with an early repayment characteristic (allowing one contractual party to pay or receive reasonable compensation to terminate the contract early), which can be measured at amortized cost or measured at fair value through other comprehensive income (loss).

(5) Improvements of the IFRS from 2015-2017

IFRS 3 - Business Combinations

This amendment clarifies that when a company has joint control over its joint operations, its previously held interest in the joint operations shall be remeasured when it obtains control of the business.

IFRS 11 - Joint Arrangements

This amendment clarifies that a company that is engaged in joint operations but does not have joint control should not measure its previously held interest in its joint operations when it obtains joint control of the business.

IAS 12 - Income Tax

This amendment clarifies that a company should recognize the income tax results of the dividends recognized in the same place, based on its prior recognition of past transactions or events in profit or loss, other comprehensive income, or equity.

IAS 23 - Borrowing Costs

This amendment clarifies that when the asset of a company becomes available for its intended use or sale, a company should treat borrowing specifically taken out to acquire the asset in the form of a general loan.

(6) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

These amendments clarify that when modifications are made to a defined benefit plan (e.g. amendments, reductions or settlements), a company should use the updated assumption to remeasure its net defined benefit liabilities or assets.

The aforementioned standards that have been announced by the International Accounting Standards Board (IASB) and have been approved by the FSC as either newly announced, revised, amended, standards or interpretations, except for the following evaluation on the impacts from the aforementioned (1), the rest of the newly announced, revised, and amended standards or interpretations have not had material impacts on the Group:

(1) IFRS 16 - Lease

IFRS 16 has replaced IAS 17 - Leases, IFRIC Interpretation 4 - Determining whether an Arrangement contains a Lease, SIC 15 - Operating Leases-Incentives, and SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The impact of IFRS 16 on the Group is as follows:

- A. For definition of lease, pursuant to transitional treatment of IFRS 16, the Group has chosen not to re-evaluate whether contracts are (or include) leases on the date of first-time adoption (i.e. January 1, 2019). The Group has applied the lease contracts identified during adoption of IAS 17 and IFRIC 4 to IFRS 16. Then, contracts that were identified as excluding lease during adoption of IAS 17 and IFRIC 4 were identified as inapplicable for IFRS 16.

The Group as lessee, is applicable for the transitional treatment of IFRS 16, and has chosen not to recompile the comparison information, and cumulative effects during first-time adoption on January 1, 2019 was used as adjustments to the beginning balance of retained earnings on the first day of adoption.

(a) Leases classified as operating lease

The Company and its subsidiaries are expected to measure and recognize lease liabilities on January 1, 2019 for the leases classified as operating lease during adoption of IAS 17 based on the present value of lease benefits balance (discounted using the lessee's incremental borrowing rate as of January 1, 2019). Additionally, the carrying amounts of right-of-use asset will be used to measure and recognize right-of-use assets on the basis of individual leases, as the IFRS 16 has been applied from the beginning, in which the discounted borrowing rate of the lessee will be used on January 1, 2019.

On January 1, 2019, the Company's right-of-use asset is expected to increase by NT\$1,420,528,000 on January 1, 2019; lease liabilities will increase by

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NT\$1,472,520,000 and the NT\$51,992,000 difference will be adjusted to retained earnings.

On January 1, 2019, right-of-use asset in subsidiary - Ivy Biotechnology Co., Ltd., is expected to increase by NT\$90,269,000; lease liabilities will increase by NT\$94,572,000 and the NT\$4,303,000 difference will be adjusted to retained earnings.

B. Pursuant to IFRS 16, additional relevant disclosures on lessee and lessor will be made.

3. As of the approval and announcement date of the financial statements, the Group has yet to adopt the following standards that have been announced by the International Accounting Standards Board (IASB) and have been approved by the FSC as either newly announced, amended, standards or interpretations:

Item	Newly announced/amended/revised standard and interpretation	Effective date from IASB
1	Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Pending resolution from the IASB
2	IFRS 17 - Insurance Contracts	January 1, 2021
3	Definition of a business (Amendments of IFRS 3)	January 1, 2020
4	Definition of material (Amendments of IAS 1 and IAS 8)	January 1, 2020

- (1) Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

This project addresses the acknowledged inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or joint venture. IAS 28 requires that gains and losses resulting from upstream and downstream transactions between an investor and its associate or a joint venture should only be recognized to the extent of the interest attributable to the other equity holders in the associate or joint venture. IFRS 10 requires that any investment the parent has in the former subsidiary after control is lost should be measured at fair value and that any resulting gain or loss should be recognized in profit or loss. These

amendments prohibit the aforementioned regulations from IAS 28; when the loss of control of a business, as defined in IFRS 3 occurs, a full gain or loss should be recognized.

These amendments also revise IFRS 10 in which a 'partial' gain or loss should be recognized in accounting for the sale or contributions of assets or subsidiaries that do not constitute a business between an investor and its associate or joint venture as defined in IFRS 3.

(2) IFRS 17 - Insurance Contracts

This standard provides a comprehensive model to insurance contracts, including all accounting treatment (recognition, measurement, expression, and disclosure principle). The core of the standard is general, and under this model, initial recognition measures the insurance contract group by the combination of the cash flow from performance obligation and contract service margin, wherein the performance obligation cash flow includes:

1. Estimates of future cash flow
2. Discount rate: reflects the time value of money and adjustments for financial risks related to future cash flow (which are not included in the estimate of future cash flows); and
3. Adjustments for non-financial risks

The carrying amount of the insurance contract group at the end of each reporting period is the sum of the remaining security liabilities and the claims liabilities incurred.

In addition to the general model, the standard also provides:

1. Specific application (variable fee method) for direct participation in specific contracts
2. Simplification of short-term contracts (premium sharing method)

(3) Definition of business (Amendments of IFRS 3)

These amendments clarify IFRS 3 - Business Combinations to improve the definition of a business. The amendments will help companies to identify whether the transaction should be handled as a business consolidation or as acquisition of asset. IFRS 3 will continue to adopt market participant's view point in deciding whether an activity or

asset combination acquired is a business, including clarifying the minimum requirement of a business, adding guidance to help companies to evaluate whether the acquisition process is substantial, and reducing definition of business and production.

(4) Definition of material (Amendments of IFRS 1 and IFRS 8)

The amendments can be attributable to the redefinition of material information as: 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. These amendments clarify that materiality is based on the nature of the information, and a company shall see whether information is material on its own or when consolidated with other information in the financial statements. If it can be reasonably expected to influence the decisions that the primary users of the financial statements make, then misstatement of information will be material.

For the aforementioned standards or interpretations announced by the IASB but have not yet approved by the FSC, the actual adoption date will be made in accordance with the FSC. The Group has evaluated that the aforementioned newly announced or amended standards or interpretations do not pose material effects on the Group.

IV. Explanations of major accounting policies

1. Declaration of compliance

The Group's 2018 and 2017 Consolidated Financial Statements are prepared in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers," and the International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) as approved and announced by the Financial Securities Committee (FSC).

2. Basis of preparations

Besides the financial instruments measured at fair value, the Consolidated Financial Statements are prepared on the basis of historical costs. Unless otherwise specified, the Consolidated Financial Statements are denoted in thousands of New Taiwan Dollar (NT\$1,000).

3. Overview of consolidation

Principles of preparing the Consolidated Financial Statements

When the Company is exposed to the varied remunerations participated by the investees or is entitled to the varied remunerations and is capable of affecting the remunerations through the authority over the investees, the controlling is achieved. The Company will only have control over the investee when the following three criteria of control have been met:

- (1) Right over the investee (i.e. existing right granted to the investor to lead relevant activities)
- (2) Risk exposure or right to variable compensations from participation in investees, and
- (3) Capability to effect monetary compensations for investors by using its influence and right over the investee.

When the Company directly or indirectly holds minority voting rights or other similar rights in an investee, the Company will consider all relevant facts and conditions to evaluate whether it has rights over the investee, including:

- (1) Contractual agreements with other holders of voting rights over the investee
- (2) Rights arising from other contractual agreements
- (3) Voting rights and potential voting rights

When facts and conditions indicate that changes to one or more of the following criteria for control have occurred, the Company will immediately re-evaluate whether it still has control over the investee.

Starting from the acquisition date (when the Company obtains control), the subsidiary will be completely included in the Consolidated Financial Statements until the control over the subsidiary is lost. The accounting cycle and accounting policy of the subsidiary's financial statements will follow those of the parent company. All balances and transactions in the Group and unrealized internal gains and losses arising from internal transactions within the Group and dividends will be completely written off.

If control over the subsidiary is not lost, changes in shares held in the subsidiary will be treated as equity transactions.

A subsidiary's total comprehensive income is attributed to the shareholders of the Company and non-controlling interests, even if non-controlling interests become deficit balance in the

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process.

If the Company's control over the subsidiary is lost, then:

- (1) Subsidiary's assets (including goodwill) and liabilities will be derecognized;
- (2) Carrying amount of any non-controlling interests will be derecognized;
- (3) Fair value of the considerations acquired will be recognized;
- (4) Fair value of any retained investments will be recognized;
- (5) Any gains or losses will be recognized as income or loss in the period;
- (6) Amounts recognized in other comprehensive income by the parent company will be reclassified as gains or losses in the period.

The consolidated entities are listed as follows:

Name of investing company	Name of subsidiary	Nature of business		Shareholding ratio (%)		
				2018.12.31	2017.12.31	Explanation
The Company	Ivy Biotechnology Co., Ltd.	Wholesale and retail		100%	100%	None
The Company	Bai-Lin Logistics Co., Ltd.	Wholesale and retail		100%	100%	None
Ivy Biotechnology Co., Ltd.	Da Yu Property Management Co., Ltd.	Real estate sales and lease		60%	60%	None

4. Foreign the currency transaction

The functional currency of the Group's Consolidated Financial Statements is New Taiwan Dollar (NT\$). Every entity within the Group will decide its own functional currency, and to measure its financial statements using said functional currency.

Transactions in foreign the currencies from the consolidated entities are recorded by their respective functional currency rates at the date of the transaction. At the end of every reporting period, items denoted in foreign the currencies will be translated at the closing exchange rate of the day. Non-monetary foreign the currency items measured at fair value will be translated using the exchange rate on the date when the fair value is measured. Non-monetary foreign the currency items measured at historical cost are translated at the

exchange rate of the date of the transaction.

Except for the following items, exchange differences resulting from delivery or exchange of monetary items will be recognized as gain or loss as they occur:

- (1) For foreign the currency loans that arise from acquisition of assets that meet the requirements, if the resulting exchange differences are treated as adjustments of the interest capital, which is a component of the cost of loans, they will be capitalized as the cost of the asset.
- (2) For foreign the currency items applicable of IFRS 9 - Financial instruments (IAS 39 prior to January 1, 2018), they will be treated according to the accounting policy for financial instruments.
- (3) Monetary items that construe part of the net investments for overseas operations in the Consolidated Financial Statements. When translation differences that arise are recognized as other comprehensive income (loss), it will be reclassified to gain or loss from equity when the net asset is disposed.

When gains or losses from non-monetary items are recognized as other comprehensive income (loss), any translation component from such gain or profit will be recognized as other comprehensive income. When gains or losses from non-monetary items are recognized as loss, any translation component from such gain or profit will be recognized as loss.

5. Standard of classifying assets and liabilities as current and non-current

When any of the following conditions occur, the item will be classified as a current asset, and when it is not a current asset, it will be classified as non-current asset:

- (1) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
- (2) Asset is held for trading purposes.
- (3) The asset is due to be realized within 12 months after the reporting period.
- (4) It is cash or cash equivalent, except where the asset is exchanged or used to settle liabilities at least twelve months after the reporting period.

When any of the following conditions occur, the item will be classified as a current liability, and when it is not a current liability, it will be classified as non-current liability:

- (1) The liability is expected to be settled during normal business cycle.
- (2) Liability is held for trading purposes.
- (3) The liability is due to be settled within twelve months after the reporting period.
- (4) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Settlement of liabilities may be made by the issue of equity instruments based on transaction party's choice, and will not impact classification.

6. Cash and cash equivalents

Cash and cash equivalents are cash on hand, demand deposit, and short-term and highly liquid investments that can be immediately converted to fixed amount of cash with very small risks of valuation changes (including contract-based fixed deposits of less than 3 months).

7. Financial instruments

Financial assets and liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

In accordance with the scope of application of IFRS 9 - Financial Instruments (IAS 39 prior to January 1, 2018), during initial recognition of financial assets and financial liabilities, they will be measured at fair value and the transaction costs directly attributable to the financial assets and financial liabilities (except for financial assets and financial liabilities measured at fair value through profit or loss) are derived by addition or subtraction from the fair value of assets and financial liabilities.

(1) Recognition and valuation of financial assets

Accounting treatment as of January 1, 2018:

The accounting treatment for recognition and derecognition of all customary trading of financial assets of the Group is made on the settlement date.

The Group classifies financial assets as either financial assets subsequently measured at amortized costs, measured at fair value through other comprehensive income (loss), or measured at fair value through profit or loss:

A. Business model used in managing the financial assets

B. Characteristics of the contractual cash flows from the financial asset

Financial assets measured at amortized cost

Financial assets that meet the following two conditions will be measured at cost after amortization, and will be listed in the balance sheet under one of the following items: notes payable, accounts receivable, financial assets measured at amortized cost and other receivables:

- A. Business model used in managing the financial assets: financial asset is held to receive contractual cash flows
- B. Characteristics of the contractual cash flows from the financial asset: cash flow is the interest paid solely on the principal and the outstanding principal

Such financial assets (excluding hedging relationships) will be measured at subsequent amortized cost (amount measured at the time of initial recognition, less the principal repaid, and add or subtract the accumulated amortized difference by using effective interest method between the original amount and the amount due, and by adjusting allowances for loss. When derecognizing, through amortization procedure, or recognizing impairment gain or loss, the gain or loss will be recognized as profit or loss.

Interest calculated through effective interest method (multiplying effective interest by total book value of the financial instrument) or by following conditions, it will be recognized in profit or loss:

- A. If it is a credit-impaired financial asset from acquisition or from founding, the credit-adjusted effective interest rate is multiplied by the cost of amortized financial assets
- B. If it is not, in case of subsequent credit impairment, the effective interest rate will be multiplied by the cost of the financial instrument after amortization

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

Financial assets that meet both of the following criteria will be measured at fair value through other comprehensive income (loss), and stated on the Balance Sheet as financial asset measured at fair value through other comprehensive income (loss):

- A. Business model used in managing the financial assets: financial asset is held to

receive contractual cash flows and for sale of financial asset

- B. Characteristics of the contractual cash flows from the financial asset: cash flow is the interest paid solely on the principal and the outstanding principal

Recognition of gain or loss related to such financial assets will be explained as follows:

- A. Prior to derecognition or reclassification, except for impairment interest or loss, exchange gain or loss will be recognized in the profit or loss, and its gain or loss will be recognized in other comprehensive income (loss)
- B. During derecognition, accumulated gain or loss recognized in other comprehensive income (loss) will be reclassified from equity to profit or loss as adjustments for reclassification
- C. Interest calculated through effective interest method (multiplying effective interest with the total book value of the financial asset) or the following conditions will be recognized in profit or loss:
- (a) If it is a purchased or originated credit-impaired financial asset, the credit-adjusted effective interest rate is multiplied by the cost of amortized financial assets
 - (b) If it is not, in case of subsequent credit impairment, the effective interest rate will be multiplied by the cost of the financial instrument after amortization

In addition, for equity instruments applicable to IFRS 9 and are not held as available-for-sale or applicable as a contingent consideration by the acquirer in business consolidation in IFRS 3, during initial recognition, the Group will choose (this is not reversible) to state its subsequent fair value changes in the other comprehensive income (loss). Amounts stated in other comprehensive income cannot be converted to profit or loss (during disposal of such equity instrument, the accumulated amount stated in other equity item will be directly transferred to retained earnings), and will be stated in the Balance Sheet as financial assets measured at fair value through other comprehensive income (loss). Investment dividends will be recognized in profit or loss, unless such dividends clearly represent a portion of the investment cost.

Financial assets measured at fair value through profit or loss

In addition to the aforementioned measurement at cost after amortization for having met certain conditions or measurement at fair value through other comprehensive income (loss), financial assets are all measured at fair value through income or loss, and are stated in the balance sheet as financial assets at fair value through profit or loss.

These financial assets are measured at fair value, and any gain or loss from their revaluation will be recognized as profit or loss. The gain or loss recognized as profit or loss includes any dividend or interest received from the financial asset.

Accounting treatment prior to January 1, 2018:

The accounting treatment for recognition and derecognition of all customary trading of financial assets of the Group is made on the settlement date.

The Group's financial assets were classified as two types: financial assets measured at fair value through profit or loss, and loans and receivables. This classification is made during initial recognition of the financial asset based on its nature and purpose.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include those available-for-sale and designated at fair value through profit or loss.

A financial asset will be classified as available-for-sale when it meets one of the following conditions:

- A. The primary purpose for acquisition of the asset is short-term sales;
- B. It is part of an identifiable financial instrument combination of the consolidated management at the time of initial recognition, and there is evidence that the combination is a short-term profit operating model in the near future; or
- C. It is a derivative (except for financial guarantee contract or a designated and effective hedging instrument).

For contracts that include one or multiple embedded derivative financial instruments, the entire hybrid (integrated) contract could be designated as a financial instrument at fair value through profit or loss. In addition, when it meets one the following conditions and can provide more relevant information, it could be designated as at fair value through profit or loss during initial recognition:

- A. It eliminates or significantly reduces a measurement or recognition inconsistency;
or
- B. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the investment is provided internally on that basis to the key management personnel.

These financial assets are measured at fair value, and any gain or loss from their revaluation will be recognized as profit or loss. The gain or loss recognized as profit or loss includes any dividend or interest received from the financial asset (including dividend or interest received during the year when the investment was made).

If no offered price from an active market is present and the fair value cannot be reliably measured for these financial assets, they shall be measured at cost after subtracting any impairment loss at the closing day of the reporting period, and stated on the balance sheet as financial assets carried at cost.

Loans and receivables

Loans and accounts receivable refer to non-derivative financial assets without publicly offered price from active market, and are either fixed or the amount receivable can be decided, and shall also satisfy the following conditions: have not be classified as fair value measurement through profit or loss, have not been designated as available-for-sale, and have not had conditions where the holder may not be able to recover almost all of the original investments due to factors other than credit impairment.

These financial assets are separately stated in the balance sheet as accounts receivable and debt instrument investments without active market. After initial measurement, they will be valued through effective interest method, or amortized cost deducting any impairment. The calculation of the amortized cost will factor into discount or premium and transaction cost during acquisition. Amortization through effective interest method will be recognized in profit or loss.

(2) Impairments of Financial Assets

Accounting treatment as of January 1, 2018:

For the debt instrument investment measured at fair value through other

comprehensive income (loss) and the financial assets measured at amortized cost, the Group recognizes expected credit losses and measures allowances for loss. For the debt instrument investment measured at fair value through other comprehensive income, allowance for loss is recognized in the other comprehensive income (loss), and the book value of the investment will not be reduced.

The Group measures expected credit loss by reflecting the following methods:

- A. Unbiased and probability-weighted amount determined by evaluating each possible outcome
- B. The time value of money
- C. Reasonable and corroborative information related to past events, current conditions, and future economic forecasts (can be obtained at no excessive cost or input on the date of the balance sheet)

Method for valuating allowance for loss is as follows:

- A. Measure the expected credit loss over the next 12 months: including financial asset without significant increase in credit risk after initial recognition, or those ruled to have low credit risk on the date of the balance sheet. In addition, this also includes those with allowance loss measured by the expected credit loss during the previous reporting period, but no longer meets the condition in which the credit risk has significant increased since the original recognition on the balance sheet date.
- B. Measurement of the amount of lifetime expected credit losses: including financial asset with significant increase in credit risk after initial recognition or purchased or originated credit-impaired financial asset with credit impairment.
- C. For accounts receivable or contractual asset arising from transactions within the scope of IFRS 15, the Group adopts lifetime expected credit loss to measure allowance for loss.

On each balance sheet date, the Group uses comparisons between the changes of default risk on the balance sheet date and on the date of initial recognition to measure whether there has been a significant increase in the financial instrument's credit risk after initial recognition. Additionally, please see Note 12 for information related to credit risk.

Accounting treatment prior to January 1, 2018:

Besides financial assets measured at fair value through profit or loss, other financial assets are measured for impairment on the last day of each reporting period. When any there is any objective evidence of impairment 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 assets that can be estimated reliably. Except for accounts receivable, where the allowance account will be reduced accordingly, all other decreases in the carrying amount of financial assets will be directly reduced in the carrying amount, and the loss will be recognized in the profit or loss.

When the fair value of available-for-sale equity investment is lower than cost and a significant or permanent depreciation has occurred, a loss will be recognized.

Other losses on financial assets may include:

- A. The issuer or the counterparty has material financial difficulties; or
- B. Breach of contract, such as delay or non-payment of interest or principal payment; or
- C. The debtor is likely to go bankrupt or undergo other financial restructuring; or
- D. Active market of the financial asset may disappear as a result of financial difficulties experienced by the issuer.

For loans and accounts receivable, first of all, the Group would separately evaluate whether objective evidence for impairment exists for material individual financial asset, and individual non-material financial assets would be evaluated as a group. If objective evidence that proves no impairment exists for individually evaluated financial assets, whether material or otherwise, financial assets with similar credit risk characteristics will be grouped and evaluated for impairment as a group. If objective evidence for impairment loss exists, the measurement of impairment will be decided based on the differential between the carrying amount of the asset and the present value of the expected future cash flow. The present value (PV) of the expected future cash flow refers to the discounted original effective interest rate of the asset. Nevertheless, if the loan is measured at a floating rate, the discount rate used in measuring impairment loss will be the current effective interest rate. Interest income is based on the reduced carrying amount of the asset and is continuously estimated using the discount rate of cash flows used to calculate the impairment loss.

When it is expected that accounts receivable cannot be realized in the future, accounts receivable and related allowance item should be written off. During the subsequent year after recognition of impairment loss, if the amount of the expected impairment loss increases or decreases due to the occurrence of an incident, the allowance item will be adjusted to increase or decrease the recognized impairment loss. If recovery is made after the write-off, then the recovery will be recognized in the profit or loss.

(3) Derecognition of financial asset

The Group's financial assets will be derecognized when one of the following conditions occurs:

- A. The contractual right from the cash flow of the financial asset is terminated.
- B. When nearly all risk and compensations associated with ownership of a financial asset has been transferred.
- C. Nearly all risk and compensations associated with ownership of an asset has neither been transferred nor retained, but the control of the asset has been transferred.

When a financial asset is derecognized in its entirety, the difference between its carrying amount and any cumulative gain or loss that has been received or is receivable and recognized in other comprehensive income (loss), will be recognized in profit or loss.

(4) Financial liabilities and equity instruments

Classification of liability or equity

The Group classifies the liabilities and equities instrument issued as financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

Equity instruments refer to any contract with residual interest after subtracting all liabilities from assets. Equity instruments issued by the Group are recognized by the acquisition cost minus direct distribution costs.

Hybrid instruments

The Group recognizes the financial liabilities and equity components of the convertible corporate bonds issued in accordance with contractual terms. In addition, the conversion of corporate bonds issued is based on the assessment of whether the economic characteristics and risks of the embedded purchase and sale rights are closely related to the primary debt commodity before classifying the equity elements.

For liabilities that do not involve derivatives, the fair value is measured using the market interest rate of a bond of comparable nature and without conversion characteristics. This amount is classified as a financial liability measured by amortized cost before conversion or redemption settlement. For other embedded derivatives that are not closely related to the risk characteristics of the principal contract (for instance, the embedded buy-back and redemption rights are confirmed to be substantially inconsistent with the amortized cost of the debt commodity on each execution date), they will be classified as components of liability and is measured at fair value through profit or loss in subsequent periods except for equity components. The amount of the equity component is determined by the conversion of fair value of the corporate bonds subtract the component of the liability, and the carrying amount will not be remeasured in subsequent accounting periods. If the issued conversion corporate bonds from the Group do include an equity element, they are handled in accordance with IFRS 9 Hybrid Instruments (i.e. IAS 30 before January 1, 2018).

The transaction costs are allocated to the liability and equity components in proportion to the ratio of the convertible corporate bonds' allocations to liability and equity components during initial recognition.

When holder of the convertible corporate bonds should request to exercise conversion rights before the maturity of the convertible bond, the person should adjust the carrying amount of the liability component element to the carrying amount at the time of exercise as the basis of entry for issuance of ordinary shares.

Financial liabilities

In accordance with the scope of application of IFRS 9 - Financial Instruments (IAS 39 prior to January 1, 2018), during initial recognition of financial liabilities, they will be either classified as financial liabilities measured at fair value through profit and loss or financial liabilities measured at amortized cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes available-for-sale financial liabilities and designated financial liabilities at fair value through profit and loss.

A financial asset will be classified as available-for-sale when it meets one of the following conditions:

- A. The primary purpose for acquisition of the asset is short-term sales;
- B. It is part of an identifiable financial instrument combination of the consolidated management at the time of initial recognition, and there is evidence that the combination is a short-term profit operating model in the near future; or
- C. It is a derivative (except for financial guarantee contract or a designated and effective hedging instrument).

For contracts that include one or multiple embedded derivative instruments, the entire hybrid (integrated) contract could be designated as a financial instrument at fair value through profit or loss. In addition, when it meets one the following conditions and can provide more relevant information, it could be designated as at fair value through profit or loss during initial recognition:

- A. It eliminates or significantly reduces a measurement or recognition inconsistency; or
- B. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the investment is provided internally on that basis to the key management personnel.

Any gain or loss from revaluation of these financial liabilities will be recognized as profit or loss. The gain or loss recognized as profit or loss includes any dividend or interest received from the financial liabilities.

Prior to January 1, 2018, if no offered price from an active market is present and the fair value cannot be reliably measured for these financial liabilities, they shall be measured at cost after subtracting any impairment loss at the closing day of the reporting period, and stated on the balance sheet as financial liabilities carried at cost.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include accounts payables and loans, and will continue to be measured through effective interest method after initial recognition. When financial liabilities are derecognized and amortized using effective interest method, related gain or loss and amortization will be recognized in profit or loss.

Calculation of the amortized cost will take discount or premium during acquisition and transaction cost into consideration.

Derecognition of financial liabilities

When the obligation of a financial liability is terminated, canceled or no longer effective, the financial liability will be derecognized.

When the Group and the creditors exchange debt instruments with significant differences, or make major changes to all or part of the existing financial liabilities (whether due to financial difficulties or otherwise), treatment will include derecognition of the original liabilities and the recognition of new liabilities. During derecognition of financial liabilities, the difference between the carrying amount and the total amount of the consideration paid or payable, including the transferred non-cash assets or liabilities assumed, is recognized in profit or loss.

(5) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities can only be offset and presented in net terms on the balance sheet only when the recognized amounts currently contain exercise of legal rights for offset and are intended to be settled on a net basis or can be realized simultaneously and the debt can be settled.

8. Fair value measurement

Fair value refers to the price required or transferred to an asset in an orderly transaction between market participants on a measurement date. Fair value measurement assumes that the transaction for the asset being sold or liability being transferred takes place in one of the following markets:

- (1) Principal market of the asset or liability, or
- (2) If no principal market exists, the most favorable market for the asset or liability

The Group needs to be able to enter the principal or most favorable market in order to carry out the transaction.

Fair value measurement of the asset or liability uses the assumption that market participants would adopt while pricing the asset or liability, where the assumption is that the market participants would take the most favorable economic conditions into consideration.

The fair value measurement of a non-financial asset takes into consideration the market participant's use of the asset for its highest price and best use or by selling the asset to another market participant who will use the asset for its highest price and best use to generate economic benefits.

The Group uses valuation techniques that are appropriate and relevant in the relevant circumstances to measure fair value and maximize the use of observable inputs and to minimize the use of unobservable inputs.

9. Inventory

Inventories are evaluated on a case-by-case basis by the cost and net realizable value.

Cost refers to the cost of bringing inventory to a state of sale or availability for production and location:

Raw materials and commodities - The weighted average method is used for the actual purchase cost.

Goods in progress and finished goods - including direct raw materials and manufacturing costs; weighted average is adopted.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Starting from January 1, 2018, provision of labor is treated in accordance with IFRS 15 and is not counted toward the inventory.

10. Property, plant, and equipment

Property, plant, and equipment is recognized at the acquisition cost less accumulated depreciation and accumulated impairment. The aforementioned cost includes the dismantling of property, plant and equipment, removing, and restoring the site on which it is located, and any necessary interest expense arising from unfinished construction. If the various component of property, plant or equipment is material, it shall be separately recognized for depreciation. When the material components of property, plant and equipment requires to be regularly replaced, the Group will see the item as a separate asset and to separately recognize it through its useful life and depreciation method. The carrying amount of the replaced component will be derecognized in accordance with the derecognition rule in IAS 16 - Property, Plant, and Equipment. When material inspection cost complies with criteria for recognition, it will be treated as a replacement cost and recognized as a part of the carrying amount of the property, plant, and equipment. All other fixture and maintenance expense will be recognized in profit or loss.

Depreciation is recognized through the straight-line method with the following asset useful life estimation:

Transportation vehicle: 5 years

Office equipment: 3-15 years

Leasehold improvements: 3-10 years

Other equipment: 3-10 years

After initial recognition of property, plant and equipment, or any of its material component, if disposal occurs or if inflow of economic benefit is not expected to occur from its use or disposal thereof in the future, it shall be derecognized and recognized in profit or loss.

Residual value, useful life and depreciation methods of property, plant and equipment will be evaluated at the end of each fiscal year. If expected value differs from previous estimates, the changes will be treated as changes in accounting estimates.

11. Lease

The Group is the lessee

Lease benefits under operating lease will be recognized as expense under the straight-line method during the lease period.

The Group is the lessor

All substantial risks and remuneration of the ownership of the leased items not transferred by the Group will be classified as operating lease. The initial direct cost arising from the arrangement of the operating lease is an addition to the carrying amount of the leased asset, and is recognized on the same basis as the rental revenue over the lease term. Rental revenue arising from operating lease will be recognized using the straight-line method during the lease term. Contingent rent will be recognized as revenue during the period in which rent will be available.

12. Intangible asset

Separately acquired intangible asset will be measured by cost during initial recognition. The cost of intangible assets acquired through business combination will be the fair value on the acquisition date. After initial recognition of intangible asset, its carrying amount will be the cost reduced by any accumulated amortization and accumulated impairment loss. Internally-arising intangible assets that do not meet the recognition criteria will not be capitalized, and will be recognized in profit or loss as they occur.

The useful life of an intangible asset has been classified as either finite or indefinite.

Intangible assets with finite useful life will be amortized during the duration of the useful life, and impairment tests will be conducted when there are indicators of impairment. The duration of amortization and method of amortization of intangible assets with finite useful life should be reviewed at least once at the end of each fiscal year. If the expected useful life of an asset is found to be different from the estimation or if the expected model of consumption of future economic benefits has changed, then the amortization method or duration of amortization shall be adjusted and treated as changes in estimate.

Intangible assets with indefinite useful life will not be amortized; however, impairment test shall be conducted based on individual asset or cash-generating unit level in each year. Intangible asset with indefinite useful life will be expected in each term for whether matters

and conditions continue to support its indefinite useful life. If the useful life is changed from indefinite to finite, applicability will be deferred.

Gains or loss arising from derecognition of intangible asset will be recognized in profit or loss.

Below is a compilation of the Group's accounting policy for intangible assets:

	Computer software
Useful life	1~5 years
Amortization method used	Straight-line amortization during the expected useful life
Internally-arising or acquired externally	Acquired externally

13. Non-monetary impairment

At the end of every reporting period, the Group will evaluate all assets for indicators of impairment pursuant to IAS 36 - Impairment of Assets. If signs of impairment exist or if regular annual impairment test is required for a certain asset, the Group will test it on the basis of individual assets or the cash generating unit to which the asset belongs. If result of the impairment test indicates that the carrying amount of the asset or the cash generating unit to which the asset belongs is greater than its recoverable amount, impairment loss will be recognized. Recoverable amount is the higher of the net fair value or useful value.

At the end of every reporting period, the Group will evaluate all assets except for goodwill for indicators of whether previously recognized impairment loss no longer exists or has been reduced. If such signs exist, the Group will estimate the recoverable amount of the asset or the cash generating unit. If the estimated service potential of the asset changes, resulting in an increase in the recoverable amount, the impairment will be reversed to profit or loss. However, the carrying amount after reversal shall not exceed the amount of the depreciation or amortization of the asset after deducting the depreciation or amortization.

Impairment loss and reversal of continuing operations will be recognized in profit or loss.

14. Revenue recognition

Accounting treatment as of January 1, 2018:

The Group's revenue from customer contracts are mostly from sales of goods and provision of service, and their accounting treatments are separately explained as follows:

Sale of goods

The Group sells products and recognizes revenue when the promised product is delivered to the customer and the customer obtains control (the customer has the ability to lead the use of the product and obtain almost all of the remaining benefits of the product) and satisfies performance obligation. The Group's primary products are various types of medicine, health care supplements, and products for mothers and babies. During some of the sales transactions, when the ownership of the goods is transferred to the customer, the Group will provide points as part of the customer loyalty program based on the transaction price. The points will provide the customers with preferential discount during the customer's subsequent purchases within the next year. The Group distributes the transaction price and points given based on the relative selling price of the goods sold and the points, and the transaction price allocated to the sales goods is recognized when the ownership of the goods is transferred to the customer, while the rest will be recognized as contractual liability based on the acquisition price.

Retail customers of the Group have the right to enjoy discount during future purchase with the points they collect. When points are collected from customer use or when the points expire one year after the initial sales, revenue from the points given will be recognized, and relevant contractual liability will be adjusted accordingly.

The credit period for the product sales transactions of the Group is 120 days. Accounts receivable will be recognized when most of the contracts are subject to product transfer control and have the right to receive unconditional consideration. These receivables are usually short-term and do not pose as significant financing components.

Provision of service

Service revenue of the Group mostly come from provision of management service. Revenue will be recognized when the committed service is transferred to the customer and satisfies performance obligation.

Accounting treatment prior to January 1, 2018:

Revenue is recognized when economic benefits are very likely to flow into the Group and amounts can be reliably measured. Revenue is measured by fair value through the considerations already received or are receivable. The conditions and methods for recognizing various revenues are as follows:

Sale of goods

Revenue from sale of goods will be recognized when all of the following conditions have been met: material risks and compensations associated with ownership of the product have been transferred to the buyer, no continued participation in management nor is effective control maintained for goods that are sold, considerations of revenue can be reliably measured, economic benefits related to the transaction are highly likely to flow into the Group, and costs related to the transaction can be reliably measured.

The Group distributes the fair value of the sale of goods received to the goods sold and customer loyalty program for the sale of goods transaction that has provided the customer with the loyalty program. The fair value of the customer loyalty program can be separately measured in considering the allocation of the corresponding amount to the loyalty program. Revenue allocated to customer loyalty program should be deferred, and revenue should be recognized when the customer exchanges the points toward the program.

Provision of service

Service revenue of the Group mostly come from provision of management service. Revenue will be recognized at service completion.

Interest revenue

The interest revenue of financial assets measured at amortized costs (including loans and accounts receivable and held-to-maturity financial assets) and financial assets available-for-sale, shall be estimated through effective interest method, and the interest revenue will be recognized in profit or loss.

15. Retirement pension plan

The Company and its domestic subsidiaries' employee retirement method is applicable for all formal employees. The full amount of employee pension fund is managed by the Labor

Retirement Reserve Supervisory Committee, and deposited in designated pension fund. Since the aforementioned pension is deposited under the name of the Labor Retirement Reserve Supervisory Committee, and completely separate from the Company and its subsidiaries, it is not included in the above Consolidated Financial Statements.

For retirement pension plans with defined allocations, the Company and its subsidiaries are obliged to allocate a certain ratio of employee pension allocation of no less than 6% of the employee's monthly pay. The amount of allocation will be recognized as current expense.

For retirement pension plans with defined benefit plan, the Company will include the amounts after the reporting period on actuarial report through projected unit credit method. Revaluation of net defined benefit liabilities (asset) includes any changes in return on plan assets and asset ceiling and will be reduced by amount of net interest included in the net defined benefit liability (asset) and actuarial profit or loss. When revaluation of net defined benefit liability (asset) occurs, it will be recognized under other comprehensive income (loss) and immediately recognized in retained earnings.

Past service cost is the change from the present value of the defined benefit plan due to plan revision or reduction, and will be recognized as expense on the earlier of the two dates:

- (1) When the plan is revised or reduced; and
- (2) When the Group recognizes relevant restructuring cost or termination benefits.

Net interest of net defined benefit liability (asset) is net defined benefit liability (asset) multiplied by the discount rate, and both will be decided at the beginning of a reporting period. Subsequently, any changes that occur to the net defined benefit liability (asset) from allocations and benefit expense during the period will be considered.

16. Share-based payment transaction

The cost of the equity-settled share-based payment transaction between the Group and our employees, is measured by the fair value on the date of the share-based payment transaction. The Fair value is measured by an appropriate pricing model.

The cost of the equity-settled share-based payment transaction is gradually recognized when service terms and performance conditions are met, and when the equity recognized by the counterparty increases. The accumulated expense from equity-settled share-based payment transactions before the end of every reporting period before the vesting date, is a reflection on the passing of the vesting period at the best estimate from the Group for the number of

equity instruments that the Group will ultimately own. At the beginning and end of each reporting period, the cumulative cost changes recognized for the share-based payment transactions will be recognized in profit or loss for the period.

If ultimately, the bonus for share-based payment does not meet the vesting criteria, no expense shall be recognized. However, if the vesting conditions of the equity delivery transaction are related to market conditions or non-vested conditions, when all service or performance conditions are met, related expenses shall be recognized whether the market conditions or non-vested conditions have been met or otherwise.

When equity delivery transaction conditions are modified, at least the initial benefit cost prior to the alternation shall be recognized. In case the share-based payment terms are modified, if the total fair value of the share-based payment transaction is increased or more beneficial to the employees, the additional equity delivery transaction cost will be recognized.

If the share-based payment bonus plan for the equity delivery is canceled, it will be treated as vested on the date of cancellation and the remaining unrecognized share-based payment will be immediately recognized. This includes rewards outside of vesting conditions and have not been achieved by either the Group or the employees. If the original cancelled reward is replaced by a new reward scheme, and has been confirmed that the new plan will replace the existing on the grant date, the cancelled and the new granted reward will be treated as modifications to the existing plan.

Dilution effect of outstanding options will be calculated by additional shares during calculation of the dilution on the EPS.

17. Income tax

Income tax expense (benefit) refers to the aggregated amount related to current income tax and deferred income tax that is included in the current profit or loss

Current income tax

Income tax liabilities (assets) for this period and for prior periods, are measured at the tax rates and tax laws enacted in the legislative or substantive legislation at the end of the reporting period. Current income tax related to items recognized in other comprehensive income or directly recognized in equity, will be separately recognized in other comprehensive income (loss) or equity rather than profit or loss.

Surplus on unappropriated retained earnings will be recognized as income tax expense on the date of surplus distribution from the Shareholders' Meeting.

Deferred income tax

Deferred tax is calculated based on the temporary difference between the taxable basis of assets and liabilities and the carrying amounts on the balance sheet at the end of the reporting period.

All taxable temporary difference shall be recognized as deferred tax liabilities except for the following:

- (1) Initial recognition of goodwill; or the initial recognition of an asset or liability not arising from a business combination transaction and does not affect accounting profits or taxable income (loss) at the time of the transaction;
- (2) Arising from investment in subsidiaries, affiliates or joint ventures, whose point of reversal can be controlled and there may not be any taxable temporary difference that shall be reversed in the foreseeable future.

Deferred income tax assets that are deductible from temporary differences, unused tax losses and unused income tax deductions are recognized in the context of probable future taxable income except for the following:

- (1) Deductible temporary difference arising from business combination with a non-affiliate, and is related to initial recognition of assets or liabilities that do not affect accounting profit or loss of taxable income (loss) at the time of transaction;
- (2) Related to deductible temporary difference from equity in investments in subsidiaries, affiliates, or joint ventures, and is highly possible to revert in the foreseeable future, and the revert may be to the extent that there will be sufficient taxable income at the time for recognition of the temporary difference.

Deferred income tax assets and liabilities are measured at the tax rate of the expected asset realization or in the period in which the liability is settled. The tax rate is based on the tax rates and tax laws that have been enacted in the legislative or substantive legislation at the end of the reporting period. The measurement of deferred income tax assets and liabilities reflects the tax consequences arising from the manner in which the asset is expected to be

recovered or the carrying amount of the liability is settled at the end of the reporting period. The deferred income tax that is related to items not recognized in profit or loss will also not be recognized in profit or loss. It will be recognized in other comprehensive income (loss) or directly recognized in equity based on its related transaction. Deferred tax assets shall be reviewed and recognized at the end of each reporting period.

For deferred tax assets and liabilities, only the offset between the current tax assets and current tax liabilities carries legally enforceable rights. Moreover, deferred income tax may be offset when it is subject to the same taxpayer and is related to the income tax levied by the same tax authority.

V. The primary sources of uncertainties in major accounting judgments, estimates, and assumptions

When preparing the Consolidated Financial Statements, the Group's management shall exercise judgment, estimation and assumption at the end of the reporting period. This will influence the reported amounts of revenue, expense, assets and liabilities, and disclosure on liabilities. Nevertheless, the uncertainty of these material assumptions and estimates may result in material adjustments to the carrying amount of an asset or liability in the future.

Estimates and assumptions

At the end of a reporting period, major source of information for uncertainties in regards to estimates and assumptions for the future, present material risk in material adjustments to the carrying amounts of assets and liabilities in the next fiscal year. This will be explained in the following:

(1) Fair value of financial instruments

When the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from an active market, the fair value will be determined by valuation techniques. These include income approach (for example, the discounted cash flow method) or market approach, and changes in the assumptions used in these models will influence the fair value of the reported financial instruments. Please see Note 12 for details.

(2) Accounts receivable - estimates on impairment loss

Starting from January 1, 2018

The Group's estimate of impairment loss for receivables is measured by the amount of

estimated credit losses over its lifetime, which will be based on the difference between the contractual cash flow (carrying amount) receivable and the expected cash flow (assessment of forward-looking information). However, discount effect of short-term receivables is insignificant and credit loss will not be measured by undiscounted difference. If the actual cash flow in the future is less than the estimate, there may be material impairment loss. Please see Note 6 for details.

Before January 1, 2018

When objective evidence indicates signs of impairment, the consolidated company shall take estimate of future cash flow into account. Impairment loss shall be measured as the difference between the carrying amount of the asset and the estimated future cash flow (excluding future credit loss that has yet to be incurred) based on the initial effective discounted present value of the financial asset. However, the discounted effect of short-term receivables is not significant, and the impairment loss shall be measured as the difference between the carrying amount of the assets and the undiscounted estimated future cash flows. If the actual cash flow in the future is less than the estimate, there may be material impairment loss. Please see Note 6 for details.

(3) Inventory

The estimated value of the net realized value of inventories is the most reliable evidence of the expected change in the amount of cash available for the inventory at the estimated time when the inventory is damaged, all or part of it becomes obsolete or declines in the selling price and influences from product shelf life. Please see Note 6 for detail.

(4) Retirement pension plan

The present value of defined benefit costs and defined benefits obligations in retirement pension plan is measured by actuarial valuation. Actuarial valuation involves various assumptions, including discount rate and changes in expected salaries and more. Please see Note 6 for details on the assumptions used to measure the cost of defined benefit costs and defined benefit obligations.

(5) Share-based payment transaction

Cost of equity settlement transaction between the Group and our employees are measured by the fair value of the equity instrument on the grant date. When estimating the fair value of the share-based payment transaction, the best pricing model should be determined based

on the benefit conditions. These estimates also require determining the best parameters used in the pricing model, including: expected duration of the stock options, estimated fluctuations, estimated rate of dividend, and any assumptions made therein. Please see Note 6 for explanations on the assumptions and models used to measure the fair value of the share-based payment transaction.

(6) Income tax

Uncertainties for income tax exist in the interpretation of complex tax laws, and the future taxable amounts and time points. Due to the prevalence of international business relationships and the long-term nature and complexity of contracts, there may be differences between the actual results and assumptions made, or alternatively, such assumptions in the future may force recorded interest tax benefits and expenses to be adjusted in the future. Recognition of income tax is based on reasonable estimates of the possible audit results of the tax authorities of the countries in which the Group operates. Amounts recognized are based on different elements, for instance, the past experience of tax review and the taxation subject may have different interpretations of the tax law from the taxation authority. Differences in these interpretations could lead to various issues due to the conditions of the countries in which the Group's individual entities operate.

Unused tax loss and deferred tax carried forward and deductible temporary differences are recognized as deferred tax assets based on the context that it is highly likely future taxable income or taxable temporary differences will occur in the future. The determination of the amount of deferred tax asset to be recognized is at the point and standards where there may be differences between the future taxable income and taxable temporary difference as well as the estimate of future tax planning strategies.

VI. Explanations of significant accounting items

1. Cash and cash equivalents

	2018.12.31	2017.12.31
Cash in treasury and petty cash	\$5,048	\$3,936
Cheques and demand deposit	558,613	257,116
Fixed deposit	70,000	13,620
Total	<u>\$633,661</u>	<u>\$274,672</u>

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2. Financial assets measured at amortized costs

	2018.12.31	December 31, 2017 (Note)
Restrictive fixed deposit	\$24,000	
Fixed deposit	3,000	
Less: allowance for loss	-	
Total	<u>\$27,000</u>	
Current	<u>\$24,000</u>	
Non-current	<u>\$3,000</u>	

Note: The Group has adopted IFRS 9 as of January 1, 2018, and selected not to recompile comparison period pursuant to transitional treatment of IFRS 9.

The Group only has transactions with financial institutions in good credit standing and therefore has no material credit risk.

The Group's financial assets measured at amortized costs have not had conditions of guarantee/endorsement.

3. Debt instrument investments without active market

	December 31, 2018 (Note)	2017.12.31
Restrictive fixed deposit		\$24,000
Fixed deposit		30,240
Total		<u>\$54,240</u>
Current		<u>\$51,240</u>
Non-current		<u>\$3,000</u>

Note: The Group has adopted IFRS 9 as of January 1, 2018, and selected not to recompile comparison period pursuant to transitional treatment of IFRS 9.

The Group classified certain financial instrument as debt instrument investments without active market pursuant to IAS 39 prior to January 1, 2018. The aforementioned debt instrument investment has not had conditions of endorsement/guarantee.

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4. Notes receivable, net

	2018.12.31	2017.12.31
Notes receivable - from operating activities	\$2,072	\$531
Less: allowance for loss	-	-
Total	<u>\$2,072</u>	<u>\$531</u>

The Group's notes receivable has not had conditions of endorsement/guarantee.

The Group has adopted IFRS 9 in valuation of impairment as of January 1, 2018. Please see Note 6 for information on allowance for loss. 19, Please see Note 12 for information on credit risk.

5. Net accounts receivable

(1) Below is a list of the net accounts receivable:

	2018.12.31	2017.12.31
Total accounts receivable	\$348,236	\$275,838
Less: allowance for loss	(342)	(283)
Net amount	<u>\$347,894</u>	<u>\$275,555</u>

(2) The aforementioned accounts receivable has not had conditions of endorsement/guarantee.

(3) The Group's credit line to customers is usually 120 days. The Group has adopted IFRS 9 in valuation of impairment as of January 1, 2018. Please see Note 6 for information on allowance for loss for year 2018. 19 IAS 39 was adopted for valuation of impairment prior to January 1, 2018. The information on the changes in bad debts and ageing analysis for the impairment of accounts receivable in year 2017 is as follows (please see Note 12 for credit risk disclosure):

	Separately evaluated impairment loss	Group-evaluated impairment loss	Total
2017.01.01	\$-	\$283	\$283
Amount incurred (or	-	-	-

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reversed) in the year

Written off for

unrecoverable reasons

2017.12.31

-	-	-
\$-	\$283	\$283

(4) Ageing analysis of net accounts receivable is as follows:

	Not overdue and no impairment	Overdue but not yet impaired accounts receivable		Total
		31-180 days	More than 181 days	
2017.12.31	\$275,126	\$383	\$46	\$275,555

6. Inventory

(1) Net inventory is as follows:

	2018.12.31	2017.12.31
Work-in-progress	\$1,743	\$541
Inventory	714,912	511,507
Total	\$716,655	\$512,048

(2) The Group recognized inventory cost of NT\$3,694,983,000 and NT\$2,703,732,000 in 2018 and 2017 respectively, including the following expenses:

	2018	2017
Allowance for inventory valuation and obsolescence loss (gains on recovery)	\$-	\$(25)
Inventory scrap loss	3,256	1,480
Inventory loss	4,766	3,033
Total	\$8,022	\$4,488

Due to valuation of recognized allowance for inventory valuation and obsolescence loss of partial inventory scrap in 2017, the Group has recognized gains on recovery of inventory.

(3) Aforementioned inventory has not had conditions of endorsement/guarantee.

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7. Property, plant, and equipment

	Transportation vehicle	Office equipment	Leasehold improvements	Other equipment	Construction in progress	Total
Cost:						
2018.01.01	\$15,346	\$187,481	\$221,867	\$10,900	\$760	\$436,354
Acquisition	-	60,709	63,496	41,787	5,089	171,081
Disposal	(658)	(2,411)	(2,253)	(1,357)	-	(6,679)
Transfer	-	-	-	-	-	-
2018.12.31	<u>\$14,688</u>	<u>\$245,779</u>	<u>\$283,110</u>	<u>\$51,330</u>	<u>\$5,849</u>	<u>\$600,756</u>
2017.01.01	\$12,872	\$136,681	\$163,713	\$12,789	\$-	\$326,055
Acquisition	2,496	50,800	58,154	1,638	760	113,848
Disposal	(22)	-	-	(3,527)	-	(3,549)
Transfer	-	-	-	-	-	-
2017.12.31	<u>\$15,346</u>	<u>\$187,481</u>	<u>\$221,867</u>	<u>\$10,900</u>	<u>\$760</u>	<u>\$436,354</u>
Depreciation and impairment:						
2018.01.01	\$9,823	\$76,157	\$64,349	\$4,467	\$-	\$154,796
Depreciation	821	28,605	27,770	4,864	-	62,060
Disposal	(548)	(388)	(288)	(497)	-	(1,721)
Transfer	-	-	-	-	-	-
2018.12.31	<u>\$10,096</u>	<u>\$104,374</u>	<u>\$91,831</u>	<u>\$8,834</u>	<u>\$-</u>	<u>\$215,135</u>
2017.01.01	\$9,069	\$54,647	\$42,838	\$5,732	\$-	\$112,286
Depreciation	771	21,510	21,511	2,262	-	46,054
Disposal	(17)	-	-	(3,527)	-	(3,544)
Transfer	-	-	-	-	-	-
2017.12.31	<u>\$9,823</u>	<u>\$76,157</u>	<u>\$64,349</u>	<u>\$4,467</u>	<u>\$-</u>	<u>\$154,796</u>
Net carrying amount:						
2018.12.31	<u>\$4,592</u>	<u>\$141,405</u>	<u>\$191,279</u>	<u>\$42,496</u>	<u>\$5,849</u>	<u>\$385,621</u>
2017.12.31	<u>\$5,523</u>	<u>\$111,324</u>	<u>\$157,518</u>	<u>\$6,433</u>	<u>\$760</u>	<u>\$281,558</u>

Aforementioned property, plant, and equipment has not had conditions of endorsement/guarantee.

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8. Intangible asset

	<u>Computer software</u>
Cost:	
2018.01.01	\$4,912
Acquisition - separately acquired	5,635
Derecognized at the end of useful life	(851)
2018.12.31	<u>\$9,696</u>
2017.01.01	\$1,205
Acquisition - separately acquired	4,060
Derecognized at the end of useful life	(353)
2017.12.31	<u>\$4,912</u>
Amortization and impairment:	
2018.01.01	\$1,915
Amortization	5,571
Derecognized at the end of useful life	(851)
2018.12.31	<u>\$6,635</u>
2017.01.01	\$765
Amortization	1,503
Derecognized at the end of useful life	(353)
2017.12.31	<u>\$1,915</u>
Net carrying amount:	
2018.12.31	<u>\$3,061</u>
2017.12.31	<u>\$2,997</u>

Amortization for recognition of intangible assets is as follows:

	<u>2018</u>	<u>2017</u>
Operating expenses	<u>\$5,571</u>	<u>\$1,503</u>

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9. Other non-current assets

	2018.12.31	2017.12.31
Prepaid equipment	\$18,250	\$8,750
Refundable deposits	50,928	45,085
Long-term prepaid rent	6,432	-
Total	<u>\$75,610</u>	<u>\$53,835</u>

10. Short-term loans

	Range of interest rates (%)	2018.12.31	2017.12.31
Unsecured bank loan	1.25%	\$-	\$70,000

As of December 31, 2018 and 2017, the Group's unused short-term borrowing credits are NT\$100 million and NT\$310 million, respectively.

11. Financial liabilities measured at fair value through profit or loss

	2018.12.31	2017.12.31
Embedded derivative financial instruments		
Issuance of redemption rights for domestic convertible corporate bonds	\$3,690	\$-
Current	\$-	\$-
Non-current	3,690	-
Total	<u>\$3,690</u>	<u>\$-</u>

12. Other payables

	2018.12.31	2017.12.31
Expenses payable	\$96,449	\$71,084
Equipment payable	9,695	5,873
Total	<u>\$106,144</u>	<u>\$76,957</u>

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13. Other current liabilities

(1) Details of other current liabilities are as follows:

	2018.12.31	2017.12.31
Prepaid sale of goods	Note	\$295
Other current liabilities	\$7,292	9,954
Deferred revenue - customer loyalty program	Note	2,402
Total	<u>\$7,292</u>	<u>\$12,651</u>

(2) Customer loyalty program

	2018 (Note)	2017
Beginning balance		\$2,092
Added in the current period		2,065
Used in the current period		(818)
Expired in the current period		(937)
Ending balance		<u>\$2,402</u>

	December 31, 2018 (Note)	2017.12.31
Current		\$2,402
Non-current		-
Total		<u>\$2,402</u>

Note: The Group has adopted IFRS 15 as of January 1, 2018, and selected not to recompile comparison period pursuant to transitional treatment of IFRS 15.

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14. Bonds payable

(1) Details of bonds payable are as follows:

	2018.12.31	2017.12.31
Elements of liability:		
Nominal amount of domestic convertible bond payable	\$300,000	\$-
Less: discount on domestic convertible bond payable	(13,431)	-
Sum	286,569	-
Less: portion maturing within 12 months	-	-
Net amount	\$286,569	\$-
Embedded derivative financial instruments - redemption rights	\$3,690	\$-
Equity element - conversion rights	\$10,001	\$-

Please Note 6 for valuation of profit or loss for embedded derivative financial instruments - redemption rights and the recognition of interest expense from corporate bonds. 22

(2) The Company has issued the first batch of unsecured convertible bonds on June 12, 2018 with the following issuance terms:

- (A) Total issuance: NT\$300 million
- (B) Date of issuance: 107.06.12
- (C) Issued price: Issuance at par
- (D) Coupon rate: 0%
- (E) Duration: June 12, 2018~June 12, 2021
- (F) Repayment at maturity: Unless the bondholders convert into ordinary shares of the company in accordance with Article 10 of the present Procedures, or exercise the right of selling under Article 19 of the present Procedures, or the Company redeems in advance or exercise redemption at securities firm in accordance with Article 18 of these Procedures, the Company will repay the converted bonds held by bondholders in cash in accordance with the denomination of the bonds when the Company's conversion of bonds expires.
- (G) Conversion period: Starting from the day after the 3-month period of issuance of this convertible bond (September 13, 2018) to the date due (June 12, 2021), except for (1)

stock transfer is halted pursuant to applicable laws; (2) 15 business days before the Company's ex-dividend date for share or cash dividend distribution or ex-stock transfer date for capital increase, until the base date for right distribution, (3) capital reduction base-date to one day before the capital reduction in issuance of shares, the creditor may at any time request the Company to convert the convertible bond into ordinary shares of the Company in accordance with the provisions of the present Procedure.

(H) Conversion price and adjustments:

The price of conversion was set at NT\$90.8 per share during issuance. In the event of an adjustment of the conversion price of the Company's ordinary share conversion rights or stock options in accordance with the terms of the issuance, the conversion price shall be adjusted in accordance with the formula stipulated in the terms of the issuance.

Due to capital increase and surplus transfer in 2018, the Company's conversion price adjustment was carried out in accordance with the provisions of the first batch of domestic unsecured convertible corporate bonds issuance and conversion procedures. Therefore, from July 19, 2018, the conversion price was adjusted from NT\$90.8 to NT\$79.8.

(I) The Company's redemption rights:

(1) The conversion of corporate bonds shall be from the day after the expiration of three months from the date of issue (September 13, 2018) to forty days before the expiration of the issuance period (May 3, 2021). When the closing price of the stock exceeds 30% (inclusive) of the conversion price for the 30th consecutive business day, the Company may send a one-month "bond recovery notice" to the bondholder by registered mail within the next 30 business days. (The aforementioned foregoing period starts from the date of the Company's letter of notice, and the expiration date of the period is the base date for the bond recovery, and the aforementioned period cannot be the conversion termination period as started in Article 9). (The bondholder will be based on the bondholder's register on the fifth business day prior to the date of the "bond recovery notice," and for investors who subsequently obtain the conversion of corporate bonds due to trading or other reasons, they shall be notified by way of announcement.) Taipei Exchange will also be notified in writing, and the convertible bonds of the bondholders shall be recovered in cash in five business days after the bond recovery base date.

(1) The conversion of corporate bonds shall be from the day after the expiration of three months from the date of issue (September 13, 2018) to forty days before the expiration of the issuance period (May 3, 2021). If the outstanding balance of the convertible bond is less than 10% of the initial total denomination at issuance, the Company may send a one-month "bond recovery notice" to the bondholder by registered mail at any time. (The

aforementioned foregoing period starts from the date of the Company's letter of notice, and the expiration date of the period is the base date for the bond recovery, and the aforementioned period cannot be the conversion termination period as started in Article 9.) The bondholder will be based on the bondholder's register on the fifth business day prior to the date of the "bond recovery notice," and for investors who subsequently obtain the conversion of corporate bonds due to trading or other reasons, they shall be notified by way of announcement.) Taipei Exchange will also be notified in writing, and the convertible bonds of the bondholders shall be recovered in cash in five business days after the bond recovery base date.

(3) If the creditor does not reply to the Company's share transfer agency before the bond recovery base date denoted on the "bond recovery notice" by writing (the notice is effective at the time of delivery, and takes postmark as its basis), the Company shall redeem the bonds in cash on the maturity date at nominal value.

- (J) Puttable rights of bondholders: The base date for selling the convertible bonds back in advance is the two-year issuance date (June 12, 2020) of the convertible bonds. (1) Forty days before the base date (May 3, 2021) of put option, the Company may send a "puttable right notification" to the bondholder by registered mail. (The bondholder will be based on the bondholder's register on the fifth business day prior to the date of the "puttable option notification," and for investors who subsequently obtain the conversion of corporate bonds due to trading or other reasons, they shall be notified by way of announcement. Taipei Exchange will also be notified in writing, and the convertible bonds of the bondholders shall be recovered in cash in five business days after the bond recovery base date. Creditor can reply to the Company's share transfer agency before the bond puttable option date denoted on the "puttable right notification" by writing (the notice is effective at the time of delivery, and takes postmark as its basis), and request the Company to redeem the bonds held in cash by using the bond denomination plus interest compensation (101.0025% of the bond denomination for the two years, or substantial rate of return 0.50%). After accepting the puttable option request, the Company shall redeem the bond in cash within five business days after the puttable option date. If the Taipei Exchange is not in operation, the above date will be postponed to the next business day.

15. Retirement pension plan

Defined allocation plan

The Group's employee retirement method adopts the defined allocation plan pursuant to the Labor Pension Act. Pursuant to the Act, the Company is obligated to allocate no less than 6% of its employee's monthly salary as employee pension. The Company has established employee retirement method in accordance with the Act, and allocates 6% based on each employee's salary to his/her respective individual retirement account (IRA) at the Bureau of Labor Insurance.

The Group recognized defined allocation expense of NT\$18,556,000 and NT\$14,591,000 in 2018 and 2017 respectively.

Defined benefit plan

The Company's employee retirement method adopts the defined benefit plan pursuant to the Labor Standards Act. Payment of employee pension is calculated on the base points of an employee's years of service and average monthly wages when the person is permitted to retire. Two base points will be assigned for 15 years (inclusive) of service or less, and for those exceeding 15 years of service, every year will be assigned an additional base point. The maximum base points allowed is 45. The Company provides a pension fund of 2% of the total salary on a monthly basis in accordance with the Labor Standards Act, and deposits it in a designated account at the Bank of Taiwan in the name of the Labor Retirement Reserve Supervisory Committee.

The Bureau of Labor Funds, Ministry of Labor, Executive Yuan, undertakes asset allocations based on the income and expenditure of the employee retirement fund. Investment of the fund is invested in self-operated and entrusted management methods, and adopts active and passive management medium- to long-term investment strategies. The Bureau of Labor Funds takes risks including market, credit, and liquidity into consideration in setting limits and control plan for the fund so that adequate flexibility can be used toward the compensation objective without excessive risk. As of December 31, 2018, the Company's defined benefit plan is expected to allocate NT\$43,000 within the following year.

As of December 31, 2018 and December 31, 2017, the Company's defined benefit plan is expected to be realized by years 2036 and 2034.

The following table summarizes the costs of defined benefit plan recognized to profit or

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loss:

	2018	2017
Current service cost	\$-	\$-
Net interest from net defined benefit assets (liabilities)	56	62
Total	\$56	\$62

Adjustments of the present value of the defined benefit obligations and fair value of the plan assets:

	2018.12.31	2017.12.31	2017.01.01
Present value of the defined benefit obligations	\$7,048	\$6,538	\$6,198
Fair value of plan assets	(3,355)	(3,015)	(2,764)
Other non-current liabilities - net defined benefit liabilities recorded	\$3,693	\$3,523	\$3,434

Adjustments to the net defined benefit liabilities (assets):

	Present value of the defined benefit obligations	Fair value of plan assets	Net defined plan liabilities (assets)
2017.01.01	\$6,198	\$(2,764)	\$3,434
Current service cost	-	-	-
Interest expense (income)	112	(50)	62
Past service cost and settlement gain or loss	-	-	-
Sum	6,310	(2,814)	3,496
Remeasurement of defined benefit liabilities/assets:			
Actuarial gains or losses from demographic assumptions	61	-	61
Actuarial gains or losses from financial assumptions	209	-	209
Experience-based adjustments	(42)	-	(42)
Remeasurement of defined benefit assets	-	22	22

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	Present value of the defined benefit obligations	Fair value of plan assets	Net defined plan liabilities (assets)
Sum	228	22	250
Benefits paid	-	-	-
Employer allocations	-	(223)	(223)
Effects of changes in foreign exchange rates	-	-	-
2017.12.31	6,538	(3,015)	3,523
Current service cost	-	-	-
Interest expense (income)	104	(48)	56
Past service cost and settlement gain or loss	-	-	-
Sum	6,642	(3,063)	3,579
Remeasurement of defined benefit liabilities/assets:			
Actuarial gains or losses from demographic assumptions	-	-	-
Actuarial gains or losses from financial assumptions	504	-	504
Experience-based adjustments	(98)	-	(98)
Remeasurement of defined benefit assets	-	(69)	(69)
Sum	406	(69)	337
Benefits paid	-	-	-
Employer allocations	-	(223)	(223)
Effects of changes in foreign exchange rates	-	-	-
2018.12.31	\$7,048	\$(3,355)	\$3,693

The following key assumptions are used to determine the Company's defined benefit plan:

	2018.12.31	2017.12.31
Discount rate	1.16%	1.60%
Expected rate of salary increase	2.00%	2.00%

Sensitivity analysis of every material actuarial assumption:

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	2018		2017	
	Increase in defined benefit obligation	Decrease in defined benefit obligation	Increase in defined benefit obligation	Decrease in defined benefit obligation
0.5% increase in discount rate	\$-	\$567	\$-	\$511
0.5% decrease in discount rate	667	-	609	-
0.5% increase in expected salary	658	-	603	-
0.5% decrease in expected salary	-	565	-	511

The purpose of conducting the aforementioned sensitivity analysis is to analyze the possible impact of determining a defined benefit obligation when a single actuarial assumption (e.g. discount rate or expected salary) undergoes a reasonably likely change, assuming all other assumptions remain unchanged. Since some of the actuarial assumptions are related to each other, there are few separate actuarial assumptions that undergo singular changes in reality, so the analysis has its limitations.

The methods and assumptions used in the current period of sensitivity analysis are no different from the previous periods.

16. Equity

(1) Common Stock

As of December 31, 2018 and December 31, 2017, the Company's authorized share capital is NT\$600 million and has issued NT\$365,516 thousand and NT\$305,015 thousand in shares respectively. Each share has a par value of NT\$10, and 36,551 thousand shares and 30,501 thousand shares were issued respectively. Each share has one voting right and right to receive dividend.

On March 9, 2018, the Company's Board of Directors' meeting has approved the capital increase of NT\$30 million at the issued price of NT\$62 per share. July 19, 2018 was set to be the base date of the capital increase, and the paid-in capital after the increase is NT\$335,015 thousand with par value of NT\$10 at 33,501 thousand shares.

On June 29, 2018, the Company's Annual Shareholders' Meeting has approved the capital increase of NT\$30,501 thousand. Upon approval from the Board of Directors, August 9, 2018 was set to be the base date of the capital increase, and the paid-in capital after the increase is NT\$365,516 thousand with par value of NT\$10 at 36,551 thousand shares.

(2) Capital surplus

	2018.12.31	2017.12.31
Share premium of ordinary shares	\$421,308	\$265,308
Employee stock options	2,928	2,952
Stock options	10,001	-
Expired stock options	1,562	1,279
Total	<u>\$435,799</u>	<u>\$269,539</u>

According to the law, the capital reserve shall not be used except to make up for Company deficit. When the Company has no deficit, the overage of the shares issued by the par value and the capital reserve generated by the proceeds of the donation can be used to charge up the capital up to a certain percentage of the paid-up capital each year. The aforesaid capital surplus may also be distributed in cash in proportion to the original share of the shareholders. In addition, capital surplus arising from any long-term equity investment shall not be used for any purpose.

(3) Appropriation of net income and dividend policy

A. Appropriation of net income

Pursuant to the Company's Articles of Incorporation, if surplus is available after closing the accounts, it shall be first used to pay taxes, make up past deficits, then 10% of which shall be appropriated as legal capital reserve. However, the Company is exempted from such appropriation in case the legal capital reserve has reached the Company's total capital, and the Company shall appropriate special capital reserve according to applicable laws or regulations from competent authority. The remainder of which and any accumulated retained earnings from previous years shall be appropriated as net income available for appropriation. The Board of Directors shall propose the appropriation of net income and submit for a resolution at the Shareholders' Meeting, then distribute bonus to shareholders accordingly.

B. Dividend policy

To respond to economic changes and to strengthen the Company's financial structure, the Company has adopted a balanced dividend policy. The policy for future dividend distribution is as follows:

1. The Company will appropriate no less than 10% of the aforementioned distributable net income as shareholders' bonus. Nevertheless, when distributable net income is less than 10% of the paid-in capital, the Company may propose not to appropriate any bonus.
2. In consideration of a balanced and stable dividend policy, the Company will appropriate either share or cash dividend accordingly. Appropriations of cash dividend shall be no less than 10% of the annual total dividends.

C. Legal capital reserve

Pursuant to the Company Act, legal capital reserve shall be appropriated until the total sum of which has reached the paid-in capital. Legal capital reserve shall be used toward making up for deficit. When the Company does not have past deficits, the Company pay issue new shares or distribute cash with the portion of legal capital reserve that exceeds 25% of the paid-in capital.

D. Special capital reserve

After adoption of the IFRS, pursuant to Directive Letter No. 1010012865 from the FSC, during first-time adoption, on the conversion date, the Company's conversion adjustment of unrealized revaluation increment and cumulative conversion adjustment to the retained earnings portion due to adoption of IFRS 1 - First-time Adoption of IFRS' exemption item granted the Company the option of appropriating the same amount of special capital reserve. After adoption of IFRS in preparing financial statements, during appropriation of distributable net income, the Company appropriated the difference between the balance allocated to special capital reserve during first-time adoption of IFRS and net deductions in other equity items to the special capital reserve. Subsequently, if other shareholders' equity deduction has reversed, the reversal shall be applicable to earnings distribution.

The Company has not had conditions where special capital reserve appropriation has occurred due to first-time adoption of IFRS.

- E. During the Company's Board of Directors' Meeting on March 28, 2019, and Annual Shareholders' Meeting on June 29, 2018, the appropriations of net income for 2018 and 2017 have been separately proposed and approved with the following details:

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	Appropriation of net income		Dividends per share (NT\$)	
	2018	2017	2018	2017
Legal capital reserve	\$10,600	\$10,242		
Cash dividends for ordinary shares	47,517	54,902	\$1.3	\$1.8
Stock dividends for ordinary shares	47,517	30,501	1.3	1.0
Total	<u>\$105,634</u>	<u>\$95,645</u>		

Please see Note 6.21 for information on the standards of estimate and recognition of amounts of employee compensation and remunerations of the Directors.

F. Non-controlling interests

	2018.12.31	2017.12.31
Beginning balance	\$1,940	\$-
Added in the current period	22,000	2,000
Net profit attributable to non-controlling interests in this period	(23)	(60)
Ending balance	<u>\$23,917</u>	<u>\$1,940</u>

17. Share-based payment plan

Company employees can receive share-based payment as a part of employee benefits plan. Employees provide service as the consideration for receiving equity instruments, and such transaction will be treated as equity-settled share-based payment transaction.

Employee share-based payment plan

Upon approval from the FSC's Securities and Futures Bureau, the Company has issued 1,000 units of employee stock options on September 12, 2014. Each unit of equity security can be used to subscribe for 1,000 shares of the Company's ordinary shares. The Company will issue new shares when employees exercise such option. Equity security subscriber may exercise the stock options for a certain period of time and proportion two years after the employee stock options certificate has been granted. The duration of this stock options certificate is five years.

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Information on the aforementioned share-based payment is as follows:

Grant date of the stock options certificate	Total units issued	Execution price per unit (NT\$)
2014.10.01	835	32.91
2014.11.01	113	32.91

- (1) The following pricing model and assumptions are used toward the share-based payment plan granted in 2014:

	2014
Expected fluctuation rate (%)	23.38%-24.37%
Risk-free interest rate (RFR) (%)	1.12%-1.316%
Expected year of 100% stock subscription (year)	5
Weighted-average stock price (NT\$)	40.48
Pricing model used	Black-Scholes

The expected duration of the option is based on historical data and current expectations and therefore may not necessarily be consistent with actual implementation. The expected volatility is the historical volatility of the period in which the hypothesis is similar to the duration of the stock options, which represents the future trend, but may not necessarily be consistent with future actual results.

- (2) Information on the employee stock options plan issued in 2018 and 2017:

	2018		2017	
	Number of outstanding stock options (unit)	Weighted-average execution price (NT\$)	Number of outstanding stock options (Unit)	Weighted-average execution price (NT\$)
Outstanding stock options on January 1	614	\$32.91	948	\$36.66
Stock options granted in the current period	-	-	-	-
Stock subscriptions in the current period	-	-	-	-
Stock options expired in the current period	(57)	-	(334)	-
Outstanding stock options on December 31	557	32.91	614	36.66
Executable stock options on December 31	334		368	

- | | Execution price | Weighted-average
remaining duration (year) |
|---|-----------------|---|
| Outstanding stock options
on December 31, 2018 | \$32.91 | 0.75 years |
| Outstanding stock options
on December 31, 2017 | \$36.66 | 1.75 years |

- | | 2018 | 2017 |
|---|-------|-------|
| Recognized expenses due to share-based payment transactions | \$259 | \$600 |
| (All are equity delivery share-based payment) | | |

	2018 (Note)	2017
Revenue from customer contracts		
Revenue from sale of goods	\$4,862,367	\$3,562,012
Revenue from provision of service	38,362	61,722
Total	\$4,900,729	\$3,623,734

The Group has adopted IFRS 15 in treatment of revenue from customer contracts as of January 1, 2018. Information on revenues from customer contracts is as follows:

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	Single department
Sales revenue	\$4,862,367
Service revenue	38,362
Total	\$4,900,729
Timing of revenue recognition:	
At a fixed point in time	\$4,900,729

(2) Contract balance

A. Contract liability - current

	Beginning balance	Ending balance	Differential
Sale of goods	\$295	\$598	\$303
Customer loyalty program	2,402	3,800	1,398
Total	\$2,697	\$4,398	\$1,701

Explanations of the changes in the balance of contract liabilities are as follows:

	Sale of goods	Customer loyalty program
Beginning balance is recognized as revenue in the current period	\$(124)	\$(1,901)
Estimated increase in advance payment in the current period	427	3,299

19. Estimated credit impairment loss (benefit)

	2018	2017
Operating expense - estimated credit impairment loss		
Accounts receivable	\$59	

Note: The Group has adopted IFRS 9 as of January 1, 2018, and selected not to recompile comparison period pursuant to transitional treatment of IFRS 9.

Please see Note 12 for information on credit risk.

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- (1) The Group's receivables (including notes receivable and accounts receivable) take into account factors including credit worthiness of the counterparty, regional and industrial factors, and use the expected credit loss amount during the lifetime to measure the allowance loss. Information for assessing the amount of allowance for loss in 2018 is as follows:

	Not overdue	Days overdue		
	(Note)	31-180 days	More than 181 days	Total
Total carrying amount	\$350,160	\$124	\$24	\$350,308
Rate of loss	0.07%	57%	100%	
Expected lifetime credit loss	(248)	(70)	(24)	(342)
Carrying Amount	\$349,912	\$54	\$-	\$349,966

- (2) Information on the changes in allowances for notes receivable and accounts receivable of the Group for 2018 is as follows:

	Notes receivable	Accounts receivable
Beginning balance (in accordance with IAS 39)	\$-	\$283
Beginning adjustment of retained earnings	-	-
Beginning balance (in accordance with IFRS 9)	-	283
Increase in the period	-	59
Ending balance	\$-	\$342

20. Operating lease

- (1) The Group is the lessee

The Group has signed commercial lease contracts for storefronts and automobiles with an average life of 1 to 18 years and has the right to renew the lease. There are no restrictive covenants on the Group in these contracts.

Based on the non-cancelable operating lease contracts, the total future minimum lease payments for 2018 and 2017 are as follows:

2018	2017
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	2018	2017
Less than 1 year	\$206,901	\$168,453
More than 1 but no more than 5 years	791,175	598,756
More than 5 years	704,026	533,510
	<u>\$1,702,102</u>	<u>\$1,300,719</u>

Recognition of operating lease expenses is as follows:

	2018	2017
Minimum rental lease payment	<u>\$195,095</u>	<u>\$153,727</u>

(2) The Group is the lessor

The storefront lease contracts the Group has signed all have a balance of less than one year. All tenancy agreements include clause that stipulates rent can be adjusted based on the current market conditions in each year.

Based on the operating lease contracts, the future minimum rent payment from lessees on December 31, 2018 and December 31, 2017 are as follows:

	2018.12.31	2017.12.31
Less than one year	<u>\$39,575</u>	<u>\$45,969</u>

The Group recognized the following lease revenue:

	2018	2017
Rental revenue recognized	<u>\$44,322</u>	<u>\$46,103</u>

Some lease contracts after the Company rents a property. Below rental costs were recognized as deductions to rental revenue:

	2018	2017
Recognized as deduction to rental revenue	<u>\$34,230</u>	<u>\$32,133</u>

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21. The following is a compilation of employee benefits, depreciation and amortization expense by function:

Function Characteristic	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefit expenses						
Salary expenses	\$-	\$337,008	\$337,008	\$-	\$262,758	\$262,758
Labor and health insurance expenses	-	36,930	36,930	-	29,085	29,085
Pension expenses	-	18,612	18,612	-	14,653	14,653
Other employee benefit expenses	-	30,489	30,489	-	23,348	23,348
Depreciation expenses	-	62,060	62,060	-	46,054	46,054
Amortization expenses	-	5,571	5,571	-	1,503	1,503

The Company's Articles of Incorporation provide that if there is profit in the year, 3 to 10 percent of profit shall be allocated for employee compensation, and no more than 3 percent shall be allocated for remunerations of the Directors and Supervisors. But when accumulated loss is present, the Company shall first retain the profit to make up for deficits. The aforementioned employee compensation appropriated in shares or dividends shall be approved by a Board of Directors meeting attended by two-thirds or more of all Directors, and by a majority vote of all attending Directors, and reported to the Shareholders' Meeting. Please see the Market Observation Post System (MOPS) from the Taiwan Stock Exchange (TWSE) for information on employee compensation and remunerations of the Directors and Supervisors, as approved by the Board of Directors.

The Company estimated the pay to employees and Directors/Supervisors by 3% and 0.89% respectively based on profitability conditions. Employee compensation and remunerations of the Directors and Supervisors recognized in 2018 were NT\$4,071,000 and NT\$1,208,000 respectively. Employee compensation and remunerations of the Directors and Supervisors recognized in 2017 were NT\$3,715,000 and NT\$1,102,000 respectively. The aforementioned amounts were recorded under compensation expenses. If the Board of Directors approves of appropriation of share-based employee bonus, the closing price on the date before the Board's resolution will be used as the basis of the share distribution. If difference is found between the estimate and the actual distributions after the Board's approval, the difference will be recorded as profit or loss in the subsequent year.

On March 28, 2019, the Company's Board approved of distribution of cash-based employee

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compensation and remunerations of the Directors and Supervisors for 2018 of NT\$4,071,000 and NT\$1,208,000 respectively. No material difference is found between the actual distributions and the expenses recognized on the 2018 financial statements.

Actual distribution of employee compensation and remunerations of the Directors and Supervisors in 2017 had no material difference from the expenses recognized in financial statements.

22. Non-operating revenue and expenses

(1) Other income

	2018	2017
Interest revenue	\$1,431	\$1,009
Rental revenue	10,092	13,970
Other revenue - others	4,867	3,060
Total	<u>\$16,390</u>	<u>\$18,039</u>

(2) Other profits and losses

	2018	2017
Gain (loss) from disposal of property, plant and equipment	\$(482)	\$(5)
Net exchange gain (loss)	418	(2,235)
Investment disposal gain (loss)	-	16
Financial liability gains and losses measured at fair value through profit or loss	(2,250)	-
Other losses	(334)	(42)
Total	<u>\$(2,648)</u>	<u>\$(2,266)</u>

(3) Finance costs

	2018	2017
Interest from short-term loans	\$428	\$217
Interest expense from corporate bonds	2,986	-
Total	<u>\$3,414</u>	<u>\$217</u>

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23. Components of the other comprehensive income (loss)

Components of the other comprehensive income (loss) for year 2018 include the following:

Items that will not be reclassified to profit or loss:	Arising in the current period	Reclassification and adjustment in the current period	Sum	Tax benefits (expenses)	After-tax amount
Remeasurement of defined benefit plans	\$(337)	\$-	\$(337)	\$-	\$(337)

Components of the other comprehensive income (loss) for year 2017 include the following:

Items that will not be reclassified to profit or loss:	Arising in the current period	Reclassification and adjustment in the current period	Sum	Tax benefits (expenses)	After-tax amount
Remeasurement of defined benefit plans	\$(250)	\$-	\$(250)	\$-	\$(250)

24. Income tax

- (1) Major components of the 2018 and 2017 income tax expenses (gains) include the following:

Pursuant to amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable business income tax rate has been adjusted from 17% to 20% as of 2018. Surtax on unappropriated retained earnings has been adjusted from 10% to 5%.

Income tax recognized in profit or loss

	2018	2017
Current tax expenses (gains):		
Current tax payable	\$29,739	\$21,423
Adjustments in respect of current income tax of prior periods	222	(236)
Deferred tax expenses (gains):		
Deferred tax expenses (gains) related to initial recognition of temporary difference and its reversal	(795)	298
Deferred tax related to tax change changes or new taxable items	(285)	-
Income tax expense (gains)	\$28,881	\$21,485

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(2) Income tax recognized in other comprehensive income (loss)

	2018	2017
Deferred tax expenses (gains):		
Remeasurement of defined benefit plans	\$-	\$-

(3) Adjustments of amount of income tax expense and accounting profit multiplied by applicable tax rate as follows:

	2018	2017
Profit before tax for continuing operations	\$134,860	\$123,843
Tax calculated at the domestic tax rate applicable to the income in relevant country	\$26,972	\$21,053
Tax effects of tax-exempt income	-	(2)
Tax effects of non-deductible expenses	1,240	(269)
Effects on income tax from deferred tax assets/liabilities	80	(45)
10% surtax on unappropriated retained earnings	652	983
Adjustments in respect of current income tax of prior periods	222	(235)
Effects of tax rate changes	(285)	-
Tax expense (benefits) recognized in profit or loss	\$28,881	\$21,485

(4) Deferred tax asset (liabilities) balances related to the following items:

2018

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income	Directly recognized in equity	Ending balance
Temporary differences					
Allowance for inventory valuation and obsolescence loss	\$108	\$19	\$-	\$-	\$127
Exchange loss (gain)	160	(55)	-	-	105
Deferred revenue	408	352	-	-	760
Unrealized profit on sales	644	323	-	-	967
Employee benefits	9	(9)	-	-	-
Valuation loss on financial liabilities	-	450	-	-	450
Deferred tax expense/gain		\$1,080	\$-	\$-	
Deferred net tax asset (liabilities)	\$1,329				\$2,409
Information stated on balance sheet is as follows:					
Deferred tax assets	\$1,329				\$2,409
Deferred tax liabilities	\$-				\$-

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2017

	Beginning balance	Recognized in profit or loss	Recognized in other comprehensive income (loss)	Directly recognized in equity	Ending balance
Temporary differences					
Allowance for inventory valuation and obsolescence loss	\$42	\$66	\$-	\$-	\$108
Exchange loss (gain)	404	(244)	-	-	160
Deferred revenue	355	53	-	-	408
Unrealized profit on sales	766	(122)	-	-	644
Employee benefits	60	(51)	-	-	9
Deferred tax expense/gain		<u>\$(298)</u>	<u>\$-</u>	<u>\$-</u>	
Deferred net tax asset (liabilities)	<u>\$1,627</u>				<u>\$1,329</u>
Information stated on balance sheet is as follows:					
Deferred tax assets	<u>\$1,627</u>				<u>\$1,329</u>
Deferred tax liabilities	<u>\$-</u>				<u>\$-</u>

(5) Unrecognized deferred tax assets

As of December 31, 2018 and December 31, 2017, the Group's unrecognized deferred tax assets were NT\$366,000 and NT\$286,000 respectively.

(6) Filing and review of income tax

As of December 31, 2018, the Company's income tax filing and review conditions are as follows:

	Filing of income tax
The Company	Reviewed to 2016
Subsidiary - Ivy Biotechnology Co., Ltd.	Reviewed to 2016
Subsidiary - Bai-Lin Logistics Co., Ltd.	Reviewed to 2016

25. Earnings per share (EPS)

The calculation of the basic earnings per share (EPS) is calculated by dividing the net profit attributable to holders of ordinary shares of the Company for the current year by the weighted-average number of ordinary shares outstanding in the current year.

Diluted earnings per share (Diluted EPS) is calculated by dividing the net profit attributable to holders of ordinary shares of the Company (after adjusting for the dilution effect) by the weighted-average number of ordinary shares outstanding in the current year

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plus all weighted-average number of ordinary shares to be issued when the potential ordinary shares with dilutive effect are converted into ordinary shares.

(1) Basic EPS

	2018	2017
Net income (in NT\$1,000)	\$106,002	\$102,418
Weighted-average number of ordinary shares of earnings per share (in 1,000 shares)	35,272	33,552
Basic earnings per share (NT\$)	\$3.01	\$3.05

(2) Diluted EPS

	2018	2017
Net income (in NT\$1,000)	\$106,002	\$102,418
Redemption gain or loss from issuance of domestic convertible bonds	2,250	Not applicable
Interest from convertible bonds	2,573	Not applicable
Net profit attributable to holders of the parent company's ordinary shares after dilutive effect	\$110,825	\$102,418
weighted-average number of ordinary shares of earnings per share (in 1,000 shares)	35,272	33,552
Dilutive effect:		
Employee bonus - shares (in 1,000 shares)	75	52
Employee stock options (in 1,000 shares)	250	350
Convertible bonds (in 1,000 shares)	3,759	Not applicable
Weighted-average number of ordinary shares after adjustments for dilutive effects (in 1,000 shares)	39,356	33,954
Diluted EPS (NT\$)	\$2.82	\$3.02

There were no significant changes to other transactions in the circulation of outstanding ordinary shares or potential issuance of ordinary shares after the reporting period until the financial statements have been approved and announced.

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VII. Related party transactions

Bonuses for the Group's key managerial officers

	2018	2017
Short-term employee benefits	\$9,370	\$10,553
Retirement benefits	562	633
Share-based payment	97	120
Total	<u>\$10,029</u>	<u>\$11,306</u>

VIII. Assets pledged

The Company has pledged the following assets as collateral:

Item	Carrying Amount		Content of the secured liabilities
	2018.12.31	2017.12.31	
Financial asset measured after amortization - current	\$24,000	Note	Credit card guarantee
Financial asset measured after amortization - non-current	3,000	Note	Purchase contract guarantee
Debt instrument investments without active market - current	Note	\$24,000	Credit card guarantee
Debt instrument investments in without active market - non-current	Note	3,000	Purchase contract guarantee
Total	<u>\$27,000</u>	<u>\$27,000</u>	

Note: The Group has adopted IFRS 9 as of January 1, 2018, and selected not to recompile comparison period pursuant to transitional treatment of IFRS 9.

IX. Significant contingent liability and unrecognized contract commitments

N/A.

X. Contingent disaster loss

N/A.

XI. Significant post-reporting period matters

On January 2, 2019, the Board of Directors has approved of a market-based strategic partnership with Maywufa Co., Ltd. and to acquire right of trademark from the Pro Healthcare Franchise. As of February 1, 2019, the Company will receive premium and management revenue from Pro Healthcare Franchise, a business of Maywufa Co., Ltd.

XII. Others

1. Categories of financial instruments

Financial assets

	2018.12.31	2017.12.31
Financial assets measured at amortized cost (Note 2)	\$1,090,791	(Note 1)
Loans and receivables (Note 3)	(Note 1)	\$648,833
Total	<u>\$1,090,791</u>	<u>\$648,833</u>

Financial liabilities

	2018.12.31	2017.12.31
Financial liabilities at amortized cost:		
Short-term loan	\$-	\$70,000
Accounts payable	895,130	629,351
Bonds payable (including those maturing within 12 months)	286,569	-
Sum	<u>1,181,699</u>	<u>699,351</u>
Financial liabilities at fair value through profit or loss:		
Specified financial liabilities at fair value through profit or loss	3,690	-
Total	<u>\$1,185,389</u>	<u>\$699,351</u>

Note:

1. The Group has adopted IFRS 9 since January 1, 2018, and pursuant to the transitional treatment in IFRS 9, the Group has chosen not to recompile the comparison period.
2. Includes cash and cash equivalents, financial assets measured at amortized cost, notes

receivable, accounts receivable, and other receivables.

3. Includes cash and cash equivalents, notes receivable, accounts receivable, debt instrument investments without active market, and other receivables.
2. Objective and policy of financial risk management

The objective of the Group's financial risk management is to manage the market risk, credit risk, and liquidity risk related to operating activities. The Group conducts the identification, valuation, and management of the aforementioned risks based on the Group's policy and risk appetite.

The Group has set up appropriate policy, procedures, and internal control in regards to the aforementioned financial risk management based on relevant standards. Material financing activities need to be reviewed by the Board of Directors in regards to relevant standards and internal control system. During implementations of financial management activities, the Group shall strictly abide by the regulations for financial risk management that have been set up.

3. Market risk

The Group's market risk is the risk of changes in fair value or cash flow from financial instruments due to market price changes. Market risk mostly includes exchange rate risk, interest rate risk, and other pricing risks (e.g. equity instruments).

In practice, very few risk variables are single-occurring, and the change in each risk variable is usually correlated. Nevertheless, the sensitivity analysis on the following risks do not take the interactions between various risk variables into consideration.

Exchange rate risk

The Group's operating activities are mostly transactions using the functional currency; therefore, exchange rate risk should not arise.

Interest rate risk

Interest rate risk is the risk of changes in fair value or future cash flow from financial instruments due to changes in market interest rate. The Group's interest rate risk mostly includes variable rate investments classified as loans and receivables.

Sensitivity analysis for interest rate risk mostly targets interest rate exposure items after the reporting period and includes variable rate investments. It adopts the assumption that in a given accounting period, when the interest increases or decreases by 1%, the Group's 2018 and 2017 income will increase by NT\$5,826,000 and decrease by NT\$2,811,000 respectively.

Equity price risk

As of December 31, 2018 and December 31, 2017, the Group does not hold equity securities measured by fair value. Therefore, equity price risk does not exist.

4. Credit risk management

Credit risk refers to the risk that the counterparty is unable to fulfill contractual obligations and leads to financial loss. The Group's credit risk mostly comes from operating activities (mostly from accounts receivable and notes) and financing activities (mostly bank deposits and various financial instruments).

Each business unit manages customers' credit risk in compliance with the Group's customer risk management policy, procedures, and control. The credit risk valuation of all customers comprehensively measures factors including customers' financial status, credit rating, past transaction experiences, current economic environment, and the Group's internal valuations. The Group also adopts certain credit enhancement tools (e.g. prepaid sales and insurance) on a timely basis to reduce the credit risk from certain customers.

As of December 31, 2018 and December 31, 2017, the Group has not had concentration of credit risk on individual customers, hence credit risk should be moderate.

The Group's financing department manages credit risk by managing bank deposits and other financial instruments in accordance with Group policy. As the Group's transaction counterparties are determined by internal control procedures and are banks with good credit and investment-grade financial institutions, the Group is not subjected to material credit risk.

The Group has adopted IFRS 9 in the valuation of expected credit loss as of January 1, 2018. Receivables are measured as allowances for lifetime expected credit losses. As for the rest of the debt instrument investments that are not measured at fair value through profit and loss, the initial acquisition price is based on those with low credit risk, and are evaluated on each balance sheet date to determine whether there has been significant increase in credit

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risk since initial recognition to determine the method of allowance for loss and its rate of loss.

Additionally, when evaluating financial assets that cannot be reasonably recovered, the Group will write-off the assets (for instance, if the issuer or the debtor experiences material financial difficulty or has become bankrupt).

5. Liquidity risk management

The Group maintains financial flexibility through contracts including cash and cash equivalents, bank borrowings and convertible bonds. The following table summarizes the maturity of the payments contained in the contracts of the Group's financial liabilities. It is compiled based on the date on which the earliest possible repayment is required using its undiscounted cash flow. The amounts listed also include contracted interest. For interest cash flow paid using variable rate, its undiscounted interest is obtained through the yield curve at the end of the reporting period.

Non-derivative financial liabilities

	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>5 years or above</u>	<u>Total</u>
2018.12.31					
Accounts payable	\$895,130	\$-	\$-	\$-	\$895,130
Bonds payable	286,569	-	-	-	286,569
2017.12.31					
Short-term loan	\$70,215	\$-	\$-	\$-	\$70,215
Accounts payable	629,351	-	-	-	629,351

6. Adjustments of liabilities from financing activities

Information on adjustments of liabilities in 2018:

	<u>Short-term loan</u>	<u>Guarantee deposit</u>	<u>Issuance of bond</u>	<u>Total liabilities from financing activities</u>
2018.01.01	\$70,000	\$3,887	\$-	\$73,887
Cash flow	(70,000)	6,081	295,000	231,081
Non-cash flow	-	-	(8,431)	(8,431)
2018.12.31	\$-	\$9,968	\$286,569	\$296,537

Information on adjustments of liabilities in 2017:

Not applicable

7. Fair value of financial instruments

(1) Valuation technique and assumptions used in measuring fair value

Fair value refers to the price required or transferred to an asset in an orderly transaction between market participants on a measurement date. The Group's method and assumptions in valuating or disclosing the fair value of financial assets and financial liabilities are as follows:

- A. The carrying amount of the cash and cash equivalents, account receivables, account payables and other current liabilities is a reasonable approximation of the fair value, mainly because the period of maturity of such instruments is short.
- B. The fair value of financial assets and financial liabilities that are traded in active market and have standard terms and conditions are determined by reference to market quotations (e.g., listed and traded stocks and bonds).
- C. For equity instruments without active market (e.g., private placement of shares in listed cabinets, shares of publicly issued companies without active markets, and shares of undisclosed companies), fair value is estimated at market value, which is the price generated by market transactions of the same or comparable equity instruments and other relevant information (e.g. lack of liquidity discount factor, similar price-to-earnings (P/E) ratio, similar price per book value or more).
- D. For debt instrument investments without active market, bank borrowings, bonds payable and other non-current liabilities without quotation from active market, the fair value is determined by the counterparty quotation or valuation technique, and the valuation technique is determined based on the cash flow discount analysis. Assumptions such as interest rate and discount rate are mainly based on information related to similar instruments (e.g. information such as yield curve at the Taipei Exchange, average quotation of Reuters commercial paper rate, and credit risk and more).

(2) Fair value of financial instruments measured at amortized cost

Except for the following, the carrying amount of financial assets and financial liabilities measured by the Group's amortized cost is a close approximation of their fair value.

	Carrying amount	
	2018.12.31	2017.12.31
Financial liabilities:		
Bonds payable	\$286,569	\$-
	Fair value	
	2018.12.31	2017.12.31
Financial liabilities:		
Bonds payable	\$290,580	\$-

(3) Fair value ranked information of financial instruments

Please see Note 12-8 for fair value ranked information of financial instruments.

8. Derivatives

Information on the Group's holding of derivative financial instruments that do not meet the hedge accounting and have not yet expired is as follows:

Embedded derivatives

The Group has identified embedded derivatives from issuance of convertible bonds. These have been separated from the host contract and are treated through measurement at fair value at profit or loss. Please see Note 6 for information on contracts for these transactions.

9. Ranking of fair value

(1) Definition of fair value ranking

All assets and liabilities measured or disclosed at fair value are classified at their fair value rank based on the lowest rank of input that is material to the overall fair value. Input value of each rank is as follows:

Rank 1: quotation (unadjusted) of the same asset or liability from an active market can

be obtained on the measurement date.

Rank 2: Input value can be directly or indirectly observed for an asset or liability, except for the quotations at Rank 1.

Rank 3: unobservable input value for assets and liabilities.

For assets and liabilities that are recognized in the financial statements on a repetitive basis, revaluation of their respective classification shall be required at the end of each reporting period to determine whether there has been a transfer between ranks of fair value.

(2) Information on measurement of fair value ranks

The Group does not have assets measured by non-repetitive fair value. Information on the ranks of repetitive fair value of assets and liabilities is as follows:

As of December 31, 2018:

	Rank 1	Rank 2	Rank 3	Total
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Embedded derivatives	\$-	\$-	\$3,690	\$3,690

As of December 31, 2017: no such conditions exist.

Transfer between Rank 1 and Rank 2 of fair value ranks

From January 1, 2018 to December 31, 2018 and January 1, 2017 to December 31, 2017, the Group's assets and liabilities measured at repetitive fair value did not experience any transfer between fair value Ranks 1 and 2.

Details on changes in repetitive fair value rank 3

For those of the Group's liabilities measured at repetitive fair value that are categorized as rank 3, adjustments from beginning to ending balance is as follows:

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	Liabilities
	Financial instruments measured at fair value through profit or loss
2018.1.1	\$-
Current issuance	1,440
Total loss recognized in this period: recognized in profit or loss (stated in "Other gains and losses")	
Recognized in profit or loss (stated in "Other gains and losses")	2,250
2018.12.31	\$3,690

Among the aforementioned total losses recognized, losses related to liabilities held as of December 31, 2018 amounted to NT\$2,250,000.

Information on material unobservable input in fair value Rank 3

For the Group's liabilities measured at repetitive fair value and categorized in fair value rank 3, the material unobservable input used toward fair value measurement is as follows:

As of December 31, 2018:

	Valuation technique	Material unobservable input	Quantitative information	Relations between input value and fair value	Valuation relations of sensitivity analysis of relations between input value and fair value
Financial liabilities:					
Measured at fair value through profit or loss					
Embedded derivatives	CRR Binary Tree Convertible Valuation Model	Fluctuation rate	20.55%	The higher the fluctuation rate, the higher the estimate of fair value	When fluctuation rate increases (decreases) by 1%, the Company's net income will increase/decrease by NT\$150,000.

As of December 31, 2017: no such conditions exist.

(3) Ranked information not measured at fair value but fair value disclosure is required

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As of December 31, 2018:

	<u>Rank 1</u>	<u>Rank 2</u>	<u>Rank 3</u>	<u>Total</u>
Liabilities in which only fair value is disclosed:				
Bonds payable (see Note 6.14 for details)	\$-	\$-	\$290,580	\$290,580

As of December 31, 2017: no such conditions exist.

10. Information on financial assets and financial liabilities in foreign the currency with material effect: Not applicable.
11. Capital management

The most important objective of the Group's capital management is to ensure that a healthy credit rating and positive capital ratio can be preserved to support the maximization of business management and shareholders' rights. The Group management and adjusts capital structure based on economic conditions. We may achieve the objective of preserving and adjusting capital structure through adjusting dividend payment or issuance of new shares.

XIII. Notes on disclosures

(I) Information on significant transactions

1. The Company's capital financing for others: None.
2. The Company's endorsement/guarantee for others: None.
3. Marketable securities held at the end of the period (excluding investments in subsidiaries, affiliates, and joint ventures): None.
4. The Company's cumulative buy or sell of an individual marketable security of at least NT\$300 million or 20% of the paid-in capital in this period: None.
5. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None.

6. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None.
7. Purchases from and sales to related parties amounting to at least NT\$100 million or exceeding 20% of paid-in capital: Please see Attachment 1.
8. Receivables from related parties amounting to at least NT\$ 100 million or exceeding 20% of paid-in capital: Please see Attachment 2.
9. Derivatives transactions: None.
10. Information on business relations and material transactions between the parent company and subsidiaries and inter-subsidiaries: Please see Attachment 5.

(II) Information on reinvestments:

1. Disclosure of investee information when the Company has material influence or control over the investee company (excluding investments in Mainland China): Please see Attachment 3.
2. When the Company has control over the investee, the Company shall disclose the investee (Note 13). (1) Relevant information:
 - (1) Capital financing for others: None.
 - (2) Endorsement/guarantee for others: None.
 - (3) Marketable securities held at the end of the period (excluding investments in subsidiaries, affiliates, and joint ventures): None.
 - (4) Cumulative buy or sell of an individual marketable security of at least NT\$300 million or 20% of the paid-in capital in this period: None.
 - (5) Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None.
 - (6) Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None.

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(7) Purchases from and sales to related parties amounting to at least NT\$100 million or exceeding 20% of paid-in capital: Please see Attachment 4.

(8) Receivables from related parties amounting to at least NT\$ 100 million or exceeding 20% of paid-in capital: None.

(9) Derivatives transactions: None.

(III) Information on investments in Mainland China: None.

XIV. Departmental Information

1. Revenues from the Group mostly come from sales of various medicine/drugs, health foods, maternity and baby products, and cosmetics. The Group's operational decision-makers will review the overall operating results to establish decisions regarding Company resources and to evaluate overall performance. Hence, it is a single business unit, and adopts the same fundamental compilations and preparations as the compilation and explanations of material accounting policies summarized in Attachment 4.

2. Regional information

(A) Revenue from external customers (Note):

	2018	2017
Taiwan	\$4,846,299	\$3,592,758
China	54,430	30,976
Total	<u>\$4,900,729</u>	<u>\$3,623,734</u>

Note: revenue is classified based on the country of the customer.

(B) Non-current assets:

	2018	2017
Taiwan	\$464,292	\$338,390
Others	-	-
Total	<u>\$464,292</u>	<u>\$338,390</u>

3. Information on substantial customers

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The Group does not have any single customer whose sales revenue accounts for 10% or more of the Group's consolidated operating net revenue.

Great Tree Pharmacy Co., Ltd. and Subsidiaries

Purchases from and sales to related parties amounting to at least NT\$ 100 million or exceeding 20% of paid-in capital
January 1, 2018 to December 31, 2018

Attachment 1
Unit: Thousands of New Taiwan Dollar (NT\$1,000)

Sales/purchase company	Name of counterparty	Relations	Transaction conditions			Terms that are different from the average transactions			Notes and accounts receivable (payable)		Note
			Purchases (sales)	Amount	The ratio of total purchase (sales)	Credit period	Unit price	Credit period	Balance	Ratio of total accounts and bills receivable (payable)	
Great Tree Pharmacy Co., Ltd.	Bai-Lin Logistics Co., Ltd.	Subsidiary	Sales	\$1,585,033	32.25%	Offset of debts and claims	No other customers for comparison	Non-affiliate with 60~120 days of credit	Accounts receivable \$189,642	37.42%	Note
			Purchases	\$185,185	4.73%	30 days credit	No other suppliers for comparison	Non-affiliate with 60~90 days of credit	Accounts payable \$19,354	4.61%	Note
Great Tree Pharmacy Co., Ltd.	Ivy Biotechnology Co., Ltd.	Subsidiary	Purchases	\$185,185	4.73%	30 days credit	No other suppliers for comparison	Non-affiliate with 60~90 days of credit	Notes payable \$11,619	3.25%	Note

Note: It has already been charged-off during writing of the Consolidated Financial Statements.

Great Tree Pharmacy Co., Ltd. and Subsidiaries

Receivables from related parties amounting to at least NT\$ 100 million or exceeding 20% of paid-in capital:
January 1, 2018 to December 31, 2018

Attachment 2
Unit: Thousands of New Taiwan Dollar (NT\$1,000)

Company with accounts receivable	Name of counterparty	Relations	Balance of accounts receivable from related party	Turnover rate	Overdue accounts receivable from related party		Amount for collection after balance sheet date for accounts receivable from related party	Loss allowance for bad debts
					Amount	Treatment		
Great Tree Pharmacy Co., Ltd.	Bai-Lin Logistics Co., Ltd.	Subsidiary	\$189,642 (Note)	9.56	\$-		\$17,150	\$-

Note: It has already been charged-off during writing of the Consolidated Financial Statements.

Great Tree Pharmacy Co., Ltd. and Subsidiaries
Disclosure of investee information when the Company has material influence or control over the investee company (excluding investments in Mainland China)
January 1, 2018 to December 31, 2018

Attachment 3
Unit: Thousands of New Taiwan Dollar (NT\$1,000)

Name of investing company	Name of investee company	Location	Major businesses	Initial investment amount		Ending balance			Gains or losses of investee company for this period	Investment gains or losses recognized for this period	Note
				Ending balance for this period	Year-end in previous year	Shareholding	Ratio (%)	Carrying amount			
Great Tree Pharmacy Co., Ltd.	Ivy Biotechnology Co., Ltd.	No. 145, Chengzhang 4th Street, Zhongli District, Taoyuan City	Wholesale and retail of food, groceries, sundries, cleaning materials, various medicine, health care foods, maternity and baby products, and cosmetics	\$40,612	\$7,612	5,900,000 shares	100.00%	\$85,176	\$17,576	\$16,529	Note 2
Great Tree Pharmacy Co., Ltd.	Bai-Lin Logistics Co., Ltd.	No. 1, Gaobian Road, Neiding Li, Zhongli District, Taoyuan City	Wholesale and retail, sorting and packaging, and warehousing of food and groceries, beverages, sundries, cleaning materials, and cosmetics	\$2,000	\$2,000	200,000 shares	100.00%	\$1,971	\$(391)	\$(391)	Note 2
Ivy Biotechnology Co., Ltd.	Da-Yu Property Management	No. 1, Gaobian Road, Neiding Li, Zhongli District, Taoyuan City	Management and consultancy; development, rental, and sales of residential and building complexes; development of designated areas; real estate purchase and sales; real estate rental; development, rental, and sales of factory buildings	\$36,000	\$3,000	360,000 shares	60.00%	\$35,876	\$(57)	\$(34)	Note 2

Note 1: Includes income from investment recognized using equity method for this period of NT\$17,576,000, realized profit from upstream transactions in previous period of NT\$3,790,000, and unrealized profit from upstream transactions for this period of NT\$4,837,000.

Note 2: It has already been charged-off during writing of the Consolidated Financial Statements.

Great Tree Pharmacy Co., Ltd. and Subsidiaries

Purchases from and sales to related parties amounting to at least NT\$ 100 million or exceeding 20% of paid-in capital
January 1, 2018 to December 31, 2018

Attachment 4
Unit: Thousands of New Taiwan Dollar (NT\$1,000)

Sales/purchase company	Counterparty	Relations	Transaction conditions				Terms that are different from the average transactions		Notes and accounts receivable (payable)		Note
			Purchases (sales)	Amount	The ratio of total purchase (sales)	Credit period	Unit price	Credit period	Balance	Ratio of total accounts and bills receivable (payable)	
Ivy Biotechnology Co., Ltd.	Great Tree Pharmacy Co., Ltd.	Parent company	Sales	\$185,185	88.19%	30 days credit	No material difference from average customers	Non-affiliate with 30-60 days of credit	Accounts receivable \$19,354	51.28%	Note
									Notes receivable \$11,619	95.80%	Note
Bai-Lin Logistics Co., Ltd.	Great Tree Pharmacy Co., Ltd.	Parent company	Purchases	1,585,033	100.00%	Offset of debts and claims	No other suppliers for comparison	No other suppliers for comparison	Accounts payable \$189,642	100.00%	Note

Note: It has already been charged-off during writing of the Consolidated Financial Statements.

Great Tree Pharmacy Co., Ltd. and Subsidiaries
Business Relations Between Parent Company and Subsidiaries and Material Transactions

Attachment 5

Unit: Thousands of New Taiwan Dollar (NT\$1,000)

Code (Note 1)	Name of counterparty January 1, 2018 to December 31, 2018	Transaction counterparty	counterparty (Note 2)	Status of transactions			consolidated total revenue or asset
				Item	Amount	Transaction conditions	
0	Great Tree Pharmacy Co., Ltd.	Ivy Biotech Co., Ltd.	1	Purchases	185,185	30 days credit	#REF!
0	Great Tree Pharmacy Co., Ltd.	Ivy Biotech Co., Ltd.	1	Accounts receivable	343	30 days credit	#REF!
0	Great Tree Pharmacy Co., Ltd.	Ivy Biotech Co., Ltd.	1	Other receivables	9,495	30 days credit	#REF!
0	Great Tree Pharmacy Co., Ltd.	Ivy Biotech Co., Ltd.	1	Notes payable	11,619	30 days credit	#REF!
0	Great Tree Pharmacy Co., Ltd.	Ivy Biotech Co., Ltd.	1	Accounts payable	19,354	30 days credit	#REF!
0	Great Tree Pharmacy Co., Ltd.	Ivy Biotech Co., Ltd.	1	Guarantee deposits	240	-	#REF!
0	Great Tree Pharmacy Co., Ltd.	Ivy Biotech Co., Ltd.	1	Rent revenue	7,598	30 days credit	#REF!
0	Great Tree Pharmacy Co., Ltd.	Bai-Lin Logistics Co., Ltd.	1	Sales	1,585,033	Offset of debts and claims	#REF!
0	Great Tree Pharmacy Co., Ltd.	Bai-Lin Logistics Co., Ltd.	1	Accounts receivable	189,642	Offset of debts and claims	#REF!
0	Great Tree Pharmacy Co., Ltd.	Bai-Lin Logistics Co., Ltd.	1	Service fees	600	Offset of debts and claims	#REF!

Note 1: The information on business dealings between the parent company and subsidiaries should be numbered in the "Code" column with the following coding method:

1. Parent company will be coded "0".
2. The subsidiaries are coded from "1" in the order presented in the table above.

Note 2: Relations with counterparty can be any one of the following three types:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Between subsidiaries.

Note 3: For calculation of the ratios of transaction amounts on the consolidated total revenue or asset: for balance sheet items, calculate the amount of ending balance on the consolidated total asset; for income statement items, calculate the amount of accumulated amounts during the period on the consolidated total revenue.

Note 4: foreign currency amounts will be translated to NTD amounts by the exchange rate as of the balance sheet date.