



# **M.J. International Co., Ltd.**

## **2018 Annual Report**

### **Website**

**MOPS: <http://mops.twse.com.tw>**

**The Company's website: <http://www.mjig.com>**

Printed on May 10, 2019

### **-----Disclaimer-----**

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Deputy Spokesperson: Angel Chen Telephone: (886)2-2268-4666  
Title: Senior Specialist of Chairman's Office Email: IR@mjig.com

**II. Addresses and Tel. Nos. of Head Office, branches, and factories:**

- (I) The Company  
Name: M.J.International Co., Ltd. Telephone: (886)2-2268-4666  
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Box 32052, Grand Cayman KY1-1208, Cayman Islands, British West Indies  
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- (II) Subsidiary in Taiwan  
Name: M.J.International Flooring and Interior Telephone: (886)2-2268-4666  
Products Inc  
Address: No. 126, Da Nuan Rd., Tucheng District, New Taipei City
- (III) Subsidiary in Hong Kong  
Name: Prolong International Co., Limited Telephone: (886)2-2268-4666  
Address: 31/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong  
Name: Opulent International Group Limited Telephone: (886)2-2268-4666  
Address: 31/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong
- (IV) Taiwan Branch of Hong Kong Subsidiary  
Name: Opulent International Group Limited Telephone: (886)2-2268-4666  
Opulent International Group Limited  
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Decoration Material Co. Ltd.  
Address: Rm 19-2, Building 3, Shi Dai Tian St., Da Ping Long Hu, Chongqing City
- Name: Beijing M.J. Architecture & Decoration Telephone: (86)010-8736-4856  
Materials Co. Ltd.  
Address: Suite 2705, Jun An International Building No. 2, Hua Nan Rd., Beijing  
Economic-Technological Development Area, Beijing City
- Name: Shanghai M.J. Architecture & Decoration Telephone: (86)021-64828022  
Material Co. Ltd.  
Address: 7F, No. 36, Alley 1088, Shen Hong Rd., Ming Xin Dist., Shanghai City
- Name: Guangzhou PROMAX Architecture & Telephone: (86)020-3724-3136  
Decoration Material Co. Ltd.  
Address: No. 411, Main Office Building, No.512, Guangzhou Avenue North, Tianhe Dist.,  
Guangzhou City
- Name: Wuhan M.J. Architecture & Decoration Telephone: (86)027-8784-9788  
Material Co. Ltd.  
Address: No. 1, 36F, Bldg. No. 6 of Bldg. Nos. 6~7 of Wuhan 1818 Center, No. 109,  
Zhongzhen Rd., Wuchang Dist. Wuhan City (2nd Phase)
- Name: Xian M.J. Architecture & Decoration Material Co. Ltd.  
Address: Suite 10901, 9F, Unit 1, Bldg. No. 6, Wang Xiang Hui, No. 21, Gaoxin 6th Rd.,  
Gaoxin Dist., Xian City
- Name: Shenyang M.J. Architecture & Decoration Material Co. Ltd.  
Address: No. 116-1-4, Hong Run Rd., Yuhong Dist., Shenyang City

**(VI) Factory**

Name: Dongguan Prolong PlasticProducts Co., Ltd. Telephone: (86)769-8663-2083  
 Address: 3rd Industrial Zone, Jizhou, Shijie Township, Dongguan City, Guangdong Province  
 Name: Dongguan Mei Jer PlasticProducts Co., Ltd. Telephone: (86)769-8983-1234  
 Address: 3rd Industrial Zone, Huang Yong, Zhongtang Township, Dongguan City, Guangdong Province

**III. Name, address, website and Tel. No. of the shareholders' service agent:**

Name: CTBC Bank Co., Ltd. Telephone: (886)2-2311-1838  
 Address: 3F., No.83, Sec. 1, Chongqing S. Rd., Website: <http://www.ctcbank.com>  
 Zhongzheng District, Taipei City

**IV. Name, firm name, address, website and Tel. No. of CPA certifying the financial statements of the most recent year:**

Firm name: Deloitte Taiwan Telephone: (886)2-2725-9988  
 CPAs: Yu Cheng-Chuan, CPA & Chang Keng-Hsi, CPA  
 Address: 20F, No. 100, Songren Rd., Xinyi Dist., Taipei City Website: [www.deloitte.com.tw](http://www.deloitte.com.tw)

**V. Name of any exchanges where the Company's securities are traded offshore, and the method by which to access information on said offshore securities: N/A.****VI. Company website: <http://www.mjig.com>****VII. Roster of Directors (the nationality and main work experience of independent directors domiciled in Taiwan, if any, to be specified):**

Job title	Nationality or Place of Registration	Name	Main Work Experience
Chairman of Board	Samoa	Black Dragon Assets Limited	-
	Taiwan R.O.C.	Representative: Chen Pen-Yuan	Graduated from junior high school Sales Manager/Production Section Chief of Zhen Hong Plastics Industry Co., Ltd. Factory manager of HANDSOME PLASTICS CO., LTD. President of M.J.
Director	Samoa	CROWN HARVEST COMPANY LIMITED	-
	Taiwan R.O.C.	Representative: Chen Chien-Yuen	Graduated from Taipei Municipal Nangang Vocational High School Manager, Domestic Sales Dept. of M.J.International Flooring and Interior Products Inc President of Guangdong Pei Li International Construction Materials Co., Ltd.
Director	British Virgin Islands	Chairman Management Corp.	-
	Taiwan R.O.C.	Representative: Kao Chen-Sheng	Master, Long Island University Chairman of Board of Ching-Mei Textile Corp., Ltd.
Director	British Virgin Islands	Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account	-
	Taiwan R.O.C.	Ho Ping-Hsien	Graduated from National Taiwan University CFO of Formosa Plastics Corporation, FPC USA Overseas CFO of Charoen Pokphand Group
Director	Taiwan R.O.C.	Lin An-Hsiu	Graduated from elementary school
Director	Taiwan R.O.C.	Hsieh Ming-Feng	Department of Chemical Engineering, Lee-Ming Institute of Technology
Independent Director	Taiwan R.O.C.	Yeh Chu-Rong	Graduated from senior high school Chairman of Taiwan Businessmen Association Dongguan Assistant Vice President of China Wire & Cable Co., Ltd. Director, Taiwan Electric Wire & Cable Industries

			Association
Independent Director	Taiwan R.O.C.	Lin Chiang-Liang	Doctor, Department of Accounting, National Chengchi University Dean of General Affairs of Office of General Affairs, Chung Yuan Christian University Chair of Department of Accounting, Chung Yuan Christian University
Independent Director	Taiwan R.O.C.	Liao Wen-Chi	Doctor in Business Administration, Kobe University Associate Professor, NTUST Department of Business Administration

**VIII. Name, job title, contact No. and email of the designated domestic agent:**

Designated domestic agent: Chen Pen-Yuan  
Job Title: Chairman of Board

Telephone: (886)2-2268-4666  
Email: IR@mjig.com

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## One. Letter to Shareholders

Dear Shareholders:

In 2018, the impact brought by the inventory adjustment for the customer in European to the Company's operations has been eliminated gradually after purchase orders were recovering. The US dollar exchange rate rally in the overall economic environment also helped the Company earn non-operating profit. The Company has kept focusing on development of its core business and invested in the research, development and production of the new product, SPC, in order to continue developing its business while its customer base remained sound. Further, the Company kept growing stably in the market of China. The 2018 business report and 2019 business plan of the Company are outlined as following:

### I. 2018 Business Report

#### (I) Overview

The Company's annual consolidated revenue was NT\$2.979 billion in 2018, a decline of 19.13% from 2017. In consideration of the impact brought by the inventory adjustment for the customer in Europe, the proportion of the Company's operating revenue by region in Europe declined by 50.10% in 2018, while the proportion of revenue from all own brand region of China grew from 6.16% in 2017 to 11.31% and that from partial own brand region of Taiwan to 7.17%. As a result, its annual consolidated operating revenue came to NT\$2.979 billion, decreasing by 19.13% from 2017.

#### (II) The business plan implementation results compared with that in 2017:

The revenue referred to in the 2018 consolidated financial statements was NT\$2,979,348 thousand, and the cost of goods sold NT\$2,333,872 thousand, gross profit NT\$645,476 thousand, gross profit margin 21.67%, net income after tax NT\$310,436 thousand, and net income margin 10.42%, compared with those in 2017 as following:

Unit: NTD Thousand

Item	2018	2017	Amount of increase (decrease)	Increase (decrease)
Sales revenue	2,979,348	3,684,253	(704,905)	(19.13%)
Cost of goods sold	2,333,872	2,753,113	(419,241)	(15.23%)
Gross profit	645,476	931,140	(285,664)	(30.68%)
Net income after tax	310,436	494,717	(184,281)	(37.25%)

In terms of the sale region performance in 2018, the MJ's sales in Europe is still the major proportion of revenue. Notwithstanding, in consideration of the impact brought by the inventory adjustment for the customers in European at the beginning of the year, the MJ's sales in Europe declined until 50.10% in 2018. Notwithstanding, the revenue has been growing quarter by quarter since the middle of the year after purchase orders placed by customers were recovering. The Company's sales grew more rapidly in the markets of China and Taiwan in 2018, as the sales of all own brand products region of china grew from 6.16% in 2017 to 11.31% and own brand products Taiwan also grew to 7.17% .

For the gross profit margin, the decline in revenue and decrease in the manufacturing

expense allocation basis resulted in the decrease in the gross profit margin. The US dollar exchange rate rally, upgrading of the yield by the Company's improvement of production process and increase in the percentage of sales under own brand only helped mitigate the decline of the gross profit margin in some way. As a result, the annual gross profit margin declined until 21.67%.

### (III) Analysis on profitability

The revenue decreased by NT\$704,905 thousand in 2018 from 2017. The gross profit margin for the core business decreased from 25.27% in 2017 to 21.677%. The US dollar exchange rate rally resulted in the increase in the exchange gains. Despite the deferred income tax effects of the earnings of subsidiary, the net income after tax decreased slightly and came to NT\$310,436 thousand. The net income margin was 10.42%, less than that in 2017.

### (IV) Status of Research&Development

The Company is one of the leading manufacturers engaged in the production of plastic floors in the world. The Company valued both R&D and quality, and its production method may satisfy the customers' diversified needs for exquisite and highly-efficient products. The Company owns more than 20 patents on plastic floors and is used to identifying R&D and quality as the first priority. In 2018, the Company released multiple new products, such as magnetic wall materials, round-corner floor tiles, flexible floor tiles and SPC stone plastic floors, which helped expand the Company's business and upgrade the Company's earnings. This year, the Company will release such new products as flame-resistant high-viscosity adhesive wall materials and glue-free slip-resistant floor tiles. By introducing the new products to snatch new markets and develop new customers, the Company's sales are expected to be benefited therefor this year.

## II. Outlook

Looking forward to 2019, the Company keeps its optimistic outlook. Considering that the purchase orders are recovering after the inventory adjustments for customers in Europe ended, the Company will aim to keep developing sales channels and seek cross-industry alliance to expand its market share this year. Meanwhile, it will invest in mass production of the new product, SPC stone plastic floor, in order to upgrade the profit sought by products by introducing new products and expanding the sales of own brand products. The Company will continue to maintain good relationship with customers in Europe who impose strict quality requirement, and also keep developing sales channels and customers in the market of North America. The Company's own brand products have been achieving remarkable results in China and Taiwan, and the Company starts to develop the market of South East Asia, in hopes of expanding its global market share.

The Company will continue to optimize its teams and organizations, deepen the development of MJ brand value, and continue to research and develop prospective technologies and innovative applications thereof to keep improving the Company's leading core competitiveness. Meanwhile, the Company will apply such means as merger & acquisition and cross-industry alliance and adopt the strategy focusing on "Grouping to Fight for Group Battle" to target excellent counterparts in the R&D patent and sales channels to proceed with merger and acquisition in a timely manner. With the efforts spent by all of the Company's workers, the Company's sales performance and earnings are expected to grow stably in 2019.

The Company's business overview and outlook are stated as above. The Company will continue to uphold the management philosophy focusing on honesty, diligence, simplicity, prudence and quality as the first priority, upgrade the Company's entire core competitiveness, grow as driven by the customers' interests and satisfaction, adhere to the principle for pursuing innovation and improvement, keep improving its production process, innovating its design and



striving for perfect quality, and continue to use its best efforts to run the enterprise to achieve steady growth, repay all shareholders, and enable the Company to become the most reliable partner of customers. Meanwhile, the Company will practice corporate governance and fulfill corporate social responsibility and sustainability. Wish all of you

Health and happiness!

M. J. International Co., Ltd.

Chairman of Board: Chen Pen-Yuan

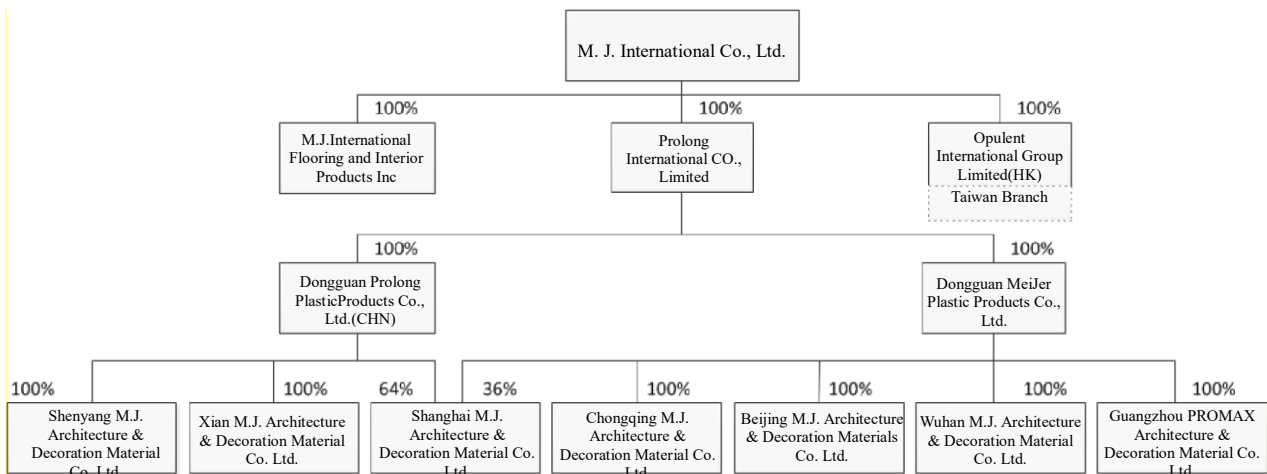
## Two. Company profile

### I. Date of incorporation and company profile

M. J. International Co., Ltd. (hereinafter referred to as the Company or M.J.International Co.,Ltd(CAYMAN)) is a holding company incorporated in British Cayman Islands on October 8, 2010. All of the Company's subsidiaries are wholly owned by the Company, directly or indirectly. The Company is engaged in development, production and sale of Luxury Vinyl Tile as its main business lines. The jurisdictions/countries of registration and main functions of the Company's subsidiaries are introduced as following:

Company name	Place of registration	Main functions
M.J.International Flooring and Interior Products Inc.(hereinafter referred to as Taiwan MeiJer)	Taiwan R.O.C.	Domestic sales and business location in Taiwan
Prolong International Co., Limited. (hereinafter referred to as Prolong International)	Hong Kong	Investment holding
Opulent International Group Limited. (hereinafter referred to as Opulent International)	Hong Kong	Procurement of raw materials
Opulent International Group Limited Taiwan Branch (hereinafter referred to as Opulent Taiwan)	Taiwan R.O.C.	Business location dedicated to accepting orders for export
Dongguan Prolong PlasticProducts Co., Ltd. (hereinafter referred to as Dongguan Prolong)	China	Investment holding, and production of luxury vinyl tile
Dongguan MeiJer PlasticProducts Co., Ltd. (hereinafter referred to as Dongguan MeiJer)	China	Investment holding, and production of luxury vinyl tile
Chongqing M.J. Architecture & Decoration Material Co. Ltd. (hereinafter referred to as Chongqing MeiJer)	China	Sales and business location in the territories of the mainland China
Beijing M.J. Architecture & Decoration Materials Co. Ltd. (hereinafter referred to as Beijing MeiJer)	China	Sales and business location in the territories of the mainland China
Shanghai M.J. Architecture & Decoration Material Co. Ltd. (hereinafter referred to as Shanghai MeiJer)	China	Sales and business location in the territories of the mainland China
Guangzhou PROMAX Architecture & Decoration Material Co. Ltd. (hereinafter referred to as Guangzhou PROMAX)	China	Sales and business location in the territories of the mainland China
Wuhan M.J. Architecture & Decoration Material Co. Ltd. (hereinafter referred to as Wuhan MeiJer)	China	Sales and business location in the territories of the mainland China
Xian M.J. Architecture & Decoration Material Co. Ltd. (hereinafter referred to as Xian MeiJer)	China	Sales and business location in the territories of the mainland China
Shenyang M.J. Architecture & Decoration Material Co. Ltd. (hereinafter referred to as Shenyang MeiJer)	China	Sales and business location in the territories of the mainland China

### II. Company organization



### III. Company history

Year	Milestones
1982	<ul style="list-style-type: none"> <li>• M.J.International Flooring and Interior Products Inc was founded in Shulin District, New Taipei City, Taiwan in June .</li> </ul>
1986	<ul style="list-style-type: none"> <li>• M.J.International Flooring and Interior Products Inc was relocated to Tucheng District, New Taipei City, Taiwan in May.</li> </ul>
1990	<ul style="list-style-type: none"> <li>• M.J.International Flooring and Interior Products Inc expanded its production capacity in October.</li> </ul>
1993	<ul style="list-style-type: none"> <li>• Dongguan Prolong PlasticProducts Co., Ltd.constructed its factory in ShiJie Township, Dongguan City in June.</li> </ul>
1997	<ul style="list-style-type: none"> <li>• Build the Prolong brand for tiles sold in Taiwan and the mainland China.</li> </ul>
2001	<ul style="list-style-type: none"> <li>• Dongguan Prolong factory passed ISO 9001 certification.</li> </ul>
2002	<ul style="list-style-type: none"> <li>• Dongguan Prolong factory passed CSTB certification.</li> </ul>
2005	<ul style="list-style-type: none"> <li>• Construction of Dongguan Prolong factory was completed, and the factory passed ISO 14001 certification.</li> </ul>
2006	<ul style="list-style-type: none"> <li>• Dongguan MeiJer PlasticProducts Co., Ltd. constructed its factory in Zhong Tang Township in August.</li> </ul>
2008	<ul style="list-style-type: none"> <li>• Dongguan Prolong factory expansion was completed and the factory started the mass production in April.</li> </ul>
2010	<ul style="list-style-type: none"> <li>• Dongguan MeiJer factory expansion (MeiJer Factory No. 2) was completed and equipped with fully-automatic production lines.</li> </ul>
2010	<ul style="list-style-type: none"> <li>• The first-listed entity, M. J. International Co., Ltd., was founded in Cayman Islands in October.M. J. International Co., Ltd. also established Prolong International Co., Limited in Hong Kong and proceeded with the reorganization.</li> </ul>
2011	<ul style="list-style-type: none"> <li>• Created the PROMAX brand for sale in the territories of Taiwan and the mainland China.</li> </ul>
2012	<ul style="list-style-type: none"> <li>• Founded Chongqing M.J. Architecture &amp; Decoration Material Co. Ltd. in November to engage in the sale business in the mainland China.</li> <li>• Founded Opulent International Group Limited in Hong Kong and its Taiwan Branch in November to engage in the international sale business.</li> <li>• Acquired the utility model and invention patents in the mainland China, utility model patent in Taiwan and utility model patent in Japan with respect to PVC non-slip tiles.</li> <li>• Passed SA8000 certification and BRE green environmental protection certification.</li> </ul>
2013	<ul style="list-style-type: none"> <li>• Passed Floor Score US indoor air health emission standard certification.</li> <li>• Founded Beijing M.J. Architecture &amp; Decoration Materials Co. Ltd. 、Shanghai M.J. Architecture &amp; Decoration Material Co. Ltd. and Guangzhou PROMAX Architecture &amp; Decoration Material Co. Ltd. to engage in the sale business in the mainland China.</li> <li>• Released the KAAPFLOR brand to expand the markets in the mainland China and South East Asia.</li> </ul>
2014	<ul style="list-style-type: none"> <li>• Received the Outstanding Taiwanese Businessman Award-Export Excellence Award of 2nd Term from Management Institute in Taipei.</li> <li>• Acquired the utility model patent in Taiwan, utility model patent in the mainland China, utility model patent in Japan and invention patent in the USA with respect to PVC non-slip tiles.</li> <li>• Acquired the utility model patent in Taiwan and invention patent in the USA with respect to novel environmental protection tiles.</li> </ul>
2015	<ul style="list-style-type: none"> <li>• Expansion of Dongguan MeiJer Factory No. 3 was completed.</li> <li>• Expansion of hot press production lines of Dongguan MeiJer Factory was completed.</li> </ul>

2016	<ul style="list-style-type: none"> <li>• Founded Wuhan M.J. Architecture &amp; Decoration Material Co. Ltd. to engage in the sale business in the mainland China.</li> <li>• Listed on TWSE.</li> <li>• Acquired the Green Tag Certificate from Ministry of Interior of Taiwan R.O.C..</li> </ul>
2017	<ul style="list-style-type: none"> <li>• Created the Xian M.J. Architecture &amp; Decoration Material Co. Ltd. for sale in the territories of the mainland China.</li> </ul>
2018	<ul style="list-style-type: none"> <li>• Shanghai Business Center was established.</li> <li>• Founded Wuhan M.J. Architecture &amp; Decoration Material Co. Ltd. to engage in the sale business in the mainland China.</li> </ul>
2019	<ul style="list-style-type: none"> <li>• Founded Shenyang M.J. Architecture &amp; Decoration Material Co. Ltd.</li> </ul>

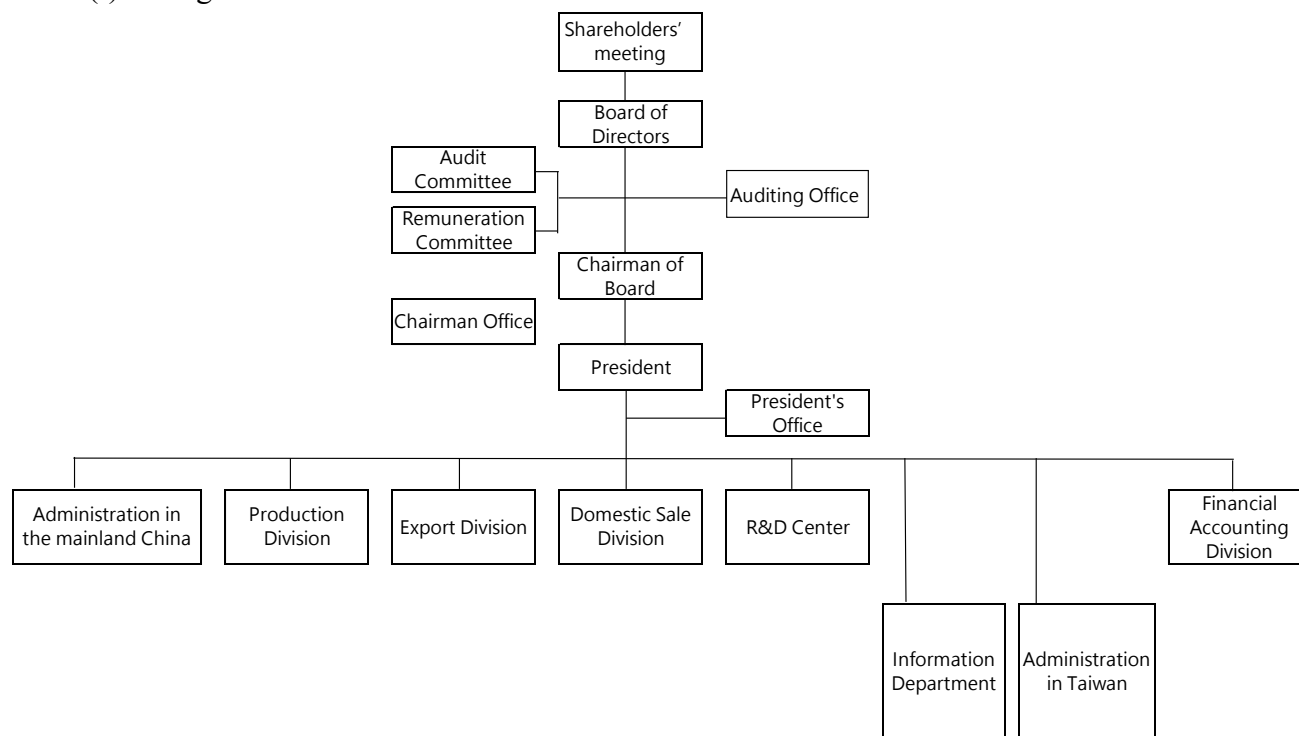
#### IV. Risks

Please see Chapter Seven. Discussion and Analysis of Financial Position and Financial Performance, and Risks referred to herein.

## Three. Corporate Governance Report

### I. Organization

#### (I) Organizational structure



#### (II) Operations by department

Department	Operations & functions
Board of Directors	Make policy-based decisions and set the objectives and policies with respect to the Company's business administration.
Audit Committee	Supervise the Company's business overview and financial position, adequate expression of financial statements, and effective implementation of internal controls.
Remuneration Committee	Establish and periodically assess the performance appraisal on directors and managers, as well as policies, systems, standards and structures of remuneration, and establish and periodically assess the remuneration to directors and managers.
Auditing Office	Conduct the operational audit on the internal regulations, procedures and authorization by the competent authority and the Company, and execution thereof, and provide suggestions about improvement.
Chairman Office	Plan the business strategies, set business objectives, assess and promote investment projects, and plan and execute the affairs related to directors' meetings and shareholders' meetings.
President's Office	In charge of planning the Company's overall strategies and projects, assess and compile such information as business plans and performance assessment submitted by various divisions; follow up, supervise and assist the various projects and various divisions' objectives and progress; collect and provide external management information and intelligence; call the management meetings.

Department	Operations & functions
Administration in the mainland China	Set the objectives about management of human resource, general affairs, procurement and SHE of the Group's subsidiaries in the mainland China.
Production Division	Responsible for the production plan, production technology, production, progress management, site management, warehousing management and equipment maintenance for the products. Promote quality policies and objectives, plan and execute quality assurance systems, supervise the settlement of complaints from customers, supervise and audit suppliers' management, and continue to upgrade customers' satisfaction about quality.
Export Division	Marketing strategy planning, sales, market development, development of new customers, and collection, investigation and analysis of market information with respect to the Company's products in any overseas territories other than the territories of Great China.
Domestic Sale Division	Develop online sale channels, establishment of an architectural design institute project designation, merchandise the market products and brand products, establish and maintain e-commercial channels, and plan products in the territories of Great China.
R&D Center	Integrate new materials, new technologies and new functions to develop new products or new production processes; assist the technology transfer and implement mass production; and establish related documents, such as BOM and SOP. Assess and research the new ideas about forward-looking technologies and products; execute outsourcing R&D cooperative projects; conduct pre-market survey and establish product development plans. Search, assess, apply for and maintenance the patents about the products.
Financial Accounting Division	Responsible for capital allocation, accounting, financial budget, cashier, taxation and shareholders' service of the Company.
Information Department	Integrate the application of the Company's information resources and management of information security, including procurement and maintenance of computer software and hardware, installation, planning, management and maintenance of network, development and maintenance of application softwares, and implementation of various office systems.
Administration in Taiwan	Set the objectives about management of human resource, general affairs, procurement and SHE of the Group's subsidiaries in Taiwan and Hong Kong.

II. Information about the directors, supervisors, President and CEO, vice presidents, assistant vice presidents and heads of departments and branches

(I) Directors and supervisors

1. Directors

April 7, 2019 Unit: shares; %

Job title	Nationality or Place of Registration	Name	Gender	Date of Election (Appointment)	Term of Office	Date of First Election (Appointment)	Number of shares held at the time of election (appointment)		Current quantity of shares held		Number of shares held by their spouses and minor children		Number of shares held under another person's name		Educational background (work experience)	Positions concurrently held in the Company and other companies	Spouse or relative within the 2nd degree of kinship who is also a manager, director or supervisor of the Company		
							Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding			Job title	Name	Relationship
Chairman of Board	Samoa	Black Dragon Assets Limited		September 5, 2018	3 years	March 24, 2014	4,478,400	6.78%	4,478,400	6.78%	-	-	-	-	-	-	-	-	-
	Taiwan R.O.C.	Representative: Chen Pen-Yuan	Male				737,797	1.12%	737,797	1.12%	(Note 1)	(Note 1)	(Note 2)	(Note 2)	Graduated from junior high school Sales Manager/Production Section Chief of Zhen Hong Plastics Industry Co., Ltd. Factory manager of HANDSOME PLASTICS CO., LTD. President of M.J.	Chairman of Board of M.J.International Flooring and Interior Products Inc Director of Opulent International Group Limited. Director of Prolong International Co., Limited.	-	-	-
Director	Samoa	CROWN HARVEST COMPANY LIMITED		September 5, 2018	3 years	August 7, 2014	12,204,000	18.47%	12,204,000	18.47%	-	-	-	-	-	-	-	-	-
	Taiwan R.O.C.	Representative: Chen Chien-Yuen	Male				-	-	-	-	-	-	(Note 3)	(Note 3)	Graduated from Taipei Municipal Nangang Vocational High School Manager, Domestic Sales Dept. of M.J.International Flooring and Interior Products Inc President of Guangdong Pei Li International Construction Materials Co., Ltd.	Chairman of Board of Guan Chen International Co., Ltd. Director of Dongguan Prolong PlasticProducts Co., Ltd. Director of Dongguan Mei Jer PlasticProducts Co., Ltd.	-	-	-
Director	British Virgin Islands	Chairman Management Corp.		September 5, 2018	3 years	June 2, 2017	3,999,000	6.05%	3,999,000	6.05%	-	-	-	-	-	-	-	-	-
	Taiwan R.O.C.	Representative: Kao Chen-Sheng	Male				-	-	-	-	-	-	(Note 4)	(Note 4)	Master, Long Island University Factory Manager of Ching-Mei Textile Corp., Ltd.	Chairman of Board of Ching-Mei Textile Corp., Ltd.	-	-	-
Director	British Virgin Islands	Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account		September 5, 2018	3 years	September 5, 2018	7,779,000	11.78%	7,779,000	11.78%	-	-	-	-	Graduated from National Taiwan University CFO of Formosa Plastics Corporation, FPC USA Overseas CFO of Charoen Pokphand Group	Non-Executive Director of Taiwan Honma Golf Co., Ltd.	-	-	-
	Taiwan R.O.C.	Representative: Ho Ping-Hsien	Male																

Job title	Nationality or Place of Registration	Name	Gender	Date of Election (Appointment)	Term of Office	Date of First Election (Appointment)	Number of shares held at the time of election (appointment)		Current quantity of shares held		Number of shares held by their spouses and minor children		Number of shares held under another person's name		Educational background (work experience)	Positions concurrently held in the Company and other companies	Spouse or relative within the 2nd degree of kinship who is also a manager, director or supervisor of the Company		
							Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding			Job title	Name	Relationship
Director	Taiwan R.O.C.	Lin An-Hsiu	Male	September 5, 2018	3 years	October 8, 2010	710,500	1.08%	775,500	1.17%	92,500	0.14%	-	-	Graduated from elementary school	Supervisor of G.T Floor Co., LTD. Director of M.J.International Flooring and Interior Products Inc(TW) Director of Prolong International Co., Limited(HK)	-	-	-
Director	Taiwan R.O.C.	Hsieh Ming-Feng	Male	September 5, 2018	3 years	August 7, 2014	760,000	1.15%	760,000	1.15%	268,000	0.41%	(Note 5)	(Note 5)	Department of Chemical Engineering, Lee-Ming Institute of Technology	Chairman of Board of Xin Wei Cun Ltd. Supervisor of M.J.International Flooring and Interior Products Inc(TW) Supervisor of Dongguan Mei Jer PlasticProducts Co., Ltd.(CHN) Supervisor of Dongguan Prolong PlasticProducts Co., Ltd.(CHN) Chairman of Board of Wei Chung Development Co., Limited.	-	-	-
Independent Director	Taiwan R.O.C.	Yeh Chu-Rong	Male	September 5, 2018	3 years	August 7, 2014	-	-	-	-	-	-	-	-	Graduated from senior high school Chairman of Taiwan Businessmen Association Dongguan Assistant Vice President of China Wire & Cable Co., Ltd. Director, Taiwan Electric Wire & Cable Industries Association	Chairman of Board of YFC-BonEagle ELECTRIC CO., LTD. Responsible person of Dongguan Yuefeng Electronic Technology Co., Ltd.	-	-	-
Independent Director	Taiwan R.O.C.	Lin Chiang-Liang	Male	September 5, 2018	3 years	August 7, 2014	-	-	-	-	-	-	-	-	Doctor, Department of Accounting, National Chengchi University Dean of General Affairs of Office of General Affairs, Chung Yuan Christian University Chair of Department of Accounting, Chung Yuan Christian University	Professor of Department of Accounting, Chung Yuan Christian University Independent Director/Remuneration Committee Member of Tecom Co., Ltd. Independent Director/Remuneration Committee Member of CALITECH CO., LTD.	-	-	-



Job title	Nationality or Place of Registration	Name	Gender	Date of Election (Appointment)	Term of Office	Date of First Election (Appointment)	Number of shares held at the time of election (appointment)		Current quantity of shares held		Number of shares held by their spouses and minor children		Number of shares held under another person's name		Educational background (work experience)	Positions concurrently held in the Company and other companies	Spouse or relative within the 2nd degree of kinship who is also a manager, director or supervisor of the Company		
							Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding			Job title	Name	Relationship
Independent Director	Taiwan R.O.C.	Liao Wen-Chi	Male	September 5, 2018	3 years	August 7, 2014	-	-	-	-	-	-	-	-	Doctor in Business Administration, Kobe University Associate Professor, NTUST Department of Business Administration	Adjunct Associate Professor, NTUST Department of Business Administration Director of Sunshine Social Welfare Foundation Chairman of National Association of Small & Medium Enterprises, R.O.C., Industry-Academia Collaboration Committee	-	-	-

Note 1:Chen Pen-Yuan's spouse holds 100% of the equity of ALPHA MARVEL CORPORATION. ALPHA MARVEL CORPORATION holds 4.23% of the equity of the Company.

Note 2:Chen Pen-Yuan holds 100% of the equity of Black Dragon Assets Limited. Dragon Assets Limited holds 6.78% of the equity of the Company.

Note 3:Chen Chien-Yuen holds 12% of the equity of CROWN HARVEST COMPANY LIMITED. CROWN HARVEST COMPANY LIMITED holds 18.47% of the equity of the Company.

Note 4:Kao Chen-Sheng holds 100% of the equity of Chairman Management Corp.. Chairman Management Corp. holds 6.05% of the equity of the Company.

Note 5:Hsieh Ming-Feng holds 39.70% of Wei Chung Development CO., Limited. Wei Chung Development CO., Limited holds 2.23% of the equity of the Company.

2. Supervisors: N/A, because the Company has already established the Audit Committee.
3. Major shareholders of institutional shareholders

March 31, 2019

Name of institutional shareholder	Major shareholders of institutional shareholders
Black Dragon Assets Limited	Chen Pen-Yuan (100%)
CROWN HARVEST COMPANY LIMITED	Chen Chun-Po (28%), Liu Chu-Mei (12%), Chen Chien-Yuen (12%), Chen Chien-Long (12%), Chen Chien-Ming (12%), Chen Man-Ling (12%), Chang Li-Huang (12%)
Chairman Management Corp.	Kao Chen-Sheng (100%)
Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account	CT Bright Fund Management Company Limited (100%)

4. Major shareholders of institutional shareholders' major shareholders who are institutional investors

March 31, 2019

Name of Institute Investor	Major shareholders of Institute Investors
CT Bright Capital Company Limited	CT Bright Fund Management Company Limited (100%)

5. Information about directors and supervisors

Qualifications	Have more than 5 years of experience and the following professional qualifications			Status of independence (Note)										Number of public companies where the person holds the position as independent director	
	Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities	Pass the qualification examination with proper licensing by the national government as court judge, prosecutor, attorneys-at-law, certified public accountant or other professional designations required by the business of the Company	Required work experience in commerce, law, finance, accounting or others required by the Company	1	2	3	4	5	6	7	8	9	10		
Name															
Chairman of Board Black Dragon Assets Limited Representative: Chen Pen-Yuan			✓							✓	✓	✓	✓		-
Director			✓	✓						✓	✓	✓	✓		-

Qualifications	Have more than 5 years of experience and the following professional qualifications			Status of independence (Note)										Number of public companies where the person holds the position as independent director
	Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities	Pass the qualification examination with proper licensing by the national government as court judge, prosecutor, attorneys-at-law, certified public accountant or other professional designations required by the business of the Company	Required work experience in commerce, law, finance, accounting or others required by the Company	1	2	3	4	5	6	7	8	9	10	
Name														
CROWN HARVEST COMPANY LIMITED Representative: Chen Chien-Yuen														
Director Chairman Management Corp. Representative: Kao Chen-Sheng			✓	✓					✓	✓	✓	✓		-
Director Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account Representative: Ho Ping-Hsien			✓	✓				✓		✓	✓	✓	✓	-
Director Lin An-Hsiu			✓	✓				✓		✓	✓	✓	✓	-
Director Hsieh Ming-Feng			✓	✓					✓	✓	✓	✓	✓	-
Independent Director Yeh Chu-Rong			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Independent Director Lin Chiang-Liang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Independent Director Liao Wen-Chi	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note: The respective director and supervisor who meet said qualifications 2 years before assumption of office or at the time of assumption office shall put a “✓” in the appropriate space.

(1) Not an employee of the Company or its affiliates.

- (2) Not a director or supervisor of the Company or its affiliates (The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary).
- (3) Not a natural person, spouse, underage children, or under the title of a third party who holds more than 1% of the outstanding shares issued by the Company or among the top 10 natural person shareholders.
- (4) Not a spouse, relative within 2nd degree of kinship, or the lineal blood relatives within 3rd degree of kinship of the persons as specified in the preceding three subparagraphs.
- (5) Not a director, supervisor or employee of an institutional shareholder who holds more than 5% of the outstanding shares issued by the Company, or a director, supervisor or employee of an institutional shareholder who is among the top 5 shareholders.
- (6) Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of specific company or institution in business or financial relation with the Company.
- (7) Not a professional, or owner, partner, director, supervisor or manager of proprietorship, partnership, company or institution that provide business, legal, financial and accounting services to the Company or its affiliates, or a spouse to said persons, provided that this restriction does not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies Whose Stock is Listed on the TWSE or Traded on the TPEX.
- (8) Not a spouse to or relative within 2nd degree of kinship of any other director.
- (9) Not under any of the circumstances stated in Article 30 of the Company Act.
- (10) No government agency, juristic person or its representative is elected under Article 27 of the Company Act.

(II) President and CEO, vice presidents, assistant vice presidents and heads of departments and branches

April 9, 2019 Unit: shares; %

Job title	Nationality	Name	Gender	Date of Election (Appointment)	Quantity of shares held		Quantity of shares held by their spouses and minor children		Number of shares held under another person's name		Educational background (work experience)	Positions concurrently held in other companies	Spouse or relative within 2nd degree of kinship and who is a manager			Quantity of shares entitled by managers under employee stock option
					Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding			Job title	Name	Relationship	
President	Taiwan R.O.C.	Chiang Tze-Hua	Male	June 1, 2013	224,608	0.34	111,538	0.17	-	-	Department of Industrial Engineering and Systems Management, Feng Chia University M.J. - Special Assistant of President Office M.J. - Vice President of Production M.J. - Vice President of Marketing	(Note 1)	-	-	-	-
Vice General Manager of Financial Accounting Dept.	Taiwan R.O.C.	Liu Chiao-Lu	Male	February 1, 2012	192,311	0.29	-	-	-	-	Department of Accounting, Chinese Culture University M.J. - Vice President of Administration M.J. - Special Assistant of President Office Taiwan Oasis Technology Co., Ltd. - Vice President CHUNG SHING TEXTILE CO., LTD. - Junior Accounting Manager CPA registered in the mainland China	(Note 2)	-	-	-	-
Vice President of Production Division	China	Li Liang-You	Male	June 1, 2018	-	-	-	-	-	-	Wanzai Vocational Technical School (mainland China) M.J. - Section Chief of Supplies Section, Production Control Department M.J. - Section Chief of Quality Assurance Department M.J. - Manager of Manufacturing Department	-	-	-	-	-
Vice President of Marketing Division	China	Song Hsiao-Pei	Male	September 1, 2017	-	-	-	-	-	-	MBA of Maastricht School of Management English Department of School of Foreign Languages in East China Normal University Asia Pacific Supply Chain Senior Manager in Armstrong Building	-	-	-	-	-

Job title	Nationality	Name	Gender	Date of Election (Appointment)	Quantity of shares held		Quantity of shares held by their spouses and minor children		Number of shares held under another person's name		Educational background (work experience)	Positions concurrently held in other companies	Spouse or relative within 2nd degree of kinship and who is a manager			Quantity of shares entitled by managers under employee stock option
					Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding			Job title	Name	Relationship	
											Products Co., Ltd. Purchasing Manager in STATS ChipPAC					
Manager of Domestic Sale Department in the mainland China	China	Chang Hung-Wu	Male	March 9, 2015	-	-	-	-	-	-	Department of Architecture of Tongji University Marketing Director in Beijing Oude Decoration Materials Marketing Director in Armstrong Building Products (CHINA) Co., Ltd. M.J. - Marketing Director in the mainland China	-	-	-	-	-
Vice President of Administration in the mainland China	China	Tu Chiang-Ling	Male	January 1, 2018	-	-	-	-	-	-	Leshan Normal University Global Brands Manufacture Ltd. - Procurement Section Chief M.J. - Procurement Manager	-	-	-	-	-
Manager, Information Department	Taiwan R.O.C.	Li Kuang-Chun	Male	November 1, 2016	100	-	-	-	-	-	Department of International Management of Lunghwa University of Science and Technology WELL COMMUNICATION CORPORATION - Engineer of Information Department Comda Advanced Technology Corp. - Information Section Chief M.J. - Senior Specialist of Information Department	-	-	-	-	-
Chief Auditor of Auditing Office	Taiwan R.O.C.	Huang Shu-Mei	Male	July 17, 2014	5,000	0.01	-	-	-	-	Oklahoma City University, Institute of Accounting Copartner Tech Corp. - Accounting Manager Copartner Tech Corp. - Auditing Office Fu Kuo Construction/Fu Tian Miao Kuo - Administrative Assistant Manager KUO BIN CERAMIC INDUSTRIAL CO.,LTD. - Audit Officer	-	-	-	-	-
Special Assistant of	Taiwan R.O.C.	Peng Shao-Tseng	Male	July 4, 2016	-	-	-	-	-	-	National Taiwan University EMBA	-	-	-	-	-

Job title	Nationality	Name	Gender	Date of Election (Appointment)	Quantity of shares held		Quantity of shares held by their spouses and minor children		Number of shares held under another person's name		Educational background (work experience)	Positions concurrently held in other companies	Spouse or relative within 2nd degree of kinship and who is a manager			Quantity of shares entitled by managers under employee stock option
					Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding			Job title	Name	Relationship	
Chairman Office											The City University of New York MBA Independent Advisor KPMG Corporate Finance Co., Ltd., Business Process Reengineering -Vice President/Assistant Vice President/Manager Li Xin International Development Co., Ltd. - President North Bay Golf Recreation Co., Ltd. - Planning/Vice President of Financial Management/Assistant Vice President/Manager					

Note 1: Hold the position as the president concurrently in M.J. International Flooring and Interior Products Inc, Prolong International Co., Limited, Opulent International Group Limited, Dongguan Prolong Plastic Products Co., Ltd. and Dongguan MeiJer Plastic Products Co., Ltd..

Note 2: Hold the position as the supervisor concurrently in Chongqing M.J. Architecture & Decoration Material Co. Ltd. Beijing M.J. Architecture & Decoration Materials Co. Ltd. Shanghai M.J. Architecture & Decoration Material Co. Ltd. Xian M.J. Architecture & Decoration Material Co. Ltd. Wuhan M.J. Architecture & Decoration Material Co. Ltd. Shenyang M.J. Architecture & Decoration Material Co. Ltd. and Guangzhou PROMAX Architecture & Decoration Material Co. Ltd..

III. Remuneration to Directors, Supervisors, President and Vice Presidents

1. Remuneration to directors, supervisors, president and vice presidents in the most recent year

(1) Remuneration to directors (including independent directors)

Unit: NTD Thousand

Job title	Name	Remuneration to directors								The sum of A, B, C and D in proportion to earnings		Remuneration received in the capacity as employees								The sum of A, B, C, D, E, F and G in proportion to earnings		Remuneration from investees other than subsidiaries
		Remuneration (A)		Pension (B)		Remuneration to directors (C)		For professional practice (D)				Salary, bonus and special allowance, et al. (E)		Pension (F)		Remuneration to employees (G)						
		the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	Cash dividend	Stock dividend	Cash dividend	Stock dividend	the Company	All companies included in the financial statements			
Chairman of Board	Black Dragon Assets Limited	-	7,927	-	-	4,847	4,847	36	36	1.57	4.13	-	-	-	-	-	-	-	-	1.57	4.13	-
	Representative: Chen Pen-Yuan																					
Director	CROWN HARVEST COMPANY LIMITED																					
	Representative: Chen Chien-Yuan																					
Director	Chairman Management Corp.																					
	Representative: Kao Chen-Sheng	1386	1,386	-	-	10,420	10,420	270	270	3.89	3.89	-	-	-	-	-	-	-	-	3.89	3.89	-
Director (Note)	Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account																					
	Representative: Ho Ping-Hsien																					



Director	Lin An-Hsiu																			
Director	Hsieh Ming-Feng																			
Independent Director	Yeh Chun-Rong																			
Independent Director (Note)	Tsai Kun-Yuan																			
Independent Director	Lin Chiang-Liang																			

Note: Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account appointed as the new director as of September 5, 2018 . Independent Director Tsai Kun-Yuan has been discharged as of September 5, 2018.

### Breakdown of remuneration

Breakdown of remuneration to directors	Name of director			
	Total (A+B+C+D)		Total (A+B+C+D+E+F+G)	
	the Company	All companies included in the financial statements	the Company	All companies included in the financial statements
Less than NT\$2,000,000	Yeh Chu-Rong, Tsai Kun-Yuan, Lin Chiang-Liang, Liao Wen-Chi, Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account (Representative: Ho Ping-Hsien)	Yeh Chu-Rong, Tsai Kun-Yuan, Lin Chiang-Liang, Liao Wen-Chi, Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account (Representative: Ho Ping-Hsien)	Yeh Chu-Rong, Tsai Kun-Yuan, Lin Chiang-Liang, Liao Wen-Chi, Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account (Representative: Ho Ping-Hsien)	Yeh Chu-Rong, Tsai Kun-Yuan, Lin Chiang-Liang, Liao Wen-Chi, Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account (Representative: Ho Ping-Hsien)
NT\$2,000,000 (inclusive)~ NT\$5,000,000 (exclusive)	Black Dragon Assets Limited (Representative: Chen Pen-Yuan), CROWN HARVEST COMPANY LIMITED (Representative: Chen Chien-Yuen), Chairman Management Corp. (Representative: Kao Chen-Sheng), Lin An-Hsiu, Hsieh Ming-Feng	CROWN HARVEST COMPANY LIMITED (Representative: Chen Chien-Yuen), Chairman Management Corp. (Representative: Kao Chen-Sheng), Lin An-Hsiu, Hsieh Ming-Feng	Black Dragon Assets Limited (Representative: Chen Pen-Yuan), CROWN HARVEST COMPANY LIMITED (Representative: Chen Chien-Yuan), Chairman Management Corp. (Representative: Kao Chen-Sheng), Lin An-Hsiu, Hsieh Ming-Feng	CROWN HARVEST COMPANY LIMITED (Representative: Chen Chien-Yuen), Martel Global Corporation (Representative: Kao Huei-Chi), Lin An-Hsiu, Hsieh Ming-Feng
NT\$5,000,000 (inclusive)~ NT\$10,000,000 (exclusive)				
NT\$10,000,000 (inclusive)~ NT\$15,000,000 (exclusive)		Black Dragon Assets Limited (Representative: Chen Pen-Yuan)		Black Dragon Assets Limited (Representative: Chen Pen-Yuan)
NT\$15,000,000 (inclusive)~ NT\$30,000,000 (exclusive)				
NT\$30,000,000 (inclusive)~ NT\$50,000,000 (exclusive)				
NT\$50,000,000 (inclusive)~ NT\$100,000,000 (exclusive)				
More than NT\$100,000,000				
Total	10 persons	10 persons	10 persons	10 persons

Note: Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account appointed as the new director as of September 5, 2018. Independent Director Tsai Kun-Yuan has been discharged as of September 5, 2018.

(2) Remuneration to supervisors: N/A, because the Company has already established the Audit Committee.

(3) Remuneration to President and Vice Presidents

Unit: NT\$ thousand; %

Job title	Name	Salary (A)		Pension (B)		Bonus and special allowance, et al. (C)		Employee Bonus from retained earnings (D)				The sum of A, B, C and D in proportion to earnings		Quantity of shares entitled under employee stock option		Quantity of shares entitled under new restricted stock awards		Remuneration from investees other than subsidiaries
		the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	the Company		All companies included in the financial statements		the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	the Company	All companies included in the financial statements	
								Bonus in cash	Bonus in the form of stock	Bonus in cash	Bonus in the form of stock							
President	Chiang Tze-Hua	-	10,170	-	467	-	2,325	-	-	6,989	-	-	6.43	-	-	-	-	-
Vice General Manager of Financial Accounting Dept.	Liu Chiao-Lu																	
Vice President of Marketing Division	Song Hsiao-Pei	-	10,170	-	467	-	2,325	-	-	6,989	-	-	6.43	-	-	-	-	-
Vice President of Domestic Sale Department in the	Chang Hung-Wu																	

mainland China																		
Vice President of Administ ration in the mainland China	Tu Chiang- Ling																	
Production Division Vice President	Li Liang- You (Note 1)																	
Special Assistant of Chairman Office	Peng Shao- Tseng																	
Vice President of R&D Center	Hsing Chi- Chiang (Note 2)																	

Note 1: Vice President of Production Division, Li Liang-You, has held the position on June 1, 2018.

Note 2: Vice President of R&D Center, Hsing Chi-Chiang, resigned on June 29, 2018.

Breakdown of remuneration

Breakdown of remuneration to President and Vice President of the Company	Name of President and Vice President	
	the Company	All companies included in the financial statements
Less than NT\$2,000,000	-	Hsing Chi-Chiang (Note 1), Li Liang-You (Note 2), Du Chiang-Ling
NT\$2,000,000 (inclusive)~NT\$5,000,000 (exclusive)	-	Liu Chiao-Lu, Peng Shao-Tseng, Chang Hung-Wu, Song Hsiao-Pei
NT\$5,000,000 (inclusive)~NT\$10,000,000 (exclusive)	-	Chiang Tze-Hua
NT\$10,000,000 (inclusive)~NT\$15,000,000 (exclusive)	-	
NT\$15,000,000 (inclusive)~NT\$30,000,000 (exclusive)	-	
NT\$30,000,000 (inclusive)~NT\$50,000,000 (exclusive)	-	
NT\$50,000,000 (inclusive)~NT\$100,000,000 (exclusive)	-	
More than NT\$100,000,000	-	
Total	0 person	8 persons

Note 1: Vice President of R&D Center, Hsing Chi-Chiang, resigned on June 29, 2018. The breakdown of salary paid between January 1, 2018~June 28, 2018.

Note 2: Vice President of Production Division, Li Liang-You, has held the position on June 1, 2018. The breakdown of salary paid between June 1, 2018~December 31, 2018.

(4) Name of the manager whom the employee bonus was allocated to in the most recent year and status of the allocation:

	Job title	Name	Bonus in the form of stock	Bonus in cash	Total	Total in proportion to earnings (%)
Manager	President	Chiang Tze-Hua	-	6,990	6,990	2.25
	Vice General Manager of Financial Accounting Dept.	Liu Chiao-Lu				
	Vice President of R&D Center	Hsing Chi-Chiang (Note 1)				
	Vice President of Domestic Sale Division	Chang Hung-Wu				
	Vice President of Export Division	Song Hsiao-Pei				
	Vice President of Production Division	Li Liang-You (Note 2)				
	Vice President of Administration in the mainland China	Tu Chiang-Ling				
	Special Assistant of Chairman of Board	Peng Shao-Tseng				

Note 1: Vice President of R&D Center, Hsing Chi-Chiang, resigned on June 29, 2018.

Note 2: Vice President of Production Division, Li Liang-You, has held the position on June 1, 2018.

2. Please specify and compare the remuneration to directors, supervisors, President and vice presidents of the Company in proportion to the earnings from the Company and companies included in the consolidated financial statements in the latest 2 years, and specify the policies, standards, combinations, procedure of decision-making of remuneration and their relation to business performance.

Unit: NT\$ thousand

Item \ Year	2017		2018	
	Total remuneration	in proportion to earnings (%)	Total remuneration	in proportion to earnings (%)
Director	33,275	6.73	24,886	8.02
President and Vice President	25,971	5.25	19,951	6.43

The total remuneration paid to directors, president and vice presidents in proportion to earnings in 2017 and 2018 was 11.98% and 14.45% respectively. The remuneration was allocated pursuant to the Company's Articles of Incorporation and related payroll regulations. Meanwhile, the Company has established the Remuneration Committee in October 2014, which consisted of the independent directors including Liao Wen-Chi, Tsai Kun-Yuan (discharged on September 5, 2018), Yeh Chun-Rong and Lin Chiang-Liang and engaged in periodically reviewing and assessing the performance of directors and managers, as well as policies, systems, standards and structures of remuneration, which shall afford to signify the liability and risk borne by them.

#### IV. Status of corporate governance

##### (I) Operation of the Board of Directors

The Board has held 6 (A) sessions in 2018, and the attendance of directors is specified as following:

Job title	Name (Note)	Counts of attendance (B)	Counts of attendance by proxy	Actual attendance rate (%) (B)/(A)	Remark
Chairman of Board	Black Dragon Assets Limited Representative: Chen Pen-Yuan	6	0	100%	
Director	CROWN HARVEST COMPANY LIMITED Representative: Chen Chien-Yuen	5	1	83%	
Director	Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account Representative: Ho Ping-Hsien (Note)	1	1	16.6%	
Director	Chairman Management Corp. Representative: Kao Chen-Sheng	6	0	100%	
Director	Lin An-Hsiu	6	0	100%	
Director	Hsieh Ming-Feng	6	0	100%	
Independent Director	Yeh Chu-Rong	4	2	66.6%	

Independent Director	Tsai Kun-Yuan (Note)	4	0	66.6%	
Independent Director	Lin Chiang-Liang	6	0	100%	
Independent Director	Liao Wen-Chi	6	0	100%	

Note: Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account appointed as the new director as of September 5, 2018. Independent Director Tsai Kun-Yuan has been discharged as of September 5, 2018.

Other notes:

I. Where the operation of the Board of Directors meets any of the following circumstances, please clearly state the meeting date, term, contents of motion, opinions of all independent directors and the Company's handling of said opinions:

- (I) The circumstances referred to in Article 14~3 of the Securities and Exchange Act: None.
- (II) Any other resolution(s) passed but with independent directors voicing opposing or qualified opinions on the record or in writing: None.

II. In instances where a director recused himself/herself due to a conflict of interest, please clearly state the director's name, contents of the motion, reason for conflict of interest and actual voting counts:

Date of Board of Directors Meeting	Name of the director	Contents of motion	Reason for conflict of interest	Actual voting counts
March 12, 2018	Black Dragon Assets Limited Representative: Chen Pen-Yuan	Review the motion for distribution of year-end bonus to the Company's Chairman of Board and managers	The Chairman of Board of Black Dragon Assets Limited (Representative: Chen Pen-Yuan), who was identified as a stakeholder under the regulations governing distribution of year-end bonus to the Chairman of Board.	recused himself from the discussion and voting pursuant to laws.
	Black Dragon Assets Limited Representative: Chen Pen-Yuan	Motion for remuneration to employees and directors in 2018	The Chairman of Board of Black Dragon Assets Limited (Representative: Chen Pen-Yuan), who was identified as a stakeholder who received the remuneration to directors.	recused himself from the discussion and voting pursuant to laws.
	Black Dragon Assets Limited Representative: Chen Pen-Yuan	Motion for related information about nominees for the Company's directors	As stakeholders under the name list of nominees.	each of the directors recused himself/herself from the discussion and voting pursuant to laws.
	Crown Harvest Company Limited Representative: Chen Chien-Yuen			
	Representative of Chairman Management Corp.: Kao Chen-Sheng			
Lin An-Hsiu				



Date of Board of Directors Meeting	Name of the director	Contents of motion	Reason for conflict of interest	Actual voting counts
	Hsieh Ming-Feng			
	Tsai Kun-Yuan			
	Lin Chiang-Liang			
	Liao Wen-Chi			
	Yeh Chu-Rong			
	Black Dragon Assets Limited Representative: Chen Pen-Yuan	Amendments to the elements of the existing remuneration to the Company's directors	As stakeholders for the remuneration.	each of the directors recused himself/herself from the discussion and voting pursuant to laws.
	Crown Harvest Company Limited Representative: Chen Chien-Yuen			
	Chairman Management Corp Representative: Kao Chen-Sheng			
	Tsai Kun-Yuan			
	Lin An-Hsiu			
	Hsieh Ming-Feng			
	Yeh Chu-Rong			
	Lin Chiang-Liang			
	Liao Wen-Chi			

III. Measures undertaken during the current year and the most recent year in order to strengthen the functions of the Board of Directors (such as the establishment of an audit committee and improvement of information transparency, etc.) and assessment on their implementation: The Company has established the "Regulations Governing Operation of Board of Directors Meetings" as the guidelines for operation of the Board of Directors meetings. Meanwhile, the Company has resolved at the Board of Directors meeting on October 20, 2014 to establish the Audit Committee and Remuneration Committee, and also disclosed its related information on its website and MPOS pursuant to laws to improve information transparency.

## (II) Operation of the Audit Committee

The Committee has held 5 (A) sessions in 2018, and the attendance of independent directors is specified as following:

Job title	Name (Note)	Counts of attendance (B)	Counts of attendance by proxy	Actual attendance rate (%) $(B)/(A)$	Remark
Independent Director	Yeh Chu-Rong	4	1	80%	
Independent Director	Tsai Kun-Yuan (Note)	4	0	80%	
Independent Director	Lin Chiang-Liang	5	0	100%	
Independent Director	Liao Wen-Chi	5	0	100%	

Note: Tsai Kun-Yuan has discharged from the position on September 5, 2018.

Other notes:

- I. For resolution(s) passed pursuant to Article 14~5 of the Securities and Exchange Act and any other resolution(s) passed upon approval of more than two-thirds of the whole directors instead of the Audit Committee, please clearly state the meeting date, term, contents of motion and resolution of the Committee, and the Company's handling of the Audit Committee members' opinions: None.
- II. In instances where an independent director recused himself/herself due to a conflict of interest, please clearly state the independent director's name, contents of the motion, reason for conflict of interest and actual voting counts: None.
- III. Communication between independent directors and internal auditing officers as well as CPAs on the Company's financial position and business overview, such as items discussed, means of communication and results, etc.:
  - (I) The Company organizes the Audit Committee meetings periodically, and invites CPAs, internal auditing officers and related supervisors to attend the meetings, if necessary.
  - (II) The Company's internal audit unit will submit the audit report and follow-up report to independent directors for review periodically. The internal auditing officers will also attend the Audit Committee meetings to report on the status of implementation of audit plans and improvement of deficiencies, and respond to the questions about audit business posed by directors. The Audit Committee is allowed to access or appraise the status of the Company's internal control routinely, and at the Committee meetings periodically.
  - (III) The independent directors will communicate with the CPAs about the audit result of financial reports and issues required by relevant laws, and assess and review the CPAs' independence each year.

(III) Status of corporate governance, deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies

Items	Status of operation (Note)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary(Note)	
I. Has the Company established and disclosed its corporate governance principles based on Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?	✓		The Company has established the “Corporate Governance Best-Practice Principles” as the Company’s basis for operating the corporate governance, and implemented the same strictly.	No material deviation exists.
II. Equity structure and shareholders’ equity (I) Does the Company establish the internal operating procedures regulated to handle shareholders’ proposals, doubts, disputes, and litigation matters, and have the procedures implemented accordingly?	✓		(I) The Company designates its spokesperson and deputy spokesperson to handle shareholders’ proposals, doubts and disputes, organizes the shareholders’ meetings pursuant to the Company Act and related laws, and establishes the parliamentary rules for shareholders’ meetings to grant the shareholders appropriate powers.	No material deviation exists.
(II) Whether the Company controls the list of major shareholders and the controlling parties of such shareholders?	✓		(II) The Company may control the information about variance in shares held by major shareholders and declare the shareholdings pursuant to laws via the professional shareholders service agent.	

Items	Status of operation (Note)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary(Note)	
(III) Whether the Company establishes or implements some risk control and firewall mechanisms between the Company and its affiliates?	✓		(III) The Company implements effective risk control pursuant to the related regulations governing internal control and internal audit systems.	
(IV) Has the Company established internal policies that prevent insiders from trading securities based on non-public information?	✓		(IV) The Company has established the “Regulations Governing Prevention of Insider Trading” to prevent any misconduct.	
III. Composition and responsibilities of the Board of Directors (I) Does the Board of Directors have established diversified policies regulated and implemented substantively according to the composition of the members?	✓		(I) The Board of Directors of the current term consists of 9 directors. The composition thereof has taken into consideration the diversified policies satisfying the Company’s operation, business type and development needs to render benefits for the Company.	No material deviation exists.
(II) Whether the Company, in addition to establishing the Audit Committee and Remuneration Committee, pursuant to laws, is willing to establish any other functional committees voluntarily?		✓	(II) Except the Audit Committee and Remuneration Committee, the Company doesn’t establish any other functional committees. Notwithstanding, the Company does	

Items	Status of operation (Note)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary(Note)	
			establish the relevant regulations and control mechanism for various operations.	
(III) Has the Company established a set of policies and assessment tools to evaluate the Board's performance and whether the performance is evaluated regularly each year?	✓		(III) The Company's Board of Directors consists of professionals in business, finance or corporate governance, and the Board of Directors operates fairly. So far, the Company has not yet established any regulations or procedures for assessment on performance of the Board of Directors, but will plan the regulations or procedures pursuant to laws in the future.	
(IV) Are external auditors' independence assessed on a regular basis?	✓		(IV) The Company will assess the external auditors' independence each year.	
IV. Where the Company is a TWSE/TPEX listed company, has it designated a department or personnel that specializes (or is involved) in corporate governance affairs (including but not limited to, providing directors/supervisors with the information needed to perform their duties, and organization of board meetings and shareholders' meetings, completion of company registration and change	✓		The Company does designate the personnel dedicated to corporate governance, e.g. organization of board meetings and shareholders' meetings and preparation of board meeting and shareholders' meeting minutes pursuant to laws.	No material deviation exists.

Items	Status of operation (Note)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary(Note)	
registration, and preparation of board meeting and shareholders' meeting minutes, etc)?				
V. Does the Company have established a communication channel for the stakeholders (including but not limited to, shareholders, employees, customers and suppliers), set the stakeholder section on the Company's website, and responded to the stakeholders regarding their concerns over corporate social responsibilities?	✓		The Company identifies the related stakeholders subject to the degree of dependence between the business administration and internal/external personnel (individuals/juristic persons/groups). The Company has also disclosed the stakeholder section to respond to the questions about stakeholders on the Company's website.	No material deviation exists.
VI. Does the Company have commissioned a professional shareholders service agent to handle shareholders' meeting affairs?	✓		The Company's shareholders service affairs are handled by the professional shareholders service agent on behalf of the Company.	
VII. Information disclosure (I) Whether the Company has established a website that discloses the information about financial position, business overview and corporate governance?	✓		(I) The Company has set up the official website where the investor section is established to update the Company's information from time to time.	
(II) Whether the Company adopted other means to disclose information (e.g. English website, assignment of specific personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the Company's	✓		(II) The Company designates dedicated personnel responsible for collecting and disclosing the corporate information and implements the spokesperson system. The investor conferences will also	

Items	Status of operation (Note)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary(Note)	
website)?			be posted on the Company's website.	
VIII. Does the Company have other information that enables a better understanding of the Company's corporate governance practices (including but not limited to, employee rights, employee care, investor relations, supplier relations, stakeholders' interests, continuing education of directors/supervisors, implementation of risk management policies and risk measurements, implementation of customer policy, and maintenance of liability insurance for the Company's directors and supervisors)?	✓		The Company is used to caring employees' benefits, and establishes various management regulations and requirements, such as salary, promotion, rewards and punishments, leave and social insurance, which comply with the local laws and regulations. Employees shall take the health check-up periodically during their employment. The Company provides meal allowance or clean and sanitary meals, as well as the dormitory for employees or accommodation allowance, and various subsidies for marriage, funeral, festival, birthday celebration and trips to take care of the employees physically and mentally. Meanwhile, when selecting suppliers, the Company will consider whether the supplier's social responsibility commitment and performance comply with the standard requirements under the SA8000 system as the first priority, and assess their ability if necessary. Upon the assessment, the suppliers considered qualified will be included into the Company's roster of qualified suppliers. The	

Items	Status of operation (Note)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary(Note)	
			<p>Company will also ask the suppliers to sign the “Supplier Corporate Social Responsibility Commitment Statement” and demand that they should conduct self-assessment on their fulfillment of social responsibility periodically. Meanwhile, the Company also establishes various communication channels for stakeholders to mitigate or prevent potential operational risk. The Company’s directors will complete continuing education each year, in hopes of enhancing the functions of the Board of Directors. The company shall take out supervisors and key staff liability insurance with respect to liabilities resulting from the exercise of duties during their terms, to enhance corporate governance.</p>	
<p>IX. Please specify the status of the correction based on the corporate governance assessment report released by the Corporate Governance Center of TWSE in the most recent year, and the priority corrective actions and measures against the remaining deficiencies.</p>	✓		<p>The Company has established the “Corporate Governance Best-Practice Principles”, “Ethical Corporate Management Best-Practice Principles” and “Corporate Social Responsibility Best-Practice Principles”, and participated in the corporate governance evaluation for the first time in 2017. The Company sets its improvement plan based</p>	<p>No material deviation exists.</p>



Items	Status of operation (Note)			Deviation and causes of deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary(Note)	
			on the self-audit report on corporate governance, in hopes of practicing the spirit of corporate governance to the enterprise's culture.	

(IV) Describe the composition, duties and operations of the remuneration committee established by the Company, if any:

1. Information about Remuneration Committee members

Position (Note 1)	Qualifications	Have more than 5 years of experience and the following professional qualifications			Status of independence (Note 2)								Number of public companies where the person holds the position as a remuneration committee member	Remark
		Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities	Pass the qualification examination with proper licensing by the national government as court judge, prosecutor, attorneys-at-law, certified public accountant or other professional designations required by the business of the Company	With the required work experience in commerce, law, finance, accounting or others required by the Company	1	2	3	4	5	6	7	8		
Name														
Independent Director	Lin Chiang-Liang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	Yeh Chu-Rong			✓	✓	✓	✓	✓	✓	✓	✓	✓		
Independent Director	Liao Wen-Chi	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		
Independent Director	Tsai Kun-Yuan (Note3)		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	

Note 1: Please specify director, independent director or others.

Note 2: The respective member who meets said qualifications 2 years before assumption of office or at the time of assumption office shall put a "✓" in the appropriate space.

- (1) Not an employee of the Company or its affiliates
- (2) Not a director or supervisor of the Company or an affiliate, unless the person is an independent director appointed by the Company, its parent company, or a subsidiary pursuant to the Act or the local laws and regulations.
- (3) Not a natural person, spouse, underage children, or under the title of a third party who holds more than 1% of the outstanding shares issued by the Company or among the top 10 natural person shareholders.
- (4) Not a spouse, relative within 2nd degree of kinship, or the lineal blood relatives within 3rd degree of kinship of the persons as specified in the preceding three subparagraphs.
- (5) Not a director, supervisor or employee of an institutional shareholder who holds more than 5% of the outstanding shares issued by the Company, or a director, supervisor or employee of an institutional shareholder who is among the top 5 shareholders.
- (6) Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of specific company or institution in business or financial relation with the Company.
- (7) Not a professional, or owner, partner, director, supervisor or manager of proprietorship, partnership, company or institution that provide business, legal, financial and accounting services to the Company or its affiliates, or a spouse to said persons,
- (8) Not under any of the circumstances stated in Article 30 of the Company Act.

Note 3: Tsai Kun-Yuan has discharged from the position on September 5, 2018.

2. Operation of the Remuneration Committee

- I. The Company's Remuneration Committee consists of 3 members.
- II. The term of office to be served by the current members: From September 5, 2018 to September 4, 2021. The Remuneration Committee has held 2 (A) meeting in the most recent year, and the members' qualification and attendance are summarized as follows:

Job title	Name	Counts of attendance (B)	Counts of attendance by proxy	Actual attendance rate (%) (B)/(A)(Note1)	Remark
Convener	Tsai Kun-Yuan	2	0	100%	(Note2)
Convener	Liao Wen-Chi	0	0	0%	(Note3)
Member	Liao Wen-Chi	2	0	100%	
Member	Lin Chiang-Liang	2	0	100%	
Member	Yeh Chu-Rong	0	0	0%	(Note3)

Other notes:

- I. If the Board of Directors does not adopt or amend the Remuneration Committee's suggestions, please specify the meeting date, term, contents of motion, resolution of the Board of Directors, and the Company's handling of the Remuneration Committee's opinions (if the remuneration approved by the Board of Directors is superior than that suggested by the Remuneration Committee, please specify the deviation and reason): None.
- II. For resolution(s) made by the Remuneration Committee with the Committee members voicing opposing or qualified opinions on the record or in writing, please state the meeting date, term, contents of motion, opinions of all members and the Company's handling of the said opinions: None.

Note1:

- (1) Where any of the Remuneration Committee members may be relieved from duties before the end of the fiscal year, specify the date of discharge in the "Remark" section. Actual attendance rate (%) was calculated based on the number of the Committee meetings held during each member's term and the counts of the member's actual attendance to the meetings.
- (2) Where a reelection may be held for filling the vacancies of the Remuneration Committee members before the end of the fiscal year, please list both the new and the discharged members, and specify if they are the former members, or newly elected, re-elected and the date of the reelection in the "Remark" section. Actual attendance rate (%) was calculated based on the number of the Committee meetings held during each member's term and the counts of the member's actual attendance to the meetings.

Note2: The first special meeting of shareholders in 2018 has re-elected directors and independent directors, and the previous member has discharged on 2018/9/5.

Note3: The first special meeting of shareholders in 2018 has re-elected directors and independent directors, and the new member was assuming on 2018/9/5. However, until the end of the year of the most recent year, the remuneration committee of the new term of members has not yet been held.

(V) Fulfillment of corporate social responsibility:

Items	Status of operation (Note 1)		Summary (Note 2)	Deviation and causes of deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No		
I. Fulfillment of corporate governance (I) Whether the Company has defined corporate social responsibility policies within the Company and reviewed the effectiveness of such policies?	✓		(I) The Company's Board of Directors passed the "Corporate Social Responsibility Best-Practice Principles" and implemented the same strictly.	No material deviation exists.
(II) Whether the Company organizes any corporate social responsibility education and training program periodically?	✓		(II) The Company will promote the Company's management philosophy and corporate social responsibility from time to time.	
(III) Whether the Company establishes a unit dedicated to (concurrently engaged in) promoting corporate social responsibility under supervision by the high-rank management authorized by the Board of Directors and reporting the status thereof to the Board of Directors?	✓		(III) The President Office is responsible for promoting the corporate social responsibility, and the President reports the relevant corporate social responsibility practice to the Board of Directors.	
(IV) Whether the Company has established some reasonable compensation policy, integrated corporate social responsibility with employees' performance evaluation, and established some clear and effective reward/disciplinary system?	✓		(IV) The Company has established the sound performance evaluation regulations and system which are executed under supervision by the Remuneration Committee as the basis to be followed by the employees' salary, benefit and promotion, and other reward and punishment systems.	

Items	Status of operation (Note 1)			Deviation and causes of deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
II. Fostering a Sustainable Environment (I) Whether the Company endeavours to upgrade the efficient use of available resources, and the use of environmental-friendly materials rendering low burden and impact to the environment?	✓		(I) The Company uses its best efforts to upgrade the efficient use of various resources, including the AD, ERP, HR and DMS systems and emails, and saves correspondences and letters in written form by adopting those in electronic form to care resources on the earth.	No material deviation exists.
(II) Whether the Company establishes environmental policies suitable for the Company's industrial characteristics?	✓		(II) Each of the Company's subsidiaries complies with the local environmental, safety and health laws and regulations, and has the Administration responsible for the environmental management, assign cleaning work, and promote 5S environmental sanitation management standards to maintain the environmental cleanness, and also conduct the fire protection safety inspection and public safety inspection on buildings periodically to achieve and fulfill the safety & health management objectives.	
(III) Whether the Company is aware of how climate change impacts the operating activities, or has conducted investigation into greenhouse gases, or establishes some energy saving and carbon/greenhouse gas reduction strategies?	✓		(III) In order to respond to the energy-saving and carbon-reduction policy, the Company recycles all recyclable goods in the relevant manners, and promotes and audits the electricity saving, water saving and recycling, and control over air conditioning and lights regularly, in hopes of	

Items	Status of operation (Note 1)			Summary (Note 2)	Deviation and causes of deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No			
				utilizing resources perfectly and contributing to environmental protection.	
III. Preserving Public Welfare (I) Whether the Company has established the related management policies and procedures in accordance with the relevant laws and international human rights conventions?	✓		(I)	Each of the Company's subsidiaries has established its own work rules and complete personnel management regulations in accordance with local labor laws and regulations, in order to protect the employees' interest and right. The basic pay, working hours, leave, pension, labor/health insurance benefits, and occupational injury compensation paid by the Company for employment of workers all comply with the related requirements.	No material deviation exists.
(II) Whether the Company has established any employee complaint mechanism and channel, and takes care of such complaints adequately?	✓		(II)	The Company has established the opinion mailbox and email box dedicated to accepting complaints from the employees. The Company also takes care of the complaints adequately.	
(III) Whether the Company provides a safe and healthy work environment to the employees, and also performs regular health and safety training to the employees periodically?	✓		(III)	The Company is used to valuing the employees' work environment, health and safety, and arranges the periodic health check-up for the employees to fulfill its responsibility for taking care of the employees' health and safety.	
(IV) Whether the Company has established the mechanism for periodic communication with	✓		(IV)	The Company notifies the employees of the latest information about	

Items	Status of operation (Note 1)			Deviation and causes of deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary (Note 2)	
employees, and notification to employees of the circumstances which might materially affect the operation in a reasonable manner?			business administration, periodically or from time to time. Meanwhile, the employees may feed their opinion back to the relevant supervisors via email.	
(V) Whether the Company has established some effective career development training plan for the employees?	✓		(V) The Company performs training for its employees each year to strengthen the employees' competitiveness.	
(VI) Whether the Company has established the related consumer protection policies and complaints procedures toward the R&D, procurement, production, operation and service procedures?	✓		(VI) The Company ensures the fair product quality through such procedures as inspection and acceptance of procured products and inspection on finished goods, and also establishes the regulations governing customers' complaints, maintains the fair communication channel with customers, and provide transparent and effective after-sale services to ensure the consumers' interest and right.	
(VII) Whether the Company markets and labels products and services in accordance with the related laws and international practices?	✓		(VII) The Company's marketing and labelling of products and services comply with the related laws and guidelines applicable to the industry.	
(VIII) Whether the Company has assessed the supplier's record in environmental protection and society before trading with the supplier?	✓		(VIII) The Company's assessment on suppliers to be traded is conducted in accordance with the Company's "Operating Procedure for Assessment on Suppliers".	
(IX) Whether the contract between the Company and its main supplier includes the provision stating that where the supplier is suspected of	✓		(IX) The contract between the Company and its main supplier doesn't specifically provide that	

Items	Status of operation (Note 1)		Summary (Note 2)	Deviation and causes of deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No		
violating its corporate social responsibility policies and renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract?			where the supplier is suspected of violating its corporate social responsibility policies and renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract. Notwithstanding, the Company also signs the "Supplier Corporate Social Responsibility Commitment Statement" and "A Letter from SAF-004 to Concerned Parties" with the supplier at the same when it signs the contract with the supplier. Meanwhile, the Company will re-assess the trading suppliers in accordance with the Company's "Operating Procedure for Assessment on Suppliers". If any supplier is found meeting said circumstances, the Company will not choose the supplier who ignores its corporate social responsibility again.	
IV. Enhancing Information Disclosure (I) Whether the Company discloses relevant and reliable information relating to corporate social responsibility on its website or Market Observation Post System (MOPS)?	✓		The Company's website is <a href="http://www.mjig.com">http://www.mjig.com</a> . Dedicated personnel are designated to collect and disclose the Company's information.	No material deviation exists.
V. If the Company has established CSR principles in accordance with "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies," please describe its current practices and any deviations from the Best Practice Principles: None.				
VI. Other information material to the understanding of the corporate social responsibility: <ol style="list-style-type: none"> <li>1. Pass SA8000 certification: When selecting suppliers, the Company will consider whether the supplier's social responsibility commitment and performance comply with the standard requirements under the SA8000 system as the first priority. Upon the assessment, the suppliers considered qualified will be included into the Company's roster of qualified suppliers.</li> <li>2. Green manufacturing: Control the reasonable use of source raw materials, energy and other</li> </ol>				



Items	Status of operation (Note 1)			Summary (Note 2)	Deviation and causes of deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No			
<p>resources, reduce waste and pollutant emissions, strengthen the use of renewable and recoverable resources, and have the emission pollution values of factory machine and equipment comply with the standards, including water, air and noise pollution, etc.. The annual test report would pass the inspection by the competent authority in the country of origin, National Quality Standard Bureau of the PRC.</p> <p>3. Green products: The PVC flooring refers to the product that can be environmental-friendly and recyclable. The research and development orientation about the product also focuses on the three pollution-free environmental friendly products, namely "non-PVC", "green construction materials" and "biodegradable".</p> <p>4. Green certification: In the past years, the Company's factories and products have passed multiple international inspection standards and certification, including ISO 9001, ISO14001, SA8000, EN, BRE, Floor Score, BV, CSTB and the Green Tag Certificate from Ministry of Interior of the R.O.C., and SGS, CSTB, ASTM, BG and CNS for the products.</p> <p>In conclusion, the Company provides consumers with excellent products, values human rights, cares the society and uses its best efforts to engage in the public welfare.</p>					
<p>VII. If the Company's corporate social responsibility reports have met the assurance standards of relevant certification institutions, they should be stated below: None.</p>					

(VI) Fulfillment of ethical corporate management and adoption of related measures:

Items	Status of operation (Note 1)			Summary	Deviation and causes of deviation from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No			
I. Enactment of ethical corporate management policy and program			(I)	The Company has established the "Ethical Corporate Management Best-Practice Principles and "Operating Procedure for Ethical Corporate Management and Guidelines of Conduct", which were also passed by the Board of Directors.	No material deviation exists.
(I) Whether the Company expressly states the ethical policy and its fulfillment by the Board of Directors and the management in its Articles of Incorporation and public documents?	✓				
(II) Whether the Company has established the policy against unethical conduct, and expressly states the SOP, guidelines and reward	✓		(II)	The Company has established the work rules for the its employees, as the	

Items	Status of operation (Note 1)			Deviation and causes of deviation from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
and disciplinary & complaining systems for misconduct, and also implements the policy precisely?			guides and regulations to be followed by the employees when engaging in the Company's operating activities to stop any misconduct.	
(III) Whether the Company takes any preventative measures against the operating activities involving highly unethical conduct under Paragraph 2 of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or within other operating areas?	✓		(III) In order to ensure the fulfillment of ethical management, the Company has established the effective accounting system and internal control system. The internal auditors shall also conduct an audit on the compliance thereof periodically.	
II. Fulfillment of ethical corporate management (I) Whether the Company assesses a trading counterpart's ethical management record, and expressly states the ethical management clause in the contract to be signed with the trading counterpart?	✓		(I) The Company has established the assessment procedure with respect to trading customers and suppliers, and both parties' right and obligation would be expressly stated in the contract signed by the Company with the customers and suppliers.	No material deviation exists.
(II) Whether the Company has established a dedicated unit (concurrently engaged in) to promote ethical corporate management, and reports the execution thereof to the Board of Directors periodically?	✓		(II) The Company has its Document Management Department act as the dedicated unit (concurrently engaged in) to promote the corporate ethical management, and report the execution thereof to the Board of Directors periodically.	
(III) Whether the Company has established any policy against conflict	✓		(III) The Company's employees may report	

Items	Status of operation (Note 1)			Deviation and causes of deviation from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
of interest, provided adequate channel thereof, and fulfilled the same precisely?			any conflict of interest to their immediate supervisors, or to the members of the Chairman Office.	
(IV) Whether the Company has fulfilled the ethical management by establishing an effective accounting system and internal control system, and had an internal audit unit conduct periodic audits, or appointed an external auditor to conduct audits?	✓		(IV) The Company has established its audit plan. The responsible personnel would conduct the audit per the plan. In the case of any special condition, the Company will arrange the special audit.	
(V) Whether the Company organizes internal/external education training program for ethical management periodically?	✓		(V) The importance of ethical management would be reported at the Company's management meetings from time to time.	
III. Status of the Company's whistleblowing system (I) Whether the Company has defined a specific whistleblowing and reward system, and established some convenient whistle-blowing channels, and assigned competent dedicated personnel to deal with the situation?	✓		(I) Encourage internal and external personnel to report unethical conduct or misconduct, and according to the circumstances of the whistleblowing cases, award the bonus; if internal personnel have false reports or malicious allegations, they should be disciplined and dismissed if the circumstances are considered serious.	No material deviation exists.
(II) Whether the Company has established the standard operating procedure and nondisclosure mechanism toward the investigation of whistleblowing cases as accepted?	✓		(II) The intranet set up and published the internal independent whistleblowing mailbox. The personnel dedicated to processing the whistleblowing cases shall keep the	

Items	Status of operation (Note 1)			Deviation and causes of deviation from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
			<p>whistleblower's identity and contents of accusation in confidence. The dedicated unit shall adopt the following procedures:</p> <ol style="list-style-type: none"> <li>1. The whistleblowing cases involving the general employees shall be reported to the department heads. The whistleblowing cases involving directors or senior management shall be reported to the independent directors or Audit Committee.</li> <li>2. The dedicated unit and the supervisors or personnel receiving the report referred to in the preceding subparagraph shall verify the truth immediately. The compliance or other related departments shall provide assistance, if necessary.</li> <li>3. Where the whistleblowing case is proven to be true upon investigation, the Company's related unit will be ordered to review the related internal control system and operating procedures, and provide the corrective actions to stop the same misconduct from arising again.</li> <li>4. The Company's dedicated unit shall report the whistleblowing case, the resolution and followup review and</li> </ol>	

Items	Status of operation (Note 1)			Deviation and causes of deviation from Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
			corrective actions to the Board of Directors.	
(III) Whether the Company has adopted any measures to prevent the whistleblowers from being treated inadequately after whistleblowing the case?	✓		(III) The Company undertakes that the whistleblowers will never be treated inadequately because of the whistleblowing case.	
IV. Enhancing Information Disclosure (I) Whether the Company has disclosed the Ethical Corporate Management Best-Practice Principles and effect of implementation thereof on its website and MOPS?	✓		The Company has disclosed the “Ethical Corporate Management Best-Practice Principles and “Operating Procedure for Ethical Corporate Management and Guidelines of Conduct” on its website.	No material deviation exists.
V. If the Company has established its own ethical corporate management principles in accordance with "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies," please describe its current practices and any deviations from the Best Practice Principles: None.				
VI. Other information material to the understanding of ethical management operation (e.g. discussion of an amendment to the ethical management best practice principles defined by the Company): None.				

(VII) If the Company has established corporate governance principles and other relevant guidelines, references to such principles must be disclosed: The Company has established its “Corporate Governance Best-Practice Principles”. Please access the same on the Company’s website (at <http://www.mjig.com>), investors relations/corporate governance/important internal regulations, or the MOPS (<http://mops.twse.com.tw>) “Corporate Governance”/rules for establishment of corporate governance.

(VIII) Other information enabling better understanding of the Company’s corporate governance: None.

(IX) The following shall be disclosed with the execution of internal control system:

1. Statement of Declaration for Internal Control System

**M.J. International Co. Ltd.**

Statement of Declaration for Internal Control System

Date: March 8, 2019

The following statement of declaration has been made based on the 2018 self-assessment of the Company's internal control system:

- I. The Company acknowledges and understands that the establishment, implementation and maintenance of the internal control system are the responsibility of the Board of Directors and managers, and that such a system has been implemented within the Company. The purpose of this system is to provide reasonable assurance in terms of business performance, efficiency (including profitability, performance, asset security, etc), reliable, timely and transparent financial reporting, and regulatory compliance.
- II. The internal control system is designed with inherent limitations. No matter how perfect the internal control system is, it can only provide a reasonable assurance to the fulfillment of the three objectives referred to above. Moreover, the effectiveness of the internal control system could be affected by the changes of environment and circumstances. However, a self-monitor mechanism is installed in the internal control system of the Company. The Company will make corrections once the deficiencies are identified.
- III. The Company has assessed the effectiveness of the internal control system design and implementation in accordance with the criteria provided in the "Regulations Governing the Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "the Regulations"). The criteria adopted by the "Regulations" consist of five major elements, each representing a different stage of internal control: 1. Control environment; 2. Risk assessment; 3. Procedural control; 4. Information and communication; and 5. Supervision. Each element further encompasses several sub-elements. For said sub-elements, please see the "Regulations".
- IV. The Company has adopted said criteria to validate the effectiveness of its internal control system design and execution.
- V. Based on the auditing findings referred to in the preceding paragraph, the design and implementation of the Company's internal control system (including supervision and control over its subsidiaries) on December 31, 2018, including the achievement of operating results and efficiency, reliability of financial statements and compliance with laws, is considered effective and able to provide reasonable assurance on achievement of said objectives.
- VI. The Statement constitutes the summary content of the Company's Annual Report and Prospectus, and shall be disclosed to the public. Any misrepresentation or concealment of said disclosures shall bear the legal liability against violations of Articles 20, 32, 171 and 174 of the Securities and Exchanges Act.
- VII. The Statement was passed unanimously without objection by all 9 Directors present at the directors' meeting dated March 8, 2019.

M.J. International Co. Ltd.  
Chairman of Board: Chen Pen-Yuan  
President: Chiang Tze-Hua

2. The internal control audit report issued by the CPA commissioned to conduct an internal control audit, if any:

**Deloitte.**

**Deloitte.**

Deloitte & Touche  
20F., Taipei Nan Shan Plaza No. 100, Songren  
Rd., Xinyi Dist., Taipei City 110, Taiwan  
(R.O.C.)

Tel: +886 (2) 2545-9988  
Fax: +886 (2) 2545-9966  
www.deloitte.com.tw

### Internal Control Audit Report

We have audited the accompanying Statement of Declaration for Internal Control System of M.J International Co., Ltd. dated March 12, 2019 certifying that the internal control system related to the public financial reporting and protection of asset safety was effective in design and implementation upon the assessment on December 31, 2018. The Company's senior management shall be responsible for maintaining the effective internal control system and assessing the validity thereof. Our responsibility is to express an opinion on the validity of the Company's internal control system and said Statement of Declaration for Internal Control System.

We conducted our audits in accordance with the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and the auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether said internal control system remains effective in all material respects. The audits include verification of the Company's internal control system, assessment on the management's evaluation on the validity of the entire internal control system, test and assessment on the validity of design and execution of the internal control system, and any other review procedure considered necessary by us. We believe that our audits provide a reasonable basis for our opinion.

Any internal control system may have inborn deficiencies. Therefore, said internal control system of M.J. International Co. Ltd. is likely to fail to prevent or detect the error or abuse already existing. Meanwhile, following the potential environmental transformation, the compliance with the internal control system might be mitigated accordingly. Therefore, it is impossible to guarantee that the internal control system held valid herein will remain valid in the future.

In our opinion, according to the elements constituting the validity of internal control system under the "Regulations Governing Establishment of Internal Control Systems by Public Companies", the internal control system of M.J. International Co., Ltd. related to the public financial reporting and protection of asset safety was effective in design and implementation on December 31, 2018 should be held remaining valid in all material respects. Accordingly, the Statement of Declaration for Internal Control System of M.J International Co., Ltd. dated March 12, 2019 certifying that the internal control system related to the public financial reporting and protection of asset safety was effective in design and implementation upon the assessment should be considered adequate in all material respects.

Deloitte Taiwan

CPA : Yu Cheng-Chuan

CPA : Chang Keng-Hsi

March 08, 2019

- (X) For the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, please disclose any sanctions imposed in accordance with the law upon the Company or its internal personnel, any sanctions imposed by the Company upon its internal personnel for violations of internal control system provisions, principal deficiencies, and the state of any efforts to make improvements: None.

(XI) Important resolutions of shareholders' meetings and directors' meetings during the most recent year and up to the date of publication of this annual report:

Important resolutions of shareholders' meetings in 2018, and status of implementation thereof:

1. Important resolutions of shareholders' meetings, and status of implementation thereof:

(1) Shareholders' meetings and special shareholders' meetings in 2018

20180605 Shareholders' meeting	<ol style="list-style-type: none"> <li>1. The motion for the Company's 2017 business report and consolidated financial statements.</li> <li>2. The motion for distribution of 2017 earnings.</li> <li>3. The motion for amendments to the Company's Memorandum and Articles of Incorporation.</li> </ol>
20180905 Special shareholders' meeting	<ol style="list-style-type: none"> <li>1. The motion for reelection of the Company's directors in whole.</li> <li>2. The motion for amendments to the Company's Memorandum and Articles of Incorporation.</li> <li>3. The motion for lifting of the non-competition restriction imposed on new directors and their representatives.</li> <li>4. The motion for amendments to the Group's "Regulations Governing Engagement in Derivatives Trading".</li> </ol>

A. Shareholders meeting in 2018:

1. Motion: The Company's 2017 business report and consolidated financial statements.

Resolution: The motion was passed upon resolution by the whole present shareholders through voting.

Status of implementation: Completed per the resolution of the shareholders' meeting.

2. Motion: Distribution of 2017 earnings.

Resolution: The motion was passed upon resolution by the whole present shareholders through voting.

Status of implementation: Completed per the resolution of the shareholders' meeting.

3. Motion: Amendments to the Company's Memorandum and Articles of Incorporation.

Resolution: The motion was passed upon resolution by the whole present shareholders through voting.

Status of implementation: Completed per the resolution of the shareholders' meeting.

B. Special shareholders' meeting in 2018:

1. Motion: Reelection of the Company's directors in whole.

Resolution: The motion was passed upon resolution by the whole present shareholders through voting.

Status of implementation: Completed per the resolution of the shareholders' meeting.

2. Motion: Amendments to the Company's Memorandum and Articles of Incorporation.

Resolution: The motion was passed upon resolution by the whole present shareholders through voting.

Status of implementation: Completed per the resolution of the shareholders' meeting.

3. Motion: Termination of the non-competition restriction imposed on new directors and their representatives.

Resolution: The motion was passed upon resolution by the whole present shareholders



through voting.

Status of implementation: Completed per the resolution of the shareholders' meeting.

4. Motion: Amendments to the Group's "Regulations Governing Engagement in Derivatives Trading".

Resolution: The motion was passed upon resolution by the whole present shareholders through voting.

Status of implementation: Completed per the resolution of the shareholders' meeting.

2. Important resolutions of directors' meetings

Date	Name of meeting	Motion
March 12, 2018.	5th Directors' Meeting of 4th Term	<ol style="list-style-type: none"> <li>1. The motion for amendments to the Company's Memorandum and Articles of Incorporation.</li> <li>2. Passed the motion for appointment of Yu Chen-Chuan, CPA and Chang Keng-Hsi, CPA of Deloitte Taiwan as the Company's independent external auditors, and the remuneration to said CPAs.</li> <li>3. Passed the motion for assessment on independence and competency of the Company's independent external auditors.</li> <li>4. Passed the motion for the Company's 2018 business report and consolidated financial statements.</li> <li>5. Review the motion for distribution of year-end bonus to the Company's Chairman of Board and managers.</li> <li>6. The motion for remuneration to employees and directors in 2017.</li> <li>7. The motion for distribution of 2017 earnings.</li> <li>8. The motion for amendments to the internal control systems of the Company and the Group's subsidiaries.</li> <li>9. The motion for submission of the Company's 2017 "Statement of Declaration for Internal Control System".</li> <li>10. The Group's subsidiary, Opulent International Group Limited and Opulent International Group Limited Taiwan Branch, wished to apply for adjustment and renewal of the facility contract with the bank.</li> <li>11. The motion for endorsement/guarantee made by the Company for the Group's subsidiary.</li> <li>12. The motion for providing financing to Opulent International Group Limited.</li> <li>13. The motion for investment in automatic warehousing construction project of Dongguan Mei Jer PlasticProducts Co., Ltd..</li> <li>14. The motion for organization of the shareholders' meeting in 2018.</li> <li>15. Passed the motion of promotion and remuneration of the Company's senior managers.</li> </ol>
May 10, 2018	6th Directors' Meeting of 4th Term	<ol style="list-style-type: none"> <li>1. Passed the financing provided by the indirect subsidiary, Guangzhou PROMAX Architecture &amp; Decoration Material Co. Ltd. to the indirect subsidiary, Shanghai M.J. Architecture &amp; Decoration Material Co. Ltd. RMB10 million.</li> <li>2. Passed the financing provided by the subsidiary, Dongguan MeiJer PlasticProducts Co., Ltd., to the indirect subsidiary, Shanghai M.J. Architecture &amp; Decoration Material Co. Ltd. RMB24 million.</li> <li>3. Passed the financing provided by the subsidiary,</li> </ol>

		<p>Dongguan Prolong Plastic Products Co., Ltd., to the indirect subsidiary, Shanghai M.J. Architecture &amp; Decoration Material Co. Ltd. RMB8 million.</p> <p>4. The motion for increase in investment in the mainland China.</p>
July 18, 2018	7th Directors' Meeting of 4th Term	<ol style="list-style-type: none"> <li>1. The motion or reelection of the Company's directors in whole and acceptance of nomination of the candidates for director.</li> <li>2. The motion for nomination of candidates for director.</li> <li>3. The motion for lifting of the non-competition restriction imposed on new directors and their representatives.</li> <li>4. Amendments to the "Regulations Governing Engagement in Derivatives Trading".</li> <li>5. Passed the financing provided by the subsidiary, Dongguan Prolong Plastic Products Co., Ltd., to the indirect subsidiary, Beijing M.J. Architecture &amp; Decoration Materials Co. Ltd. RMB4 million.</li> <li>6. The Group's subsidiary, Opulent International Group Limited and Opulent International Group Limited Taiwan Branch, wished to apply for adjustment and renewal of the facility contract with the bank.</li> <li>7. The Company's application for the internet banking service with CTBC Bank Co., Ltd. and authorization of a third party to engage in trading.</li> <li>8. The motion for organization of 1st special shareholders' meeting in 2018.</li> </ol>
August 9, 2018	8th Directors' Meeting of 4th Term	<ol style="list-style-type: none"> <li>1. The motion for investment in SPC equipment of Dongguan MeiJer Plastic Products Co., Ltd..</li> <li>2. The motion for amendments to the Company's Memorandum and Articles of Incorporation</li> <li>3. The motion for amendments to the internal control systems of the Company and the Group's subsidiaries.</li> <li>4. Request the Board of Directors to review the name list of nominees for directors (including independent directors).</li> <li>5. Former Vice President of R&amp;D Center, Hsing Chi-Chiang, resigned. The motion of non-competition restriction was proposed.</li> <li>6. Passed the motion for promotion and remuneration of the Company's senior managers.</li> <li>7. Amendments to the motion for organization of 1st special shareholders' meeting in 2018.</li> </ol>
September 5, 2018	1st Directors' Meeting of 5th Term	<ol style="list-style-type: none"> <li>1. The motion for election of the Chairman of Board.</li> </ol>
		<ol style="list-style-type: none"> <li>1. Passed the Company's "2019 business plan".</li> <li>2. Passed the Company's "2019 internal audit plan".</li> <li>3. The motion for amendments to the internal control systems of the Company and the Group's</li> </ol>

November 8, 2018	2nd Directors Meeting of 5th Term	<p>subsidiaries.</p> <ol style="list-style-type: none"> <li>4. The Group’s subsidiary, Opulent International Group Limited and Opulent International Group Limited Taiwan Branch, wished to apply for renewal and addition of the contract with the following bank.</li> <li>5. The motion for endorsement/guarantee made by the Company for the Group’s subsidiary and branches.</li> <li>6. The motion for operation of financial derivatives by the Company’s subsidiary, Opulent International Group Limited, was proposed for approval.</li> <li>7. The Company wishes to invest in the incorporation of an offshore investment company, and make investment externally via the new offshore investment company.</li> <li>8. The motion for increase in investment in the mainland China.</li> </ol>
March 08, 2019	3rd Directors Meeting of 5th Term	<ol style="list-style-type: none"> <li>1. The motion for amendments to the Company’s Memorandum and Articles of Incorporation</li> <li>2. The motion for amendments to the Company’s “Parliamentary Rules of Shareholders’ Meetings”</li> <li>3. The motion for amendments to the Company’s “Parliamentary Rules for Directors’ Meetings”.</li> <li>4. The motion for amendments to the Company’s “Regulations for Election of Directors”</li> <li>5. The motion for amendments to the “Regulations Governing Acquisition or Disposition of Assets” of the Company and its subsidiaries</li> <li>6. Amendments to the “Regulations Governing Engagement in Derivatives Trading”.</li> <li>7. The motion for engagement in PVC powder futures by the Company’s subsidiaries, Dongguan Mei Jer PlasticProducts Co., Ltd. and Dongguan Prolong PlasticProducts Co., Ltd..</li> <li>8. The motion for changing the Company’s independent external auditors, and remuneration to the auditors.</li> <li>9. Passed the motion for assessment on independence and competency of the Company’s independent external auditors.</li> <li>10. Passed the motion for the Company’s 2018 business report and consolidated financial statements.</li> <li>11. The motion for distribution of year-end bonus to the Company’s Chairman of Board and managers.</li> <li>12. The motion for remuneration to employees and directors in 2018.</li> <li>13. The motion for salary raise of senior managers.</li> <li>14. The motion for distribution of 2018 earnings.</li> <li>15. The motion for submission of the Company’s 2018 “Statement of Declaration for Internal Control System”.</li> <li>16. Passed the motion for financing provided between</li> </ol>

		<p>the Company's subsidiary and indirect subsidiary.</p> <p>17. The Company's offshore investment company, FULLHOUSE INVESTMENTS LIMITED (hereinafter referred to as "Fullhouse Investments") planned to acquire 60% of the total outstanding shares of a Canada-based company.</p> <p>18. The motion for increase in the investment in Fullhouse Investments.</p> <p>19. Passed the motion for appointment of directors and President to the Canada-based company invested by the Company, and remuneration payable to them.</p> <p>20. The motion for amendments to the "Regulations Governing Financing Provided to Others" and "Regulations Governing Endorsement/Guarantee" of the Company and its subsidiaries</p> <p>21. The motion for organization of the shareholders' meeting in 2019.</p>
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(XII) The main contents of important resolutions passed by the Board of Directors regarding in which directors have voiced differing opinions on the record or in writing, during the most recent year and up to the date of publication of this annual report: None.

(XIII) Summary of resignation or dismissal of the Company's Chairman, President, accounting manager, financial manager, internal audit manager and R&D manager during the most recent year and up to the date of publication of this annual report:

Title	Name	Date on board	Date of discharge	Reason for resignation or dismissal
Vice President of R&D Center	Hsing Chi-Chiang	June 01, 2018	June 29, 2018	Personal career planning

V. Information about Independent Auditor Fees:

(I) Information about Independent Auditor Fees

Name of CPA Firm	Name of CPA		Audit period	Remark
Deloitte Taiwan	Yu Cheng-Chuan	Chang Keng-Hsi	20180101~ 20181231	

Unit: NT\$ thousand

Amount range		Fee items	Audit fees	Non-audit fees(Note)	Total
1	Less than NT\$2,000,000			1,528	
2	NT\$2,000,000(inclusive) ~ NT\$4,000,000		3,550		
3	NT\$4,000,000(inclusive) ~ NT\$6,000,000				5,078
4	NT\$6,000,000(inclusive) ~ NT\$8,000,000				
5	NT\$8,000,000(inclusive) ~ NT\$10,000,000				
6	More than NT\$10,000,000 (inclusive)				

Note: Primarily refer to the independent external auditor's report on special audit of internal control system.

(II) When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are one quarter or more of the audit fees paid thereto, the amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed:

Name of CPA Firm	Name of CPA	Audit fees	Non-audit fees					Independent Auditor's Audit Period	Remark
			System Design	Business Registration	Human Resource	Others (Note)	Subtotal		
Deloitte Taiwan	Yu Cheng-Chuan	3,550		428		1,100	1,528	20180101 ~ 20181231	Other audit fees include the fees for report on special audit of internal control, transfer pricing report and master files.
	Chang Keng-Hsi								

(III) In the case of change of CPA firm and the audit fees for the year of the change less than that of the previous year, please disclose the amount of audit fees before and after the change, and reasons of the change: N/A.

- (IV) In the case of any reduction in audit fees by more than 15% compared to the previous year, please disclose the amount, the percentage and reason of such variation: N/A.
- VI. Information about replacement of CPA: None.
- VII. Name of the CPA firm or its affiliates at which the Company's Chairman, President, or managers responsible for financial or accounting matters was an employee over the past year: None.
- VIII. Any transfer of equity interests and pledge of or change in equity interests by a director, supervisor, manager, or shareholder with a stake of more than 10 percent in the most recent year and until the date of publication of the annual report:

(I) Change in equity interests by a director, supervisor, manager, or shareholder with a stake of more than 10 percent:

Job title	Name	2018		Ended on April 9	
		Increase (decrease) in shares held	Increase (decrease) in shares pledged	Increase (decrease) in shares held	Increase (decrease) in shares pledged
Chairman of Board	Black Dragon Assets Limited	-	-	-	-
Representative	Chen Pen-Yuan	-	-	-	-
Director/shareholder with a stake of more than 10 percent	CROWN HARVEST COMPANY LIMITED	-	-	-	-
Representative	Chen Chien-Yuen	-	-	-	-
Director	Chairman Management Corp..	-	-	-	-
Representative	Kao Chen-Sheng	(1,551,000)	-	-	-
Director	Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account (Date of new appointment: June 11, 2018)	7,779,000	-	-	-
Director	Lin An-Hsiu	-	-	65,000	-
Director	Hsieh Ming-Feng	-	-	-	-
Independent Director	Yeh Chu-Rong	-	-	-	-
Independent Director	Tsai Kun-Yuan	-	-	-	-
Independent Director	Lin Chiang-Liang	-	-	-	-
Independent Director	Liao Wen-Chi	-	-	-	-
President	Chiang Tze-Hua	(24,070)	-	(41,500)	-
Vice General Manager of Financial Accounting Dept.	Liu Chiao-Lu	-	-	-	-
Vice President of Marketing Division	Song Hsiao-Pei	-	-	-	-
Vice President of Domestic Sale Department in the mainland China	Chang Hung-Wu	-	-	-	-
Vice President of Production Division	Hsing Chi-Chiang	-	-	-	-
Special Assistant of Chairman of Board	Peng Shao-Tseng	-	-	-	-
Vice President of Administration in the mainland China	Tu Chiang-Ling (Date of new appointment: April 1, 2018)	-	-	-	-
Vice President of Production Division	Li Liang-You (Date of new appointment: December 1, 2018)	-	-	-	-



## (II) Information about the counterpart in any transfer of the equity who is a related party:

Name (Note 1)	Cause of transfer of equity (Note 2)	Trading Date	Trading counterpart	Relationship between the trading counterpart and the Company, director, supervisor and shareholder with a stake of more than 10 percent:	Quantity of shares	Trading price
Chiang Tze-Hua	Bestowment	January 25, 2018	Chiang Ping-Chen		24070	91.4
Chiang Tze-Hua	Bestowment	January 23, 2019	Chiang Ping-Chen		41500	52.9

Note 1: Please specify the name of director, supervisor, manager, or shareholder with a stake of more than 10 percent.

Note 2: Acquisition or disposition.

(III) Information about the counterpart in any pledge of the equity who is a related party:  
None.

## IX. Information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, in terms of shareholdings:

Name	Shareholding by oneself		Quantity of shares held by their spouses and minor children		Total quantity of shares held under another person's name		Disclosure of information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, including their names and relationships:		Remark
	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Designation (or name)	Relationship	
CROWN HARVEST COMPANY LIMITED	12,204,000	18.47	-	-	-	-	-	-	-
Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account	7,779,000	11.78	-	-	-	-	-	-	-
Black Dragon Assets Limited Representative : Chen Pen-Yuan	4,478,400	6.78	-	-	-	-	ALPHA MARVEL CORPORATION	The representative has spousal relationship with him/her.	-
							MAGIC VISION DEVELOPMENT LTD	The representative is relative of 1st degree of kinship.	-
							ACCORD SKY INVESTMENT	The representative is	-

Name	Shareholding by oneself		Quantity of shares held by their spouses and minor children		Total quantity of shares held under another person's name		Disclosure of information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, including their names and relationships:		Remark
	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Designation (or name)	Relationship	
							TS CO., LTD.	relative of 1st degree of kinship.	-
Chairman Management Corp.	3,999,000	6.05	-	-	-	-	-	-	-
ALPHA MARVEL CORPORATION Representative : Lo Fong-Chu	2,797,200	4.23	-	-	-	-	Black Dragon Assets Limited	The representative has spousal relationship with him/her.	-
							MAGIC VISION DEVELOPMENT LTD	The representative is relative of 1st degree of kinship.	-
							ACCORD SKY INVESTMENTS CO., LTD.	The representative is relative of 1st degree of kinship.	-
MAGIC VISION DEVELOPMENT LTD Representative : Chen Chun-Chi	2,797,200	4.23	-	-	-	-	Black Dragon Assets Limited	The representative is relative of 1st degree of kinship.	-
							ALPHA MARVEL CORPORATION	The representative is relative of 1st degree of kinship.	-
							ACCORD SKY INVESTMENTS CO., LTD.	The representative is a relative of 2nd degree of kinship.	-
							Black Dragon Assets Limited	The representative is relative of 1st degree of kinship.	-
							ALPHA MARVEL	The representative	-

Name	Shareholding by oneself		Quantity of shares held by their spouses and minor children		Total quantity of shares held under another person's name		Disclosure of information on related parties or spousal relationship or relations within second degree of kinship, among top ten shareholders, including their names and relationships:		Remark
	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Quantity of shares	Shareholding	Designation (or name)	Relationship	
ACCORD SKY INVESTMENTS CO., LTD. Representative : Chen I-Hsiu	2,131,200	3.23	-	-	-	-	CORPORATION	ve is relative of 1st degree of kinship.	-
							MAGIC VISION DEVELOPMENT LTD	The representative is a relative of 2nd degree of kinship.	
FLAME POWER ENTERPRISES CORPORATION	1,480,000	2.24	-	-	-	-	-	-	-
Wei Chung Development CO., Limited	1,471,000	2.23							
Liu Hong-Yang	1,015,000	1.54							

- X. The shareholdings of the Company, the Company's directors, supervisors, managers, and the business entity directly or indirectly controlled by the Company on the same invested company and also, the consolidated comprehensive shareholding ratio: None.

## Four. Financing Status

### I. Capital and Stock

#### (I) Total shares

##### 1. Formation of capital stock:

March 31, 2019; Unit: Thousand shares; NT\$ thousand

Year/Month	Issue price	Authorized capital stock		Paid-in capital		Remark		
		Quantity of shares	Amount	Quantity of shares	Amount	Source of capital stock	Investment by properties other than cash	Others
October 2010	NTD 10	50,000	500,000	50,000	500,000	Capital of incorporation	-	-
August 2013	NTD 10	150,000	1,500,000	55,500	555,000	Recapitalization from earnings	-	-
August 2013	NTD 28.50	150,000	1,500,000	56,019	560,190	Recapitalization from employees bonus	-	-
August 2013	USD 0.775	150,000	1,500,000	58,719	587,190	Cash capital increase	-	-
October 2016	NTD 82.8	150,000	1,500,000	66,059	660,590	Cash capital increase (Note)	-	-

Note: No. 10517038501 dated September 21, 2016

##### 2. Total issued shares

March 31, 2019 Unit: shares

Type of stock	Authorized capital stock			Remark
	Outstanding shares (Note)	Unissued shares	Total	
Registered common shares	66,059,000	83,941,000	150,000,000	

Note: Listed company's stock

##### 3. Information relevant to the aggregate reporting policy: None.

#### (II) Shareholders' structure

April 9, 2019 Unit: shares

Shareholders' structure	Government agencies	Financial institutions	Other institutions	Foreign institutions and foreigners	Individual	Treasury stock	Total
Number of person(s)	0	2	23	26	1,736	0	1,787
Quantity of shares held	0	912,000	435,000	40,995,000	23,717,000	0	66,059,000
Shareholding %	0.00%	1.38%	0.66%	62.06%	35.90%	0.00%	100.00%

Note: The percentage of investment by Mainland China in the Company was 0%.

## (III) Status of equity dispersion:

## (1) Common shares

April 9, 2019 Unit: shares

Shareholding class	Number of shareholders	Quantity of shares held	Shareholding %
1-999	98	9,303	0.01%
1,000-5,000	1,281	2,533,143	3.83%
5,001-10,000	162	1,251,760	1.89%
10,001-15,000	57	727,008	1.10%
15,001-20,000	38	702,924	1.06%
20,001-30,000	37	978,000	1.48%
30,001-40,000	15	537,520	0.81%
40,001-50,000	13	602,000	0.91%
50,001-100,000	33	2,322,772	3.52%
100,001-200,000	13	1,912,888	2.90%
200,001-400,000	12	3,203,385	4.85%
400,001-600,000	9	4,668,000	7.07%
600,001-800,000	9	6,458,297	9.78%
800,001-1,000,000	0	0	0.00%
More than 1,000,001	10	40,152,000	60.79%
Total	1,787	66,059,000	100.00%

## (2) Preferred stock: None.

## (IV) Name list of major shareholders: List all shareholders with a stake of 5 percent or greater, or the names of the top ten shareholders, specifying the number of shares and stake held by each shareholder on the list.

April 9, 2019 Unit: shares

Name of major shareholder	Shares	Nationality or Place of Registration	Quantity of shares held (shares)	Shareholding (%)
CROWN HARVEST COMPANY LIMITED		Samoa	12,204,000	18.47%
Yuanta Bank as Trustee of Luckmore Investments Limited Investment Account		British Virgin Islands	7,779,000	11.78%
Black Dragon Assets Limited		Samoa	4,478,400	6.78%
Chairman Management Corp.		Samoa	3,999,000	6.05%
ALPHA MARVEL CORPORATION		British Virgin Islands	2,797,200	4.23%
MAGIC VISION DEVELOPMENT LTD		British Virgin Islands	2,797,200	4.23%
ACCORD SKY INVESTMENTS CO., LTD.		British Virgin Islands	2,131,200	3.23%
FLAME POWER ENTERPRISES CORPORATION		British Virgin Islands	1,480,000	2.24%
Wei Zhong Development Co., Ltd.		Samoa	1,471,000	2.23%
Liu Hong-Yang		Taiwan R.O.C.	1,015,000	1.54%

(V) Market price, net worth, earnings and dividends per share for the most recent two years, and related information

Unit: NT\$ thousand; Thousand shares

Item		Year		
		2017	2018	Ended on March 31, 2019
Market price per share	Highest	134.0	92.2	65.70
	Lowest	89.10	53.1	52.90
	Average	108.99	69.29	57.72
Net worth per share	Before distribution	38.90	36.89	39.39
	After distribution	32.90	(Note2)	(Note2)
EPS	Weighted average quantity of shares	66,059	66,059	66,059
	EPS	7.49	4.70	1.57
Dividends per share	Cash dividends	6.00	3.00 (Note1)	(Note2)
	Issuance of bonus shares	-	-	-
		-	-	-
	Accumulated unappropriated dividends	-	-	-
Analysis on rate of return	P/E ratio	14.55	14.74	-
	P/D ratio	18.17	23.10	-
	Cash dividend yield	5.51%	4.33%	-

Note 1: Already passed by the directors' meeting, and pending resolution by the general shareholders' meeting in 2019.

Note 2: The motion for distribution of earnings for the year is still pending resolution by the shareholders' meeting.

(VI) Dividend policy and implementation thereof

1. Dividend policy set forth by the Articles of Incorporation

If the Company retains earnings at the end of any fiscal year, it shall first pay all related taxes and make up any losses (including the losses from past years), and then make contributions to the statutory reserve pursuant to the relevant regulations for TWSE/TPEX-listed companies (unless the total statutory reserve amounts to the Company's total paid-in capital) and then provide or reverse special reserve (if any) in accordance with law. Then, no less than 10% of the remainder, if any (hereinafter referred to as the "allocable earnings"), plus the undistributed earnings from past years resolved by the Company's general shareholders' meeting, in whole or in part, may be distributed to shareholders as stock/cash dividend subject to the shareholdings by the shareholders. Meanwhile, the cash dividend shall be no less than 10% of the total of said stock/cash dividend as distributed.

2. Distribution of dividend proposed in the current year:

The Company's motion for distribution of 2018 earnings has been passed by the directors' meeting on March 8, 2019, which stated that the cash dividends distributed to shareholders shall be NT\$198,177 thousand, i.e. cash dividend at NT\$3 per share. The motion is now pending resolution by the general

shareholders' meeting in 2019

- (VII) The effects of issuance of bonus shares proposed at this shareholders' meeting on the Company's business performance and EPS:

The Company's motion for distribution of 2018 earnings has been passed by the directors' meeting on March 8, 2019. Since the dividends will be distributed in the form of cash dividends in whole, no effect would be produced on the Company's EPS in the current year.

- (VIII) Remuneration to employees, directors and supervisors

1. The employees' bonus and percentages or ranges with respect to remuneration to directors and supervisors as set forth in the Company's Articles of Incorporation shall follow Article 100 of the Company's Articles of Incorporation referred to in said paragraph (5).
2. The basis for estimating the amount of remuneration to employees, directors and supervisors, for calculating the number of shares to be distributed as the stock dividend, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

According to the resolution made by the shareholders' meeting subsequently, if there is any discrepancy between the amount allocated actually and the estimated amount of the employees' bonus and remuneration to directors and supervisors, it shall be identified as a change in estimation and stated as the income in 2019.

3. The motion for distribution of remuneration passed by the Board of Directors:
  - (1) Remuneration to employees, directors and supervisors allocated in cash or in the form of stock: If there is any discrepancy between that amount and the estimated amount for the fiscal year in which these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed.

Not applicable, as the motion for distribution of the Company's 2018 earnings has been passed by the directors' meeting on March 8, 2019 and there was no discrepancy from the estimated amount for the fiscal year in which these expenses were recognized.

- (2) Proposed distribution of remuneration to employees in the form of stock as a percentage to net income after tax plus remuneration to employees in the entity or separate financial statement for the current period:

Not applicable, as the motion for distribution of the Company's 2018 earnings has been passed by the directors' meeting on March 8, 2019 and no stock dividend was allocated to employees.

4. The actual distribution of bonus to employees and remuneration to directors and supervisors for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the estimated remuneration to employee, directors and supervisors, the discrepancy, its cause, and the status of treatment shall also be disclosed: The motion for distribution of remuneration to employees, directors and supervisors in 2018 has been passed by the directors' meeting and shareholders' meeting, and there was no discrepancy from the actual distribution and estimated amount.

- (IX) Repurchase of the Company's shares: None

- II. Status of corporate bonds: None.
- III. Status of preferred stock: None.
- IV. Status of overseas depository receipts: None.

- V. Status of employee stock options: None.
- VI. Status of new restricted stock awards: None.
- VII. Status of issuance of new shares in connection with mergers or acquisitions or with acquisitions of shares of other companies: None.
- VIII. Implementation of capital utilization plan:  
The Company has not yet completed the capital utilization plan by the date of publication of the annual report, or the plan has been completed but rendered no significant effect.



## Five. Overview of Operations

### I. Operations

#### (I) Description of business

##### 1. Scope of business

##### (1) Major lines of business

The Company specializes in the production and sale of PVC flooring, LVT dedicated to processing plastic materials into various types of flooring materials used for the residential or commercial construction and decoration.

##### (2) Proportion of major products

Unit: NT\$ thousand

Products	2017		2018	
	Amount	Proportion (%)	Amount	Proportion (%)
PVC flooring	3,684,253	100.00	2,979,348	100.00

##### (3) The Company's current product (service)

PVC flooring is made of PVC powder and stone powder mixing to form the middle and backing layers materials and then hot pressed or auto-laminated with strong wear layer and print film, and then processed by PU coating and cut into sheet. The LVT has the strength in environmental protection, stability, wear resistance, durability, etc., and can be operated and assembled easily. The flooring may be widely applied for the residential and also commercial purposes. The process technology has been improved increasingly in the recent years. Stone patterns and wood patterns may be imitated through the unique printing method to make more diversified styles, so that the new flooring transcends solid wood flooring, laminated flooring, composite wood flooring and rubber flooring, etc., and becomes the emerging hot floor materials.

##### (4) New products (services) planned for development

New products	Notes
Magnetic wall materials	Apply iron powder or magnetic powder in backing layer and make sheet wall materials bearing patterns and embossing based on the general tile structure concept, which may be magnetically adsorbed on the magnetic or iron wall surface, while no professional construction or assembly is required and may be creatively arranged, disassembled and re-used at any time to enhance the aesthetics of the interior space design.
Flame-resistant high-viscosity adhesive wall materials	Apply the adhesive flooring materials to the wall decorative materials to solve the defect in the penetration of the plasticizer into the adhesive layer of the general adhesive products, which causes the sheet materials to fall off because of the reduced adhesion and to have the product retain its adhesion after experiencing high and low temperature. The product has satisfied the USA ASTM E84 and Taiwan CNS 7614 anti-flame specifications. In consideration of the fire protection requirements that vary depending on the districts, the Company will keep improving the fire performance to meet the stricter

	flame-resistant requirements, namely the EU EN 13501-1 (construction materials) and the GB 8624 flame-resistant requirements of Mainland China.
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2. Overview of Industry

(1) Current status and development of the industry

① Overview of industry

Plastic flooring is identified as one of the more popular flooring materials among the many construction materials. Given the booming economic activities after World War II, the increase in the labor force participation rate resulting in the emerging demand for floor materials which could be maintained conveniently. Accordingly, Carbide and Carbon released the first plastic flooring in the world in 1933. Initially, the stability of plastic flooring was enhanced by asbestos fiber. In 1952, 34 flooring manufacturers originally engaged in the production of asphalt or linoleum carpets used their existing equipment to engage in the production of plastic flooring and opened the opportunity for further development of plastic flooring. In the 1970s, the leading plastic flooring manufacturers, Amtico and Metroflor in the USA, released the wood-look flooring made of plastic materials. In order to enhance the users' orientation and recognition of plastic flooring products, the product was named Luxury Vinyl Tile. Since then, the Luxury Vinyl Tiles (LVT) have gradually became the designation of the sheet plastic flooring.

For the time being, the PVC flooring is primarily made of polyvinyl chloride (PVC). The general plastic flooring can be categorized into "vinyl tile," "vinyl sheets" and "sheet plastic flooring." All of the three are made of PVC primarily. Notwithstanding, the vinyl tile is monotonous in colors and, therefore, it is difficult for them to match the decoration design. The vinyl sheets and sheet plastic flooring structure consist of transparent materials (strong wear layer), print film, backing layer, etc., which are diversified in colors and may be extensively applied as the indoor flooring to meet the decoration design needs for residential and commercial purposes. The Vinyl Sheets may be applied onto large-scale slabs situated in a large area, such as the malls or hospitals that do not require decoration designs. Nonetheless, the sheet plastic flooring has been improved remarkably in wear-resistance, appearance and quality due to the progress of materials, fabrics and printing technology in the recent years. Therefore, such flooring type is widely applied to such public areas as storefronts and department stores, which have also been accepted by the residential market gradually in the recent years.

The sheet plastic flooring is used as the indoor flooring of houses and buildings. The sources of the main business are completed new construction projects and decoration of readily available houses. The application thereof may be extended to the residential and commercial markets. Those for residential purpose value appearance and convenience of installation more, while those for commercial purpose highlight wear-resistance, scratch-resistance and heat-resistance, et al. In the past, the unsatisfactory production technology of plastic flooring resulted in the remarkable variance between the plastic flooring and the wood, stone and ceramic tiles used in the traditional decoration work in style and quality.

Therefore, users had reservations about the new flooring materials. Notwithstanding, with the improvement on production method, fabrics and printing technology, the simulation of plastic flooring has been improved remarkably. In addition to such visual effects as wood-look pattern, marble-look pattern, and metal-look pattern, the floor surface can also be embossed to produce such touching sense and 3D effects as water wave embossing, registered embossing and bumpy embossing and, therefore, is became acceptable to users gradually. Because the PVC flooring provides such characteristics as easy cleaning, wear-resistance and scratch-resistance, and non-combustion-supporting, they may satisfy the smoke prevention effect recognized by the international standards only if they are made from special formula and under special production process, and become the main fireproof flooring. Meanwhile, because of the convenient construction, they may meet the malls' need for shortening the construction period for renovation work. Therefore, the PVC flooring has become the flooring materials commonly installed in commercial areas.

## ② Current status and development of the industry

### A. Current status of the industry

According to the statistics generated by Catalina Research, the sales of the sheet plastic flooring were about US\$2.9 billion in 2013, with the areas of sales being about 2.4 billion square feet. In terms of the sales, the US market accounted for 30.75% of the global sales, Europe 27.83%, and Mainland China 14.26%, are the top 3 areas of global plastic flooring sales market. Meanwhile, according to the data provided by the Plastic Floor Research Center of Zhi Mian Consulting, the sales volume of the sheet plastic flooring was about 247.79 million square meters (about 2.667 billion square feet) in the world in 2015. Meanwhile, the Center forecast that the sales volume of sheet plastic flooring would be 251.79 million square meters (about 2.710 square feet) in the world by 2016, which tends to be growing.

According to the statistics generated by Catalina Research, by comparison of the weights of production and sales of the sheet plastic flooring in 2013, China and South Korea are the major countries where the global leading sheet plastic flooring suppliers are concentrated, while the USA and Europe are the major countries where the sheet plastic flooring are imported. According to the statistics generated by the Plastic Floor Research Center of Zhi Mian Consulting, the global sales volume in Europe, North America and China in 2015 was 27.18%, 26.74% and 19.05%, respectively, which are the top 3 markets for the sale of the flooring in the world.

In line with the Macroeconomics and development of sheet plastic flooring in various regions in the world, the development of the industry in which the Company engage is stated as following:

#### (a) European market

The sales of plastic flooring in the European market declined

remarkably due to the financial turmoil in 2009. Up until 2012, the sale volume has begun to grow significantly, primarily due to the recovery of the European construction market, the increase in demand for related construction materials, and the successive release of new products for plastic flooring in the recent years resulting in the increase in consumers' selections of plastic flooring in terms of color, function and style, thereby increasing the entire sales of plastic flooring.

Meanwhile, the emerging Ecological Building concept in Europe also drove the needs for green construction materials. Green buildings primarily stress on such sustainable development issues as ecological balance, conservation, species diversity, resource recycling, renewable energy and energy conservation. The plastic flooring is a recyclable material. With phthalate free or bio-based plasticizers and waterless printing environmental materials and production methods, the Company may become a member of the green construction materials after receiving the Green Tag.

According to the statistics generated by the European Patent Office, as Europe is promoting the reduction of energy consumption and carbon footprints, remodeling of the buildings in the region has been the first priority. In the next few years, massive buildings are scheduled to be renovated. After the EU's stricter environmental policy takes effect in 2020, more than hundreds of buildings will be constructed or renovated. It is expected that the green building market scale in Europe will amount to EUR14 billion in 2020.

#### (b) US Market

The main flooring materials in the US market are categorized into carpets, solid wood, ceramic, wear-resistant laminate, plastic flooring, stone and other flexible flooring. According to Catalina Research, the sales of US sheet plastic flooring were US\$1,109 million, US\$1,405 million and US\$1,690 million in 2014~2016, respectively. Among the other things, the sales in 2014 accounted for about 5.08% of the total sales of the flooring materials in the United States in the same year, which is expected to grow until 9.40% in 2019. The growth is driven by the remarkable improvement of wear-resistance, appearance and quality due to the progress of materials, fabrics and printing technology in the recent years. The sheet plastic flooring is equipped with such characteristics as convenient transportation, tailoring and easy installation, which satisfy the needs focusing on saving of high labor cost and the DIY style in such countries as USA and European countries. Therefore, the Catalina Research forecast that the growth range for the sheet plastic flooring will be higher than the average growth range of the flooring materials in next five years.

(c) Taiwan market

Affected by the global financial crisis, Taiwan's economic growth rate was negative in 2009. Since then, various countries have relied on their own fiscal policies to relieve themselves from the financial crisis. In 2010, the economy grew remarkably. Notwithstanding, since 2011, the impact of the European debt crisis weakened the demand for imports from Taiwan by such advanced economies as Europe and the USA and, thereby, resulted in the decline of economic growth in Taiwan in the same year.

Since 2012, the economy in the new economies in Europe has recovered sluggishly, while the economy in the USA has recovered strongly and that in the mainland China remained growing drastically. As a result, the economy in Taiwan shows the positive growth. According to the statistics generated by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the economic growth rate was 3.77% in Taiwan in 2014; notwithstanding, since 2015, due to the weakening global economy, slowdown in the global demand for electronic products, supply chain competition in Mainland China and continuing oil price decline, the export growth was suppressed. Therefore, the Directorate-General of Budget, Accounting and Statistics, Executive Yuan forecast that economic growth rate will be 0.85% in 2015, and 1.06% in 2016, better than that in 2015, primarily due to the economic recovery in the advanced economies; notwithstanding, the energy and raw materials prices still stayed low. There was the significant downside risk over the emerging market's development and the risk over emerging of supply chain in Mainland China still existed, the overall economic activity grew mildly in Taiwan in 2016.

According to the “domestic sales value (including indirect export)” indicated in the statistics of industrial products by the Department of Statistics, Ministry of Economic Affairs and ” the Value of Imports-391810- a roll or brick-shaped plastic floor covering made of vinyl chloride polymer, whether adhesive or not” issued by Customs Administration, Ministry of Finance, the total sales of plastic flooring were about NT\$1.26 billion in the Taiwan market, *i.e.* 1.41% of the sales of the global plastic flooring market in 2015.

With the increase in consumers' demand for residential quality, the development of residential decoration projects has grown rapidly. The diversified design concept is integrated into the overall decoration design. The plastic flooring industry satisfies the designers' need for diversified flooring material design, due to the advanced technology and improved simulation technology. Besides, the plastic flooring

construction is easy, simple, and performs better in being moisture-resistant than the wood flooring, in line with Taiwan's environmental and market characteristics. Therefore, this appears to be favorable for the development of the industry which the Company is engaged in.

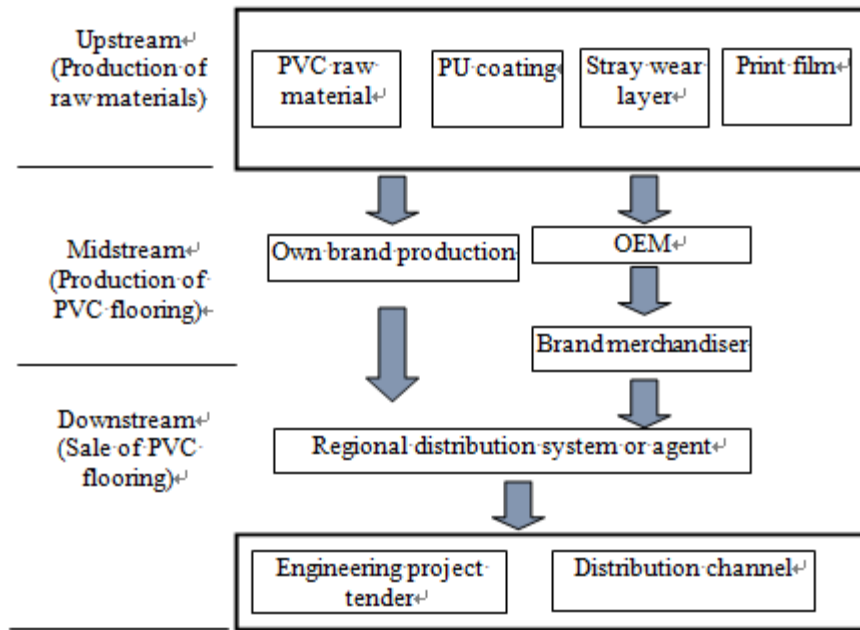
(d) China market

It appears to grow rapidly in the sales of residential, office and commercial property in the real property market of Mainland China, primarily due to China's continuing urbanization development, which in turn drives the demand for real property for residential and commercial purposes.

The plastic flooring market of the mainland China has opened up its visibility since 2008 step by step, primarily the adoption of massive high-quality plastic flooring for the Beijing Olympics, thereby enhancing the recognition and acceptance of plastic flooring by the consumers in Mainland China, driving the demand in the plastic flooring market and upgrading the market share of plastic flooring materials in the market for office, store and residential areas. Meanwhile, Mainland China is identified as the second largest economy in the world, which provides a large domestic demand market. The development of plastic flooring is only starting in the China market. Notwithstanding, with the improvement of the plastic flooring manufacturing technology, the market share of plastic flooring is expected to increasingly grow.

(2) Links between the upstream, mid-stream and downstream segments of the industry

The main raw materials for the sheet plastic flooring refer to various plasticized raw materials, which are produced into various types of sheet plastic flooring through hot press, extrusion or automatic lamination and marketed via the distribution system under the private brand or the distribution channels of branded merchandisers to use the products in residential or commercial engineering construction projects. The relevant industry chain map is stated as follows:



### (3) Development trends for the Company's products

#### ① Replace the market shares of other flooring materials in the mature market.

In consideration of the increasingly upgrading production technology of sheet plastic flooring, diversity of products, refinery of simulation with the improvement of production process, materials and printing technology and convenient construction and competitive price, it is expected that the proportion of plastic flooring to flooring materials will increase gradually.

#### ② Development of emerging market

Since the consumers in emerging markets know little about plastic flooring, the market share of plastic flooring stays lower in the market. If the consumers' knowledge about the product may be upgraded effectively, the market share is expected to definitely grow.

#### ③ Introduction of new products

In the future, the sheet plastic flooring will develop toward materials that are more friendly to the environment and human body, and the convenience of installation of such flooring will be increased. For lock-type products and reusable magic sticker products, the Company will upgrade the momentum of sales in mature markets (*e.g.* Europe and USA, *et al.*).

#### ④ Development of new technology

Because the plastic flooring would be subject to biological changes by heat, the application areas of the plastic flooring are limited. So far, certain manufacturers have invested the research of materials in order to overcome the problem about the biological changes of traditional plastic flooring by heat. It is expected that the plastic floor market may be developed further if the

relevant materials are developed successfully.

⑤ Application in new directions

Given the improvement of appearance and sense of touch of the plastic flooring, the application areas thereof have been thought out of the simple floor layout. Some commercial designs have been integrated into the wall design to increase the sense of beauty for the overall design.

⑥ Promotion of policies in various countries

Europe is used to being the global environmental protection pioneer market. Its market orientation is also used to producing some demonstrative effects for the future development of the other markets. Therefore, high-end environmental protection plastic flooring shall be the focus of the future long-term development trend of the industry.

(4) Status of competition

The Company is primarily engaged in the plastic floor OEM and selling products primarily in the territories of the USA and Europe. Mainland China and Korea are the major territories where the plastic flooring are exported in the world. According to Catalina Research, the output of plastic flooring in Mainland China and Korea accounted for about 76% of the global output of plastic flooring in 2013. The business lines of major competitors in Mainland China and Korea are stated as follows:

Company name	Major production location	Scope of competition	Remarks
Zhang Jia Harbor City Yihua Plastic Co., Ltd.	China	Private brand in China market OEM of US and European markets	Unlisted
Shanghai Jinjia Building Material Technology Co., Ltd.	China	OEM of US and European markets	Unlisted
China Floors	China	Private brand in China market OEM of US and European markets	Unlisted
Novalis International	China	Private brand in China market OEM of US and European markets	Unlisted
Vertex Group	China	Private brand in China market OEM of US and European markets	Unlisted
LG Hausys	Korea	Private brand in China market	Note
Nox Corp.	Korea	OEM of US and European markets	Unlisted

Source of data: Data from Catalina Research and LG Hausys, complied by KGI Securities

Note: LG Hausys is a Korea-based listed company (stock code 108670.KS) engaged in product lines that include doors and windows, flooring, furniture surface materials, home appliance surfaces and IT materials and auto parts and materials. The company's operating revenue was 3,266 billion won in 2018 and a net loss after tax of 53 billion won, which are equivalent to NT\$90.2 billion and NT\$1.5 billion, respectively. Notwithstanding, the



company's public information has not yet disclosed the proportion of operating revenue from flooring materials.

### 3. Overview of technology and R&D

#### (1) Technology level and R&D of business lines

Since the Company was incorporated it has always been dedicated to the production of sheet plastic flooring. In addition to the wear-resistant and scratch-resistant characteristics, the main technology of the Company resides in the stable quality and uniformity of the products. The main raw materials for plastic flooring are PVC (polyvinyl chloride), which change based on temperature. The international standards require that the gap on each piece of brick material shall be no more than 0.25% of the original size. If the physical properties are unstable, the thermal expansion and contraction range produced due to changes in the weather might be so excessive that the floor could be lifted due to thermal expansion or the gap may be enlarged excessively due to thermal contraction. Besides, since the sheet plastic floor is made of multiple sheet flooring material, the inconsistent product quality or inequivalent registered embossing, if any, might cause the customers to identify the product as being defective and claim for a return of goods or compensation therefor. The Company has the experience in mass production for more than 3 decades. By adjusting the formula and production process and stabilizing the properties and uniformity of product, the Company's product quality is thoroughly recognized by the international customers.

The Company believes that "Quality is the soul of products and R&D is the momentum of growth." At the same time when pursuing excellent quality, the Company sets up the R&D Department and Technology Department. The R&D Department verifies the market development trends and users' needs via business units or through communication with suppliers and customers to develop and design the new products in line with the market trends. The Technology Department works with the production unit to resolve the problems about production lines and also is responsible for improving the production process, improving the production efficiency, reducing costs and working with the R&D Department to develop new products and adjust the settings of machine, in order to fulfill mass production. With the existing experience in production, the Company integrates the specialty of the R&D Department and Technology Department to stabilize quality and provide diversified and customized product lines, while maintaining the Company's international competitiveness at the same time.

#### (2) Research and development expenditures invested per year for the most recent five years

Unit: NT\$ thousand; %

Item	Year 2017	Year 2018	2019 Q1
R&D expenses (A)	13,552	8,642	718
Consolidated operating revenue, net (B)	3,684,253	2,979,348	844,534
(A)/(B)	0.37	0.29	0.09

### (3) Technologies or products successfully developed

Since the Company started its business, it has valued the product technology development very much. The Company upgrades the production efficiency and product quality by improving existing production equipment and processes, and also engages in developing new products. The Company's development results in the recent years are stated as following:

Time	Technologies or products successfully developed
2012	Novel environmental protection paper floor/ three-dimensional pattern PVC floor/NON- Phthalate environmental protection floor/PUR high scratch-resistant and chemical-resistant floor
2013	Micro-glue floor/large rounded floor molding technology development
2014	GF fiberglass composite floor/lock-type floor (Note)/paper floor
2015	WPC/PVC composite lock-type floor (Note)/Non-PVC (PP) environmental protection floor/reusable magic sticker floor
2016	Commercial fire-resistant level non-PVC (PP) environmental protection floor Commercial flame-resistant level non-PVC (PP) environmental protection floor (The only one plastic floor product which receives the Green Tag for green construction materials in Taiwan.) Anti-static level non-PVC (PP) environmental protection floor WPC PLUS (commercial level WPC) Plastic floor with carpet looking
2017	Cigarette butt-resistant floor Stain-resistant/scratch-resistant floor
2018	Flame-resistant high-viscosity adhesive wall materials Glue-free anti-slip floor tile Magnetic wall materials Rounded angle floor tile Flexible floor tile SPC floor tile

Note: The Company acquires the license to use the patent on the lock-type one after paying royalty to Välinge Innovation AB

#### 4. Long-term/short-term business development plan

##### (1) Short-term business development plan:

- ① Enhance the core technology capabilities, transform into automated machine production, and cut labor costs.
- ② Steadily expand the production scale, increase production lines and upgrade the production process efficiency to maximize the effect of productivity.
- ③ Keep deepening the relationship with customers, provide high-value-added excellent products and achieve the win-win situation between the Company and its customers.
- ④ Set up business locations in various districts of Mainland China step by step, dedicated to deepening the development in the domestic market of the mainland China, and upgrading the business performance and market shares in the market of Mainland China.

(2) Long-term business development plan:

- ① Strengthen the cooperation with the suppliers of the supply chain in the industry, co-develop alternative new materials, reduce production costs and secure strength in the price competition.
- ② Dedicated to researching and developing new materials and excellent products equipped with new functions intended for “environmental protection, comfort and safety” to satisfy the needs of the consumer market.
- ③ Continue to introduce the professionals with international competency to upgrade the Company’s core competitiveness.
- ④ Integrate the Company’s resources and aim to set up business locations in the world and the Greater China market to expand the Company’s operating and niche scale.

(II) Overview of market and production and marketing

1. Analysis of market

(1) Geographic areas where the main products are sold

Unit: NT\$ thousand; %

Territory	Year 2017		Year 2018		2019 Q1	
	Sales	Ratio	Sales	Ratio	Sales	Ratio
Taiwan	186,557	5.06%	213,548	7.17%	42,612	5.05%
Europe	2,149,708	58.35%	1,492,620	50.10%	543,842	64.40%
North America	740,992	20.11%	649,099	21.79%	124,698	14.77%
China	226,817	6.16%	336,820	11.31%	72,332	8.56%
Others	380,179	10.32%	287,261	9.64%	61,050	7.23%
Total	3,684,253	100.00%	2,979,348	100%	844,534	100%

(2) Market share

According to the data provided by the Plastic Floor Research Center of Zhi Mian Consulting, the output of the sheet plastic flooring was about 2.5179 billion square meters (about 76,166 thousand pings) in the world in 2016. Based on the Company’s sale areas attaining 5,804 thousand pings in 2016, the Company’s market share for the sheet plastic flooring in the world was 7.62%.

### (3) Future demand and supply and growth potential of the market

#### ① Changes in potential demand and growth of the market

According to the statistics generated by Catalina Research, the sales of the sheet plastic flooring were about US\$2.9 billion in 2013. In terms of sales, the US market accounted for 30.75% of the global sales, Europe 27.83%, and Mainland China 14.26%, as the top 3 consumer markets in the world. It is expected that the global plastic floor growth rate would grow at a compound annual growth rate by more than 10% per year in 2017, primarily because the plastic floor sales in 2013 was only 1.10% of the total sales for flooring materials in the world, which is considered low. With the improvement of the plastic floor production technology and release of new products, the proportion may be upgraded effectively. The growth rate of the US market is expected to lead among the other major regions in the world. Therefore, the growth of demand in the US market appears to be more significant. According to Catalina, the US market will grow at the compound growth rate by 15.30% per year. The sales of plastic flooring will amount to US\$2.4 billion in 2019.

#### ② Changes in potential supply and growth of the market

In 2013, the global supply of sheet plastic flooring was 2.4 billion square feet. Among other things, the supply in Mainland China was about 1.5 billion square feet, Europe 383 million square feet, and Korea 315 million square feet, accounting for 62.87%, 16.05% and 13.20% of the global supply, respectively. According to Catalina Research, the global supply of sheet plastic flooring would increase from 2.7 billion square feet in 2014 to 3.7 billion square feet in 2017. The growth rate of such supply is commensurate with the growth rate of the US market, exclusive of the growth of demand in other markets. Therefore, no supply surplus resulting from the increase in supply would take place in the near future.

### (4) Competition niche

#### ① Excellent and uniform product quality

The Company's product quality not only surpasses the certification by customers but also remains uniform in the case of mass production. The product quality is one of the Company's major competitive strengths. Since the plastic sheet floor is made of multiple sheet flooring materials, the inconsistent product quality or inequivalent registered embossing, if any, might cause the customers to identify the product as being defective and claim for a return of goods or compensation therefor. The Company has experience in mass production for more than 3 decades. By adjusting the formula and production process and stabilizing the properties and uniformity of product, the plastic flooring produced in different batches may remain consistent in quality and appearance, and the product quality

is thoroughly recognized by international customers.

② Complete production equipment and strength in production capacity

The Company owns a hot press production line and an automated lamination production line at the same time. The hot press production line generates the annual production capacity of 5,292 thousand pings per year. The automated lamination production line generates the annual production capacity of 3,667 thousand pings. The production capacity is considered sufficient enough to satisfy customers' needs for one-stop shopping and also helpful for positive business development. Further, the hot press production line is applicable to small-volume but diversified products. The automated lamination production line has the strength in mass production and may choose different processes per the customer's order, to reduce production cost and reflect on the selling price to achieve the win-win goal for customers and the Company.

③ Experience in production and high automation degree

The Company has been engaged in developing the business in the plastic floor industry for more than 3 decades and, therefore, can fully control changes in the industry, adjust raw material costs and inventory in a timely manner, and strictly control the cost. The Company owns the key technology to upgrade the production efficiency through improvement of production process and upgrading of automation level. The Company is experienced in production and able to respond to the future changes in the market rapidly, thereby enhancing the competitiveness of the Company's products.

④ Obtain multiple certifications and create market access threshold

The Company has passed ISO 9001, ISO 14001, CE EU safety certification, BRE A + green environmental protection certification, floor score US indoor air health emission standard certification, SGS international authoritative standard inspection organization's certification, BV certification, CSTB French Environment and Safety certification, SA8000, and Healthy Green Construction Materials Tag Certificate awarded by the Ministry of Interior, the R.O.C., et al. Considering that European countries and the USA are used to address such issues as environmental protection and social responsibility, most of these countries will require that the products sold to them should hold related certifications. As the Company has obtained said multiple certifications, it may solidify the cooperative relationship with existing customers and also upgrade the threshold of market access by competitors.

⑤ Highly systematic logistic management

The Company is committed to integrating various information management systems, e.g. AD (Authority Verification), ERP (Enterprise

Resources Planning), DMS (Document Management System), HR (Human Resources System), BPMS (Business Process Management System) and EMS (Enterprise Management System). By integrating the systems, the Company strengthens the collaborative operations between different functionary subsidiaries of the Company, improves the Company's administrative efficiency, controls various cost elements accurately, and maintains the Company's cost competitive strengths.

⑥ Excellent ability in research and development and improved production process

The Company has set up the R&D Department. Its R&D orientations may be categorized into functional innovation and materials innovation, the two major types. The functional innovation is primarily intended for the development of new functions of the sheet plastic floor, e.g. the loose lay flooring, sound-absorbing flooring, anti-bacterial flooring and conductive flooring, et al. which were developed successfully. The material innovation is intended for the development of materials other than PVC or new products made of PVC combined with other different materials, e.g. PP plastic flooring, WPC plastic wood flooring, and glue-free flooring, et al. The Company also set up the Technology Department responsible for improving the production process and cutting production costs of the Company and performing such functions as development of new products, test of mass production process and technology transfer. Through the cooperation of R&D Department and Technology Department, the Company develops new products successfully and achieves the ability of mass production. The Company plans the orientation of new product development to satisfy the end users' needs, and also releases new products to create customers' needs to enable the new products to be one of the Company's growth momentums.

⑦ Appearance design service

The Company keeps enhancing the competitive strength as an OEM and also trains the appearance design team to apply its mold development expertise to the development of special colors and sizes in line with market trends and customer needs. Meanwhile, the Company gets rid of the Red Sea for competition with peer companies in the OEM industry and moves forward toward ODM. Besides, the Company's owned design team also renders positive benefits to the Company's development of its owned brand, which may enable the Company's owned brand products to be differentiated.

(5) Positive and negative factors for future development, and response to such factors

① Positive factors

#### A. Market opportunities created under national policies

The “National New Urbanization Plan” proposed by the mainland China is expected to create massive residential demand. With the increase in the number of new houses, the new floor areas will increase and the demand for flooring materials will grow accordingly. The Company set up the mainland China Domestic Sale Division governing the six subsidiaries including Chongqing M.J. Shanghai M.J, Beijing M.J. , Guangzhou PROMAX, Wuhan M.J. and Xian M.J. , and responsible for developing the domestic sale market in the mainland China to control the market opportunities.

#### B. Increasing acceptance of plastic flooring by end users

Following the improvement of technology and handcraft, the sheet plastic flooring overcome such defects as disordered texture, old patterns, and confused colors and are processed through aesthetic design and precision handcraft, as well as strict quality control and production management, into some unique artworks, thereby turning the public impression about the cheap and low-end flooring upside down. As a result, the end users’ acceptance of plastic flooring is increasing.

#### C. Environmental protection issues catch the world’s eyes

The world’s concern about environmental protection issues is growing increasingly. Especially, such advanced countries as the European countries and the USA emphasize recycling of resources and maintenance of ecological balance. Replacing the solid wood flooring with plastic flooring products may help reduce deforestation. Besides, the plastic flooring is environmentally friendly, free from causing any harm to human health and is recyclable, and satisfies the characteristics of green construction materials. Therefore, given the environmental issues concerns by the world, the plastic flooring will become one of the mainstream flooring materials in the future.

#### D. Development of new products and expansion of application range

The application range of sheet plastic flooring is extended from the residential market of decorative aesthetics to the commercial market. Given the successful development of new products in the recent years, the various value-added functions have been upgraded, so as to develop the application range of plastic flooring effectively. For example, the anti-slip tiles, which have been developed successfully, can reduce the chances for slipping and getting hurt for consumers and thereby reduce the dispute against which damages are claimed and, therefore, are widely used by the suppliers in Europe and the USA. The

improvements in technology and handcrafting make it possible to provide more colorful plastic flooring products helpful for designers to conceive more creative ideas and thereby make the plastic flooring more popular. The successful development of the products with new functions, new materials or new colors will help the Company's sales growth effectively.

② Negative factors

A. Other flooring materials suppliers also access the market for production of plastic flooring.

Because of the limited existing market growth strength, the other flooring materials suppliers also access the market for the production of plastic flooring. For example, such companies as IVC, US Floors and Mannington, which were initially engaged in super wear-resistant wood flooring materials, access the market for plastic flooring too.

Response to such factors

The Company is very experienced in mass production. Meanwhile, the Company has obtained multiple certifications. It maintains fair interaction with the existing customers' needs, solidifies the cooperative relationship with the existing customers and also works hard to develop new products, in order to attract potential customers and make them become the Company's loyal customers with the Company's diversified products, competitive price and sound production strength.

The Company continues to upgrade the customers' service to solidify the cooperative relationship with the existing customers, and also works hard to develop new products to maintain its competitive edge in production technology and cost and to attract potential customers and make them become the Company's loyal customers.

B. Raw materials price fluctuation

The Company's main raw materials are extracted from crude oil. Given the fluctuation of crude oil price, the price of raw materials is prone to fluctuate too. The increase in raw materials price will result in the increase in procurement costs and loss of gross profit. The decrease in raw material price will result in the pressure from downstream customers who will ask for a price reduction. Therefore, the raw materials price fluctuation renders some considerable impact on the Company's profitability.

Response to such factors



The Company controls the market price of main raw materials from time to time, strictly controls the inventory level and adjusts the safe stock quantity subject to the raw materials price fluctuations. When the main raw materials price rises, the Company's gross profit suffers a loss. For the purpose of sustainability, the Company's sales unit agrees with the customers on the unit selling price and adopts the sale policy to increase the unit price of goods sold on installment or have the cost for the increase in the raw materials price to be borne by the Company and the customers in part to mitigate the impact to the Company's operating revenue and profitability caused by the raw materials price fluctuations. In the case of raw materials cost decline, in response to the market competition, the Company decides on the price reduction ratio, subject to the decline range and feed the reduction back to downstream customers to create a win-win situation for the Company and its customers.

The Company controls the market price of the main raw materials from time to time, strictly controls the inventory level, and adjusts the safe stock quantity subject to the raw materials price fluctuations. When the raw material price tends to increase or decline, the Company's sale unit agrees with the customers on the unit selling price to create a win-win situation for the Company and its customers.

### C. Threat from Free Trade Agreement

Considering the fact that various global zones have signed the Free Trade Agreement successively in the recent years, the tariff reduction becomes critical to the suppliers' competitiveness in quotations in various countries and thereby affects the existing business cooperation model.

#### Response to such factors

As a leader of technology in the sheet plastic flooring industry, the Company owns the top production ability in the world. It will continue to strengthen its automated equipment and provide customers with the products at more competitive prices by improving process efficiency, upgrading production efficiency and reducing the manufacturing cost. Meanwhile, the Company will focus on the production management, maintain the high-end quality and create differentiation of products to upgrade the Company's competitiveness.

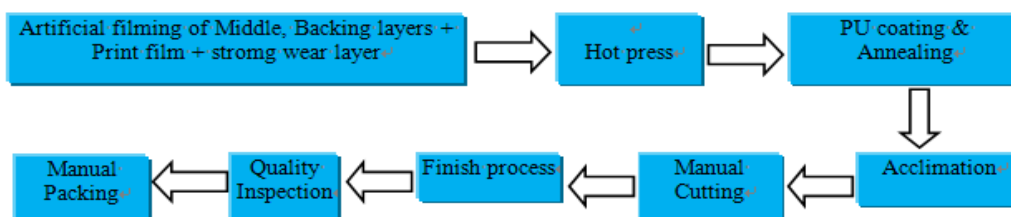
## 2. Important purpose and production processes for main products

(1) Important purpose of main products

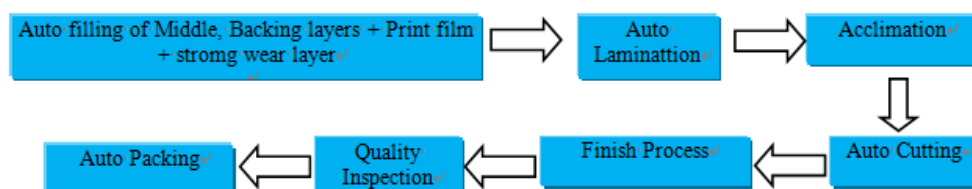
By Product	Notes to purpose
Luxury Vinyl Tile	The flooring materials applied to construction or decoration.

(2) Production processes for main products

A. Hot Press



B. Automatic lamination



3. Supply of the main raw materials

The Company is engaged in the production of sheet plastic flooring. The raw materials purchased by the Company primarily include PVC powder, plasticizer, PVC transparent materials, PVC printing film, Ethylene Vinyl Acetate (EVA), and paper cassette packaging materials, *et al.* The main raw materials are supplied by more than one supplier to enhance the mobility for the source of supply. So far, the Company's solvency to suppliers has been considered normal. Usually, the Procurement Department is responsible for maintaining the business relationship with suppliers. The supply of main raw materials is considered normal, and no interruption of supply has taken place.

4. List of principal suppliers and clients

(1) Names of suppliers accounting for 10 percent or more of the Company's total procurement amount in any of the most recent two years, the amounts bought from each, the percentage of total procurement accounted for by each, and an explanation of the reason for increases or decreases in said figures

Item	Year 2017				Year 2018				2019 Q1			
	Name	Amount	To the annual net procurement amount (%)	Relationship with the issuer	Name	Amount	To the annual net procurement amount (%)	Relationship with the issuer	Name	Amount	To the annual net procurement amount (%)	Relationship with the issuer
1	HSIUNG STAR	341,888	17.01	None	HSIUNG STAR	304,927	18.73	None	HSIUNG STAR	88,116	21.89	None
2	Shanghai Dachang	297,300	14.79	None	Shanghai Dachang	251,841	15.47	None	Shanghai Dachang	58,045	14.42	None

	Others	1,371,131	68.20		Others	1,070,906	65.80		Others	256,440	63.69	
	Net procurement amount	2,010,319	100.00		Net procurement amount	1,627,674	100.00		Net procurement amount	402,601	100.00	

Notes:

① Shanghai Dachang

In 2018, the decrease in orders resulted in the decline of net procurement amount, and Dachang maintained its position in the 2nd place.

② HSIUNG STAR

Given the higher cost for Sunu, it is impossible to reduce the price. In 2019, the Company turned to adopting the transparent materials for domestic sales in whole. Therefore, the net procurement amount from HSIUNG STAR increased and kept being in the 1st place (the Company plans to seek other alternate suppliers in 2019).

(2) Names of clients accounting for 10 percent or more of the Company's total sale amount in any of the most recent two years, the amounts sold to each, the percentage of total sales accounted for by each, and an explanation of the reason for increases or decreases in said figures

Unit: NT\$ thousand

Item	Year 2017				Year 2018				2019 Q1			
	Name	Amount	To the annual net sale amount (%)	Relationship with the issuer	Name	Amount	To the annual net sale amount (%)	Relationship with the issuer	Name	Amount	To the annual net sale amount (%)	Relationship with the issuer
1	Company A	1,203,465	32.67	None	Company A	982,606	32.98	None	Company A	111,863	20.82	None
2	Company C	761,862	20.68	None	Company C	461,118	15.48	None	Company C	61,448	11.43	None
	Others	1,718,926	46.65	-	Others	1,535,624	51.54	-	Others	364,058	67.75	-
	Net sale amount	3,684,253	100.00	-	Net sale amount	2,979,348	100.00	-	Net sale amount	537,369	100.00	-

Notes:

① Company A

Company A is a subsidiary wholly owned by Company K directly, responsible for developing and selling the vinyl sheets and sheet plastic flooring of Company K in part of European market. Among the other things, the sheet plastic flooring refers to the high-end series sheet plastic flooring.

Company A's sales decline in 2018 was primarily a result of the delay in the re-listing of the distributors initially expected to be in 2017, and the stock-up assessment resulted in an error in the distribution speed less than the expectation and overestimated inventory level. Meanwhile, in response to the parent company's cash flow and financial policy, Company A reduced its inventory level and, therefore, the procurement quantity in the first half of 2018 was affected materially.

The adjustment on inventory levels was completed in the second half of

2018, and the new product SPC series began to be shipped in September. Besides, Company A will re-market the high-end product series at the beginning of 2019 and the stock orders placed at the beginning of 2019 will be delivered as of October. Therefore, the sale volume will increase gradually. Affected by the decline of shipment to customers in the first half of 2018, the Company's sales declined in 2018 from 2017. However, given the actual sales of the engineering business and distributors in Q4 of 2018 were higher than the expectations and the optimistic market outlook in the first half of 2019, the orders accepted in Q4 of 2018 grew significantly and the growth would be reflected in the shipment in Q1 of 2019.

② Company C

Company A is a subsidiary wholly owned by Group K directly. It is primarily engaged in the brand management, production of vinyl sheets and sale channel management in the local market for Group K in European market.

Notwithstanding, due to the procurement error and the adjustment on the parent company's cash flow and financial policy, Company C has cut the procurement quantity from the Company as of March 2018. Given the abundant inventory under OEM brand, its procurement quantity from the Company declined significantly, until Q2 of 2018 when the inventory adjustment was completed and the purchase order volume recovered as usual. The new product SPC and the high-end product series are scheduled to hit the market in Q1 of 2019. The stock-up to be shipped in Q4 of 2018 appears to increase the sales in Q4 significantly. The main cause for the entire sale decline in 2018 is not the market overview or sales decline. The actual sales to customers were stable and even grew slightly, which were also reflected on the shipment in Q1 of 2019. Notwithstanding, affected by the production capacity during the Chinese Lunar New Year holidays, the actual shipment still cannot satisfy the customers' needs completely.

5. An indication of the production volume for the recent two years

Unit: Thousand pings; NT\$ thousand

Year Main product	Year 2017			Year 2018			2019 Q1		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Plastic flooring	8,705	6,418	2,624,615	8,705	5,363	2,525,623	2,176	1,355	688,729

Analysis on changes:

The production of company in 2018 was lower than that in 2017. It is mainly due to the adjustment of inventory by customers in 2018. The quantity of orders has reduced, so the capacity utilization rate was lower and the output was reduced.

6. An indication of the sale volume for the most recent two years

Unit: Thousand pings; NT\$ thousand

Year Main product	Year 2017				Year 2018			
	Domestic sale (Note)		Export		Domestic sale (Note)		Export	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Plastic flooring	-	-	6,409	3,684,253	-	-	5,166	2,979,348

Note: The Company is organized in the British Cayman Islands, but doesn't engage in sale business locally. Therefore, no domestic sale is applicable.

(III) The number of employees employed for the most recent two years

Unit: Persons

Year		2017Year End	2018Year End	March 31, 2019
Number of employees	Managers	6	8	8
	Production line employees	464	474	497
	General employees	340	339	336
	Total	810	821	841
Average age (years old)		39.64	39.64	39.27
Average service seniority (years)		4.76	4.76	5.02
Academic background	Doctor	0.00%	0.00%	0.00%
	Master	1.48%	1.22%	1.19%
	University/college	17.04%	17.42%	17.00%
	Senior high school	18.27%	17.05%	18.08%
	Senior high school below	63.21%	64.31%	63.73%

(IV) Information about environmental protection expenditure

Total losses (including damages) and fines for environmental pollution for the most recent year, and during the current year up to the date of publication of the annual report, and an explanation of the countermeasures (including corrective measures) and possible expenditure to be made in the future (including an estimate of losses, fines and compensation resulting from any failure to adopt corrective measures, or if it is not possible to provide such an estimate, an explanation of the reason why it is not possible):

MeiJer's pollutant discharge permit expired on December 26, 2018 (for the time being, no application for pollutant discharge permit is accepted, as the Government plans to revise the version of pollutant discharge permit). Prolong's pollutant discharge permit, subject to the annual review on May 9, 2019, satisfies the relevant requirements.

By company	Permit	Expiry date
Dongguan Prolong	Pollutant discharge permit of Guandong Province (Permit No.: 4419512012000025)	May 9, 2019
Dongguan MeiJer	Pollutant discharge permit of Guandong Province (Permit No.: 4419002012000279)	December 26, 2018

(V) Labor relations

1. List any employee benefit plans, continuing education, training, retirement systems and the status of their implementation and the status of labor-management agreements and measures for preserving employees' rights and interests:

- (1) Employee benefit plans

The Company and its subsidiaries are used to caring employees' benefits, and establish various management regulations and requirements, such as salary, promotion, rewards and punishments, leave and social insurance, which comply with the local laws and regulations. Employees shall take the health check-up periodically during their employment. The Company provides meal allowance or clean and sanitary meals. The subsidiaries also provide the dormitory for employees or accommodation allowance, and various subsidies for marriage, funeral, festival, birthday celebration and trips to take care of the employees physically and mentally.

- (2) Continuing education and training

The Company and its subsidiaries are used to valuing employees' training, including the subsidies for orientation training, on-the-job training and external training (fully compensated). They practice the educational training system and strengthen the employees' professional knowledge or skill training, subject to the employees' functional development and career planning to improve the employees' quality and skills.

- (3) Retirement systems and the status of their implementation

In order to take care for the retired employees' life, the Company and its subsidiaries have already contributed pension or retirement funds to the designated account pursuant to the laws and regulations applicable in the countries where they are operating on a monthly basis.

- (4) Status of labor-management agreements and measures for preserving employees' rights and interests

The Company and its subsidiaries are used to valuing the employees' opinion, actively promote the democratic management and public disclosure of facility affairs, and convene employee representatives' meetings as scheduled. The employees' opinions may be communicated and negotiated via relevant channels to maintain the fair labor-management relationship. So far, no major labor-management disputes have taken place.

2. List any losses sustained as a result of labor disputes in the most recent two years and until the date of publication of the annual report and disclose an estimate of losses incurred to date or likely to be incurred in the future and countermeasures, or if it is not possible to provide such an estimate, an explanation of the reason why it is not possible:

Dongguan Prolong and Dongguan MeiJer have paid relevant expenses of RMB 8,499 and RMB 205,066 respectively to employees due to labor disputes. The

relevant labor disputes have been closed and have no significant adverse impact on the Company.

## (VI) Important contracts

Nature of contract	Contracting party	Concerned party	Duration of contract	Main contents	Nature of contract
Financial contract	Opulent International Group Limited	CitiBank Taiwan	June 13, 2013 ~until now	General agreement for banking transactions	Financial contract
Financial contract	Opulent International Group Limited	CitiBank Taiwan	April 28, 2016 ~until now	Letter of guarantee	Financial contract
Financial contract	M.J.International Co.,Ltd	CitiBank Taiwan	December 21, 2017 ~until now	Letter of continuing guarantee (To the branch of Opulent International Group Limited)	Financial contract
Financial contract	M.J.International Co.,Ltd	CitiBank Taiwan	December 21, 2017 ~until now	Letter of continuing guarantee (To Opulent International Group Limited)	Financial contract
Financial contract	Opulent International Group Limited	CitiBank Taiwan	December 25, 2018 ~until now	Facility letter	Financial contract
Financial contract	Branch of Opulent International Group Limited	CitiBank Taiwan	December 25, 2018 ~until now	Facility letter	Financial contract
Financial contract	Opulent International Group Limited	CitiBank Taiwan	December 25, 2018 ~until now	Notice for non-committed foreign exchange & derivatives trading limit	Financial contract
Financial contract	Opulent International Group Limited	CTBC Bank (Hong Kong)	July 31, 2018 ~until now	Financing & credit extension	Financial contract
Financial contract	Branch of Opulent International Group Limited	CTBC Bank (Taipei)	July 20, 2018 ~until now	General Agreement for Omnibus Credit Lines	Financial contract
Financial contract	Opulent International Group Limited	Standard Chartered Bank, Taipei Branch	January 3, 2019 ~until now	Application for Utilization of Credit Line (UNCOMMITTED)	Financial contract
Sale contract	MeiJer Taiwan	Company K	February 20, 2015~ Terminated upon both parties' agreement	OEM for plastic flooring under the brand owned by customer	Non-disclosure clauses
Sale contract	MeiJer Taiwan	Company E	2011~ Terminated upon both parties'	OEM for plastic flooring under the brand owned by customer	Non-disclosure clauses



Nature of contract	Contracting party	Concerned party	Duration of contract	Main contents	Nature of contract
			agreement		
Financial contract	Opulent International Group Limited	Standard Chartered Bank, Taipei Branch	August 22, 2017 ~until now	TREASURY FACILITIES	Financial contract
Financial contract	Opulent International Group Limited	Taipei Fubon Commercial Bank, Hong Kong Branch	November 20, 2018 ~until now	General Agreement for Credit Lines	Financial contract
Financial contract	Branch of Opulent International Group Limited	Taipei Fubon Commercial Bank	November 20, 2018 ~until now	General Agreement for Credit Lines	Financial contract
Patent agreement	Dongguan Prolong /Dongguan MeiJer	Valinge Innovation AB	March 22, 2013~ January 31, 2057	Agreement for License of Lock-Type Tiles	Non-disclosure obligation
Sale contract	Mei Jer Taiwan	Sing Cheng Lin Co., Ltd.	January 1, 2019~ December 31, 2019	OEM & Supply Agreement	None
Sale contract	Mei Jer Taiwan	Fu Ming Corporate	January 1, 2019~ December 31, 2019	OEM & Supply Agreement	None
Patent agreement	Dongguan Prolong /Dongguan MeiJer	Valinge Innovation AB	March 22, 2013~ May 1, 2025~	Agreement for License of Lock-Type Tiles	Non-disclosure obligation
Insurance contract	Branch of Opulent International Group Limited	The Export-Import Bank of the Republic of China	December 31, 2018~ December 30, 2019	Insurance for accounts receivable	None
Insurance contract	Dongguan Prolong /Dongguan MeiJer	PICC Property and Casualty Company Limited, Dongguan Branch	May 17, 2018~ May 16, 2019~	Insurance for property, plant and equipment & inventory	None
Insurance contract	MeiJer Taiwan	Fubon Insurance Co., Ltd.	October 10, 2018~ October 10, 2019	Insurance for property, plant and equipment & inventory	None
Insurance contract	Shanghai MeiJer	GUOREN PROPERTY	October 17, 2018~	Property, Plant and Equipment	None

Nature of contract	Contracting party	Concerned party	Duration of contract	Main contents	Nature of contract
		AND CASUALTY INSURANCE CO., LTD.	September 12, 2019		
Insurance contract	Beijing Mei Jer	China Pacific Insurance Co., Ltd., Shanghai Branch	December 27, 2018~ December 26, 2019	Property, Plant and Equipment	None
Insurance contract	Chongqing MeiJer	China Pacific Insurance Co., Ltd., Shanghai Branch	December 27, 2018~ December 26, 2019	Property, Plant and Equipment	None
Insurance contract	Wuhan Mei Jer	China Pacific Insurance Co., Ltd., Shanghai Branch	December 27, 2018~ December 26, 2019	Property, Plant and Equipment	None

## Six. Financial Position

### I. Condensed financial information for the most recent five years

#### (I) Condensed balance sheet and income statement

##### 1. Consolidated balance sheet

Unit: NT\$ thousand

Item	Year	Condensed financial information for the most recent five years					Financial information ended on March 31, 2019 (Note 2)
		Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	
Current assets		2,087,173	1,890,736	2,882,757	2,783,394	2,604,307	2,664,462
Property, Plant and Equipment		732,231	787,581	759,639	736,178	989,331	1,037,526
Intangible Assets		5,231	3,520	2,063	4,435	2,416	2,393
Other assets		348,787	162,281	104,779	397,550	172,807	170,422
Total assets		3,173,422	2,844,118	3,749,238	3,921,557	3,768,861	3,874,803
Current liabilities	Before distribution	1,169,830	847,515	938,623	1,235,071	1,212,664	1,212,664
	After distribution	1,519,032	1,211,573	1,401,036	1,631,425	(Note 1)	(Note 1)
Non-current liabilities		260,834	188,123	187,309	116,142	54,506	59,951
Total liabilities	Before distribution	1,430,664	1,035,638	1,125,932	1,351,213	1,272,615	1,272,615
	After distribution	1,779,866	1,399,696	1,588,345	1,747,567	(Note 1)	(Note 1)
Equity attributable to owners of the parent		1,742,758	1,808,480	2,623,306	2,570,344	2,437,110	2,602,188
Capital stock		587,190	587,190	660,590	660,590	660,590	660,590
Capital surplus		537,514	537,514	1,205,967	1,205,967	1,205,967	1,205,967
Retained earnings	Before distribution	423,819	511,268	717,011	749,315	650,599	752,354
	After distribution	74,617	147,210	254,598	352,961	(Note 1)	(Note 1)
Other equity		194,235	172,508	39,738	(45,528)	(80,046)	(16,723)
Treasury stock		-	-	-	-	-	-
Non-controlling interest		-	-	-	-	-	-
Total equity	Before distribution	1,742,758	1,808,480	2,623,306	2,570,344	2,437,110	2,602,188
	After distribution	1,393,556	1,444,422	2,160,893	2,173,990	(Note 1)	(Note 1)

Note 1: The motion for distribution of earnings for the year is still pending resolution by the shareholders' meeting.

Note 2: The consolidated financial statements of Q1 in 2019 audited by the independent external auditor is adopted.

## 2. Condensed income statement

Unit: NT\$ thousand

Item \ Year	Condensed financial information for the most recent five years					Financial information ended on March 31, 2019 (Note)
	Year2014	Year2015	Year2016	Year2017	Year2018	
Operating revenue	4,032,233	3,374,554	3,511,104	3,684,253	2,979,348	844,534
Gross profit	985,838	923,001	1,046,801	931,140	645,476	223,891
Operating profit	571,169	512,059	648,395	543,134	258,179	117,648
Non-operating revenue and expense	(107,966)	49,851	63,407	(26,534)	56,524	12,611
Net profit before tax	463,203	561,910	711,802	516,600	314,703	130,259
Current income from continuing operations	340,870	436,651	569,801	494,717	310,436	103,431
Loss from discontinued operation	-	-	-	-	-	-
Current operating profit	340,870	436,651	569,801	494,717	310,436	103,431
Other current comprehensive income (net after tax)	91,219	(21,727)	(132,770)	(85,266)	(47,316)	62,323
Total current comprehensive income	432,089	414,924	437,031	409,451	263,120	166,754
Operating profit attributable to owners of the parent	340,870	436,651	569,801	494,717	310,436	103,431
Operating profit attributable to non-controlling interest	-	-	-	-	-	-
Total comprehensive income attributable to owners of the parent	432,089	414,924	437,031	409,451	263,120	166,754
Total comprehensive income attributable to non-controlling interest	-	-	-	-	-	-
EPS	5.81	7.44	9.50	7.49	4.70	1.57

Note: The consolidated financial statements of Q1 in 2019 audited by the independent external auditor is adopted.

(II) Matters of material significance which affected the comparability of said condensed financial statements, such as accounting changes, corporate mergers, or suspension of work in the operating departments etc., and the impact of these events on the current financial statements: None.

(III) Names and auditor's opinions of the attesting CPA for the most recent five years:

Year	Name of Firm	Name of CPA	Opinion
2014	Deloitte Taiwan	Yu Cheng-Chuan and Chang Keng-Hsi, CPAs	Unqualified opinions

2015	Deloitte Taiwan	Yu Cheng-Chuan and Chang Keng-Hsi, CPAs	Unqualified opinions
2016	Deloitte Taiwan	Yu Cheng-Chuan and Chang Keng-Hsi, CPAs	Unqualified opinions
2017	Deloitte Taiwan	Yu Cheng-Chuan and Chang Keng-Hsi, CPAs	Unqualified opinions
2018	Deloitte Taiwan	Yu Cheng-Chuan and Chang Keng-Hsi, CPAs	Unqualified opinions

## II. Financial analysis

Unit: %

Analysis items (Note 2)		Financial analysis for the most recent five years					Ended on March 31, 2019 (Note 1)
		Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	
Financial structure	Ratio of liabilities to assets	45.08	36.41	30.03	34.46	35.34	32.84
	Ratio of long-term capital to property, plant and equipment	247.91	229.62	345.34	349.15	246.34	250.81
Solvency	Current ratio	178.42	223.09	307.13	225.36	203.90	219.72
	Quick ratio	153.59	190.82	267.13	199.11	168.96	181.96
	Interest coverage ratio	52.26	180.07	685.43	210.32	62.30	118.24
Operating ability	Receivable turnover (counts)	4.05	3.08	3.52	3.65	2.95	3.33
	Average days for cash receipts	90	118	104	100	124	110
	Inventory turnover (counts)	11.81	10.55	9.95	10.01	7.36	7.06
	Payables turnover (counts)	9.00	7.30	5.65	6.38	5.89	5.79
	Average days for sale of goods	31	35	37	37	50	52
	property, plant and equipment turnover (counts)	5.97	4.44	4.62	4.93	3.01	3.26
	Total assets turnover (counts)	1.25	1.12	1.07	0.96	0.77	0.88
Profitability	Return on assets (%)	10.79	14.60	17.31	12.95	8.18	10.92
	Return on equity (%)	19.98	24.59	25.71	19.05	12.40	16.42
	Ratio of income before tax to paid-in capital (%) (Note 6)	78.88	95.69	114.09	78.20	47.64	78.87
	Net profit ratio (%)	8.45	12.94	16.23	13.43	10.42	12.25
	EPS (NT\$)	5.81	7.44	9.50	7.49	4.70	1.57
Cash flow	Cash flow ratio (%)	87.51	72.02	76.50	6.36	38.02	(9.21)
	Cash flow adequacy ratio (%)	136.03	138.11	136.80	128.51	121.22	90.72
	Cash reinvestment ratio (%)	26.43	10.30	10.46	(11.60)	2.81	(13.21)
Leverage	Operating leverage	1.16	1.20	1.14	1.14	1.42	1.26
	Financial leverage	1.02	1.01	1.00	1.00	1.02	1.01

Please explain the reasons for changes in each financial ratio during the most recent two years. (Analysis is not required if the magnitude of increase or decrease is less than 20%.)

1. Ratio of long-term capital to property, plant and equipment: The decrease in ratio of long-term capital to property, plant and equipment from 2017 was primarily a result of the translation of pre-payment for property into buildings and increase in property, plant and equipment in 2018.
2. Interest coverage ratio: The decrease in interest ratio in 2017 was primarily a result of the increase in interest expenses and decrease in net income in 2018.
3. Average days for cash receipts, inventory turnover, average days for sale of goods, and property, plant and equipment turnover: The decrease in receivables turnover, inventory turnover and property, plant and equipment turnover in 2017 was primarily a result of the decrease in operating revenue and cost of goods sold in 2018, and the average days for cash receipts and average days for sale of goods increased from 2017 accordingly.
4. Return on assets and return on equity: The decrease in return on assets and return on equity from 2017 was primarily a result of the decrease in income after tax in 2018 from 2017.
5. Ratio of income before tax to paid-in capital: The decrease in ratio of income before tax to paid-in capital from 2017 was primarily a result of the decrease in income before tax in 2018.
6. Net profit ratio and EPS: The decrease in net profit ratio from 2017 was primarily a result of the decrease in operating revenue and decrease in gross profit margin in 2018. The decrease in income after tax resulted in the decrease in EPS from 2017.
7. Cash flow ratio and cash reinvestment ratio: The increase in cash flow ratio and cash reinvestment ratio from 2017 was primarily a result of the increase in net cash inflow from operating activities in 2018.
8. Operating leverage: The increase in operating leverage from 2017 was primarily a result of the increase in property, plant and equipment in 2018.

Note 1: The consolidated financial statements of Q1 in 2019 audited by the independent external auditor is adopted.

Note 2: The equation applied by the financial analysis is stated as following:

1. Financial structure
  - (1) Ratio of liabilities to assets = Total liabilities / total assets.
  - (2) Ratio of property, plant and equipment to long-term capital = (Total equity + non-current liabilities) / property, plant and equipment, net.
2. Solvency
  - (1) Current ratio = Current assets / current liabilities.
  - (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
  - (3) Interest coverage ratio = Income before income tax and interest expenses / current interest expenses.
3. Operating ability
  - (1) Receivables (including accounts receivable and notes receivable resulting from operation) turnover = net sales / balance of average receivables (including accounts receivable and notes receivable resulting from operation)
  - (2) Average days for cash receipts = 365 / receivables turnover.
  - (3) Inventory turnover = Cost of goods sold / average inventory.
  - (4) Payables (including accounts payable and notes payable resulting from operation) turnover = Cost of goods sold / balance of average payables (including accounts payables and notes payable resulting from operation)
  - (5) Average days for sale of goods = 365 / inventory turnover.
  - (6) Property, plant and equipment turnover = Net sales / average property, plant and equipment, net.
  - (7) Total asset turnover = Net sales / average total assets.
4. Profitability
  - (1) Return on assets = [Income after tax + interest expenses × (1 - tax rate)] / average total assets.
  - (2) Return on equity = Income after tax / average total equity.
  - (3) Net profit ratio = Income after tax / net sales.
  - (4) EPS = (Income attributable to owners of the parent - preferred stock dividend) / weighted average number of outstanding shares. (Note 3)
5. Cash flow
  - (1) Cash flow ratio = Net cash flow from operating activities / current liabilities.
  - (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / for the most recent five years (capital expenditure + increase in inventory + cash dividend).
  - (3) Cash reinvestment ratio = (Net cash from operating activities - cash dividend) / (gross property, plant and equipment + long-term investment + other non-current assets + working capital). (Note 4)

6. Leverage:

(1) Operating leverage = (Operating revenue, net-variable operating costs and expenses) / operating profit) (Note 5).

(2) Financial leverage = Operating profit / (operating profit - interest expenses).

Note 3: When calculating the earnings per share referred to in the preceding paragraph, please note that:

1. The weighted average number of common shares shall apply, instead of the number of outstanding shares at the end of the year.
2. In case of raising capital through issuing new shares or transactions of treasury stocks, calculate also the weighted average quantity of outstanding shares in the period of circulation.
3. In the case of recapitalization from earnings or recapitalization from capital surplus, the calculation of earnings per share for the previous year and for a half of year shall make adjustment retroactively subject to the proportion of capital increase, irrelevant with the issuance period for the capital increase.
4. If the preferred stock refers to non-convertible cumulative preferred stock, the stock dividend for the current year (whether allocated or not) shall be deducted from the net income after tax or add the net loss after tax. If the accumulated preferred shares are not accumulative in nature, dividend for preferred shares shall be deducted from the income after tax, if any. In case of loss, no adjustment shall be made.

Note 4: Cash flow analyses shall take the following factors into account:

1. Net cash flow from operating activities refers to net cash inflow from operating activities as stated in the Statement of Cash Flow.
2. Capital expenditure refers to the amount of annual cash outflow spent on capital investments.
3. The increase in inventory is included only when the balance at the ending is more than that at beginning. If the inventory decreases at the end of the year, it shall be calculated as "zero".
4. Cash Dividends include the dividends in cash paid to holders of common shares and preferred shares.
5. Gross property, plant and equipment refers to the amount before deducting accumulated depreciation.

Note 5: The Company, as an issuer, is required to classify operating costs and expenses between fixed and variable portions; any estimate or subjective judgment used in the classification needs to be reasonable and consistent.

Note 6: In the case of shares issued by the Company with no par value or a par value other than NT\$10 per share, said ratio of the paid-in capital shall be replaced by the ratio of the equity attributable to owners of the parent referred to in the balance sheet.



III. Audit Committee's Audit Report

M. J. International Co., Ltd.

Review Report from the Audit Committee

This report is to certify that the Company's 2018 business report, financial statement and the motion for allocation of earnings were prepared and submitted by the Company's Board of Directors, and the financial statement contained therein were already audited by Deloitte Taiwan, which also issued an audit report containing unqualified opinions. The Audit Committee, after completing the review on said reports and statements prepared and submitted by the Board of Directors, believes that they are free of material misstatements and thus has submit this report according to Article 14-4 of the Securities and Exchange Act and 219 of the Company Act.

Please review accordingly.

To:

2019 Annual General Shareholders' Meeting of M. J. International Co., Ltd.

M. J. International Co., Ltd.

Chairman of Audit Committee:

Lin Chiang-Liang

March 8, 2019

IV. Consolidated financial statements and auditing report for the most recent year:

**M. J. International Co., Ltd. And  
Subsidiaries**

Consolidated Financial Statements for the  
Years Ended December 31, 2018 and 2017 and  
Independent Auditors' Report

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

The Board of Directors and Shareholders  
M. J. International Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated financial statements of M. J. International Co., Ltd. and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements

as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the audit of the Group's consolidated financial statements for the year ended December 31, 2018 are stated below:

The operating revenue was \$2,979,348 thousand for the year of 2018; while the revenue from the single customer accounted for approximately 33% of the total consolidated operating revenue. Therefore, we deemed the occurrence of sales to that specific customer particularly as a key audit matter. Please refer to Note 4(12) to the consolidated financial statements for the revenue recognition accounting policy.

In response, we performed the following audit procedures:

1. Through understanding the design and implementation of the internal control over sales and collection cycle, we accordingly designed audit procedures on the internal control over sales and collection cycle, in order to confirm and evaluate the effectiveness of the Group's internal control over sales and collection cycle.
2. We selected appropriate samples from the sales transactions with the above-mentioned customer; reviewed shipment orders, invoices, bill of lading, and other customs documents; and verified remittance counterparties and cash receipts process, in order to confirm the occurrence of sales. We also reviewed sales returns and allowances occurred with the above-mentioned customer after the date of December 31, 2018.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Cheng-Chuan Yu and Keng-Hsi Chang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China  
March 8, 2019

**M. J. International Co., Ltd. and subsidiaries**

**CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018 AND 2017**

(In Thousands of New Taiwan Dollars)

Assets	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
<b>Current assets</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 666,079	18	\$ 539,870	14
Financial assets at fair value through profit or loss (Notes 4 and 7)	58,469	2	74,828	2
Financial assets at fair value through other comprehensive income - current (Notes 4, 5, 8, 9 and 31)	429,183	11	-	-
Available-for-sale financial assets - current (Notes 4, 10 and 31)	-	-	692,603	18
Notes receivable (Notes 4, 5, 11 and 22)	9,003	-	7,117	-
Notes receivable - related parties (Notes 4, 5, 22 and 30)	425	-	17,434	-
Trade receivables (Notes 4, 5, 11 and 22)	922,870	25	998,177	25
Trade receivables - related parties (Notes 4, 5, 22 and 30)	37,136	1	26,055	1
Other receivables (Notes 4 and 11)	34,931	1	27,882	1
Inventories (Notes 4 and 12)	356,631	9	277,709	7
Other financial assets - current (Notes 4 and 17)	-	-	75,149	2
Other current assets - others (Notes 16 and 17)	89,580	2	46,570	1
Total current assets	<u>2,604,307</u>	<u>69</u>	<u>2,783,394</u>	<u>71</u>
<b>Non-current assets</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 5, 8 and 9)	26,612	1	-	-
Property, plant and equipment (Notes 4 and 14)	989,331	26	736,178	19
Other intangible assets (Notes 4 and 15)	2,416	-	4,435	-
Deferred income assets (Notes 4 and 24)	4,036	-	3,632	-
Long-term prepayments for leases (Note 16)	54,761	2	57,143	1
Other non-current assets (Notes 4, 17 and 31)	87,398	2	336,775	9
Total non-current assets	<u>1,164,554</u>	<u>31</u>	<u>1,138,163</u>	<u>29</u>
<b>Total assets</b>	<u>\$ 3,768,861</u>	<u>100</u>	<u>\$ 3,921,557</u>	<u>100</u>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Short-term borrowings (Notes 18 and 31)	\$ 474,000	13	\$ 608,000	15
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	4	-	-	-
Contract liabilities - current (Notes 4 and 22)	31,588	1	-	-
Trade payables	465,965	12	327,048	8
Other payables (Notes 4, 19 and 26)	268,985	7	230,206	6
Current tax liabilities (Notes 4 and 24)	18,363	1	30,205	1
Provisions - current (Notes 4 and 20)	16,219	-	18,360	-
Other current liabilities (Note 19)	2,121	-	21,252	1
Total current liabilities	<u>1,277,245</u>	<u>34</u>	<u>1,235,071</u>	<u>31</u>
<b>Non-current liabilities</b>				
Deferred tax liabilities (Notes 4 and 24)	54,506	1	116,142	3
Total non-current liabilities	<u>54,506</u>	<u>1</u>	<u>116,142</u>	<u>3</u>
<b>Total liabilities</b>	<u>1,331,751</u>	<u>35</u>	<u>1,351,213</u>	<u>34</u>
<b>Equity attributable to owners of the company (Note 21)</b>				
Share capital				
Ordinary shares	660,590	18	660,590	17
Capital surplus	1,205,967	32	1,205,967	31
Retained earnings				
Legal reserve	106,452	3	56,980	1
Special reserve	52,462	1	-	-
Unappropriated earnings	491,685	13	692,335	18
Total retained earnings	650,599	17	749,315	19
Other equity	(80,046)	(2)	(45,528)	(1)
Total equity attributable to owners of the company	<u>2,437,110</u>	<u>65</u>	<u>2,570,344</u>	<u>66</u>
<b>Total equity</b>	<u>2,437,110</u>	<u>65</u>	<u>2,570,344</u>	<u>66</u>
<b>Total liabilities and equity</b>	<u>\$ 3,768,861</u>	<u>100</u>	<u>\$ 3,921,557</u>	<u>100</u>

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

Chairman: Chen Pen-Yuan

Manager: Chiang Tzu-Hua

Chief Accountant: Liu Chao-Lu

**M. J. International Co., Ltd. and subsidiaries**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 22 and 30)				
Sales	\$ 2,979,348	100	\$ 3,684,253	100
OPERATING COSTS ( Notes 12 and 23)				
Cost of goods sold	( 2,333,872 )	( 78 )	( 2,753,113 )	( 75 )
GROSS PROFIT	<u>645,476</u>	<u>22</u>	<u>931,140</u>	<u>25</u>
OPERATING EXPENSES (Note 23)				
Selling and marketing expenses	( 223,915 )	( 8 )	( 216,034 )	( 6 )
General and administrative expenses	( 154,740 )	( 5 )	( 158,420 )	( 4 )
Research and development expenses	( 8,642 )	-	( 13,552 )	-
Total operating expenses	( 387,297 )	( 13 )	( 388,006 )	( 10 )
Operating profit	<u>258,179</u>	<u>9</u>	<u>543,134</u>	<u>15</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 4 and 23)	45,320	1	29,934	1
Other gains and losses (Notes 4 and 23)	16,338	1	( 54,000 )	( 2 )
Financial costs (Notes 4 and 23)	( 5,134 )	-	( 2,468 )	-
Total non-operating income and expenses	<u>56,524</u>	<u>2</u>	<u>( 26,534 )</u>	<u>( 1 )</u>
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	314,703	11	516,600	14
INCOME TAX EXPENSE (Notes 4 and 24)	( 4,267 )	-	( 21,883 )	( 1 )
NET PROFIT FOR THE YEAR	<u>310,436</u>	<u>11</u>	<u>494,717</u>	<u>13</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4 and 21)				
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	( 208 )	-	( 92,200 )	( 2 )
Unrealized gain/(loss) on available-for-sale financial assets	-	-	6,934	-
Unrealized loss on investments in debt instruments at fair value through other comprehensive income	( 47,108 )	( 2 )	-	-
Other comprehensive income for the year, net of income tax	( 47,316 )	( 2 )	( 85,266 )	( 2 )
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>\$ 263,120</u>	<u>9</u>	<u>\$ 409,451</u>	<u>11</u>
EARNINGS PER SHARE (Note 25)				
From continuing operations				
Basic	<u>\$ 4.70</u>		<u>\$ 7.49</u>	
Diluted	<u>\$ 4.67</u>		<u>\$ 7.46</u>	
Other comprehensive income/(loss) for the year, net of income tax				

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

Chairman: Chen Pen-Yuan

Manager: Chiang Tzu-Hua

Chief Accountant: Liu Chao-Lu



**M. J. International Co., Ltd. and subsidiaries**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(In Thousands of New Taiwan Dollars)

	Equity attributable to owners of the company								Total equity
	Retained earnings					Other equity			
	Share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences translating the financial statements of foreign operations	Unrealized gains (loss) on available-for-sale financial assets	Unrealized gains (loss) on financial assets at fair value through other comprehensive income	
BALANCE AT JANUARY 31, 2017	\$ 660,590	\$ 1,205,967	\$ -	\$ -	\$ 717,011	\$ 39,738	\$ -	\$ -	\$ 2,623,306
Appropriation of 2016 earnings(Note 21)									
Legal reserve	-	-	56,980	-	( 56,980)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	( 462,413)	-	-	-	( 462,413)
Net profit for the year ended December 31, 2017	-	-	-	-	494,717	-	-	-	494,717
Other comprehensive income/(loss) for the year ended December 31, 2017, net of income tax (Note 21)	-	-	-	-	-	( 92,200)	6,934	-	( 85,266)
Total comprehensive income/(loss) for the year ended December 31, 2017	-	-	-	-	494,717	( 92,200)	6,934	-	409,451
BALANCE AT DECEMBER 31, 2017	660,590	1,205,967	56,980	-	692,335	( 52,462)	6,934	-	2,570,344
Effect of retrospective application and retrospective restatement (Notes 3 and 21)	-	-	-	-	( 12,798)	-	( 6,934)	19,732	-
BALANCE AT JANUARY 1,2018 AS RESTATED	660,590	1,205,967	56,980	-	679,537	( 52,462)	-	19,732	2,570,344
Appropriation of 2017 earnings (Note 21)									
Legal reserve	-	-	49,472	-	( 49,472)	-	-	-	-
Special reserve	-	-	-	52,462	( 52,462)	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	( 396,354)	-	-	-	( 396,354)
Net profit for the year ended December 31, 2018	-	-	-	-	310,436	-	-	-	310,436
Other comprehensive (loss) for the year ended December 31, 2018, net of income tax (Note 21)	-	-	-	-	-	( 208)	-	( 47,108)	( 47,316)
Total comprehensive (loss) for the year ended December 31, 2018	-	-	-	-	310,436	( 208)	-	( 47,108)	263,120
BALANCE AT DECEMBER 31, 2018	\$ 660,590	\$ 1,205,967	\$ 106,452	\$ 52,462	\$ 491,685	( \$ 52,670)	\$ -	( \$ 27,376)	\$ 2,437,110

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

Chairman: Chen Pen-Yuan

Manager: Chiang Tzu-Hua

Chief Accountant: Liu Chao-Lu

**M. J. International Co., Ltd. and subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**(In Thousands of New Taiwan Dollars)**

	2018	2017
Net cash flow from operating activities		
Income before income tax	\$ 314,703	\$ 516,600
Adjustments for:		
Impairment loss recognized on trade receivables	-	189
Depreciation expenses	104,929	74,133
Amortization expenses	2,644	1,304
Amortization of prepayments for leases	1,416	1,399
Financial costs	5,134	2,468
Interest income	( 39,956)	( 25,350)
Write-downs of inventories	7,881	4,496
(Gain)loss on disposal of property, plant and equipment	91	( 1,736)
Net (gain) on fair value changes of financial assets designated as at fair value through profit or loss	( 116)	( 661)
Net loss on disposal of available-for-sale financial assets	11,192	-
Net (gain)loss on foreign currency exchange	( 8,131)	38,153
Changes in operating assets and liabilities		
(Increase)decrease in financial assets mandatorily classified as at fair value through profit or loss	646	( 75,856)
Notes receivable	( 1,886)	( 2,310)
Notes receivable - related parties	17,009	( 8,651)
Trade receivables	104,258	( 129,912)
Trade receivables- related parties	( 11,081)	( 10,754)
Other receivables	( 7,967)	6,118
Inventories	( 91,421)	( 16,451)
Other current assets	( 42,296)	53,674
Contract liabilities	9,277	-
Trade payables	142,802	( 185,697)
Other payables	39,351	( 44,537)
Provisions	( 1,636)	( 2,720)
Other current liabilities	996	4,775
Cash generated from operations	557,839	198,674
Interest paid	( 5,134)	( 2,468)
Interest received	10,966	7,101
Income tax paid	( 78,112)	( 124,747)
Net cash generated from operating activities	<u>485,559</u>	<u>78,560</u>

(Continued)

	2018	2017
Cash flows from investing activities		
Acquisition of financial assets at fair value through other comprehensive income	( 27,384)	-
Acquisition of available-for-sale financial assets	-	( 701,309)
Acquisition of financial assets at fair value through profit or loss	( 62,625)	-
Proceeds from the disposal of financial assets at fair value through other comprehensive income	222,320	-
Proceeds from the disposal of financial assets at fair value through profit or loss	77,351	-
Interest received	29,433	9,947
Acquisition of property, plant and equipment	( 80,660)	( 76,732)
Acquisition of intangible assets	( 549)	( 3,757)
Proceeds from disposition of property, plant and equipment	262	2,632
Increase in refundable deposit	( 1,000)	-
Decrease in other financial assets	76,542	24,780
Increase in other non-current assets	( 47,084)	( 297,350)
Net cash used in investing activities	<u>186,606</u>	<u>( 1,041,789)</u>
Cash flows from financing activities		
Proceeds from short-term borrowings	-	621,729
Repayments of short-term borrowings	( 147,786)	-
Cash dividends	( 396,354)	( 462,413)
Net cash used in financing activities	<u>( 544,140)</u>	<u>159,316</u>
Effects of exchange rate changes on the balance of cash held in foreign currencies	( 1,816)	( 62,444)
Net increase (decrease) in cash and cash equivalents	126,209	( 866,357)
Cash and cash equivalents at the beginning of the year	<u>539,870</u>	<u>1,406,227</u>
Cash and cash equivalents at the end of the year	<u>\$ 666,079</u>	<u>\$ 539,870</u>

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

Chairman: Chen Pen-Yuan

Manager: Chiang Tzu-Hua

Chief Accountant: Liu Chao-Lu

**M. J. International Co., Ltd. and subsidiaries**  
**Notes To Consolidated Financial Statements**  
**For the Years Ended December 31, 2018 and 2017**

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

**1. GENERAL INFORMATION**

M. J. International Co., Ltd. (hereinafter referred to as the “Company”) was incorporated in the Cayman Islands on October 8, 2010. The Company is the holding company that has reorganized the organizational structure for the listing of stocks on the Taiwan Stock Exchange. After the reorganization, the company became the holding company of all the merged entities. The Company’s shares have been listed on the Taiwan Stock Exchange since November 1 2016. The Company and its subsidiaries (hereinafter referred to as the “Group”) are primarily engaged in the business of developing, manufacturing and selling LVT floors.

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

**2. APPROVAL OF FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the board of directors on March 8, 2019.

**3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS**

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have a significant effect on the Company’s accounting policies:

1. IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Please refer to Note 4 for information relating to the relevant accounting policies.

## Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Note
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 539,870	\$ 539,870	(1)
Derivatives	Fair value through profit or loss	Mandatorily at fair value through profit or loss (FVTPL)	646	646	(2)
Equity securities	Fair value through profit or loss	Mandatorily at FVTPL	74,182	74,182	(2)
Debt securities	Available-for-sale	Fair value through other comprehensive income (FVTOCI)	692,603	692,603	(3)
Notes and accounts receivable (including related parties), other receivables and refundable deposits	Loans and receivables	Amortized cost	1,141,189	1,141,189	(1)
Pledged financial assets	Loans and receivables	Amortized cost	2,000	2,000	(1)

	Amount as of January 1, 2018 (IAS 39)	Re-classification	Re-measurement	Amount as of January 1, 2018 (IFRS 9)	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Note
<u>Amortized cost</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Add: Reclassification from loans and receivables (IAS 39))	-	1,683,059	-	1,683,059	-	-	(1)
Total	\$ -	\$ 1,683,059	\$ -	\$ 1,683,059	\$ -	\$ -	
<u>FVTOCI-- Debt instruments</u>							
Add: Add: Reclassification from available-for-sale (IAS 39)	-	692,603	-	692,603	( 12,798)	12,798	(3)
Total	\$ -	\$ 692,603	\$ -	\$ 692,603	(\$ 12,798)	\$ 12,798	

(1) Cash and cash equivalents, restricted bank deposits, notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 are classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

(2) Derivatives and fund beneficiary certificate that were classified as financial assets held for trading under IAS 39 shall be classified as the financial assets mandatorily at fair value through profit or loss under IFRS 9.

(3) Bond investment that was classified as available-for-sale financial assets under IAS 39 shall be classified as the financial assets at fair value through comprehensive income with assessment of expected credit loss under IFRS 9, because its business model achieved the purpose through collection of the cash flow by contract and sale of financial assets based on the facts and conditions existing on January 1, 2018. The Company reclassified the other equity-unrealized gain or loss on available-for-sale financial assets, NT\$6,934 thousand, into the other equity-unrealized gain or loss on financial assets at fair value through other comprehensive income. The other equity-unrealized gain or loss on financial assets at fair value through other comprehensive income would increase by NT\$12,798 thousand as a result of the retroactive application of expected credit loss resulting in the decrease in retained earnings on January 1, 2018 by NT\$12,798 thousand.

2. IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18, “Revenue,” IAS 11, “Construction Contracts,” and a number of revenue-related interpretations. Please refer to Note 4 for information relating to the relevant accounting policies.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Before application of IFRS 15, accounts receivable was recognized or customer advances received was reduced when revenue was recognized for the contract under IAS 18.

The Group elected to retrospectively apply IFRS 15 to the contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018. The effect of the change is detailed below.

Impact on liabilities for the current period

	Carrying Amount as of January 1, 2018 before application	Adjustments Arising from Initial Application	Carrying Amount as of January 1, 2018 after application
Provisions - current	\$ 1,030	(\$ 1,030)	\$ -
Other payables	230,206	1,030	231,236
Contract liabilities-current	-	20,465	20,465
Other current liabilities	21,252	( 20,465)	787
Total effect on liabilities		<u>\$ -</u>	

The following table shows the amount affected in the current period by the application of IFRS 15 as compared to IAS 18:

Impact on Liabilities

	<u>December 31, 2018</u>
Decrease in contract liabilities-current	(\$ 31,588)
Increase in advance receipts	31,588
Decrease in other payables	( 1,284)
Increase in provisions - current	<u>1,284</u>
	<u>\$ -</u>

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers for application starting from 2019 and the IFRSs issued by IASB and endorsed by FSC with effective date starting 2019

New, Amended or Revised Standards and  
Interpretations  
(the “New IFRSs”)

Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019(Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019(Note3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1. IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company will apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or

changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

#### The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal and interest portion of lease liabilities will be classified within financing activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in China are recognized as prepayments for leases. Cash flows for operating leases are classified with in operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Except for the leases of investment properties mentioned below, lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

- a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Group will use hindsight, such as in determining lease terms, to measure lease



liabilities.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases - current	\$ 1,389	(\$ 1,389)	\$ -
Prepayments for leases - non-current	54,761	( 54,761)	-
Right-of-use assets	-	<u>63,569</u>	63,569
Total effect on assets		<u>\$ 7,419</u>	
Lease liabilities - current	\$ -	\$ 3,396	\$ 3,396
Lease liabilities-non-current	-	<u>5,699</u>	5,699
Total effect on liabilities		<u>\$ 9,095</u>	
Retained earnings	\$ 650,599	(\$ 1,676)	\$ 648,923
Total effect on equity		<u>(\$ 1,676)</u>	

2. IFRIC23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty Over Income Tax Treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits and tax rates consistently with the tax treatment used or planned to be use in its income tax filing. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax uncertainly. The Group has to reassess its judgments and estimates if fact and circumstances change. Prior applying to IFRIC 23, the Group adjusted tax expense and tax liabilities based on the actual results upon obtaining the documents from the tax authorities.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group has assessed that the application of other standards and interpretations will not have a significant influence on the Group’s financial position and financial performance.

c. The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB (Note 1)</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB.
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group has assessed that the application of other standards and interpretations will not have a significant influence on the Group’s financial position and financial performance

#### 4. Summary of Significant Accounting Policies

##### **Statement of compliance**

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

##### **Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

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

### **Classification of current and non-current assets and liabilities**

Current assets include:

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

Current liabilities include:

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

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

### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

See Note 13, Table 7 and Table 8 following the Notes to Consolidated Financial Statements for detailed information on subsidiaries (including the percentages of ownership and main businesses).

### **Foreign currencies**

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries, associates and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows. Income and expense items are translated at the average exchange rates for the reporting period. The resulting currency translation differences are recognized in other comprehensive income attributed to the owners of the Company as appropriate.

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

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

### **Inventory**

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

### **Property, Plant and Equipment**

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

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

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

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

### **Intangible Assets**

#### **1. Intangible assets acquired separately**

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

#### **2. Derecognition**

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

### **Impairment of tangible and intangible assets other than goodwill**

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

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

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

### **Financial Instruments**

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

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

#### 1) Financial assets

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

##### a) Measurement categories

#### 2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in debt instruments and equity instruments at FVTOCI.

##### A. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 29.

##### B. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- a. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables and other receivables at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- a. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- b. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

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

#### C. Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- a. The debt instrument is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and
- b. The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

## 2017

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets and loans and receivables.

### A. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note29.

### B. Available-for-sale financial assets

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

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

### C. Loans and receivables

Loans and receivables (including trade receivables, other receivables, cash and cash equivalents and debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.



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

b) Impairment of financial assets and contract assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) and investments in debt instruments that are measured at FVTOCI.

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

2017

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

Financial assets at amortized cost, such as trade receivables are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 150 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

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

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

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

In respect of available-for-sale debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

### **Financial liabilities**

a) Subsequent measurement

Except for financial liabilities at FVTPL, all financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as at FVTPL when such financial liabilities are held for trading. Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividends paid on the financial liabilities.

Fair value is determined in the manner described in Note 29

b) Derecognition of financial liabilities.

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

### **Derivative financial instruments**

The Group enters into derivative financial instruments, such as foreign exchange forward contracts, to manage its exposure to foreign currency exchange rate and interest rate risks.

Derivatives are initially recognized at fair value at the date in which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of

each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

### **Provisions**

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

### Warranties

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-up on specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Group's obligations.

### Sales returns and allowances

#### 2017

The sales returns and other allowances are provided based on the amount reasonably estimated according to historical experience and other critical factors.

### **Revenue Recognition**

#### 2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods comes from LVT floors Sales of LVT floors are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently. Advance receipts are stated as contract liabilities before the products are shipped.

Revenue from sale of goods is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience and the consideration of varying contractual terms to recognize provisions, which is classified under other payables.

## 2017

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

### 1) Revenue from the sale of goods

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

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

### 2) Interest income

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

## **Leasing**

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

### The Group as lessee

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

## **Borrowing costs**

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

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

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

## **Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred recognized in profit or loss in the period in which they become receivable.

## **Employee Benefits**

### 1) Short-term employee benefits

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

### 2) Retirement benefits

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

## **Taxation**

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

### 1) Current tax

According to the Income Tax Law in the ROC, an additional tax of unappropriated earnings is recognized for as income tax in the year the shareholders approve to retain earnings. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

## 2) Deferred tax

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

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

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

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

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

## 3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred taxes are also recognized in other comprehensive income. Where current taxes or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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

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

### **Judgment business model by class of financial assets-2018**

The Corporation assesses the business model under which the financial assets are managed, from the point of view that reflects how groups of financial assets are managed together to achieve a particular business objective. The assessment shall take all pieces of critical evidence into consideration, including how the performance of the assets is evaluated, the risks that affect the performance of the assets, and how related managers are compensated, and also exercise judgments. The Company continues to assess whether the business model is appropriate, and monitors the investment of debt instrument at fair value through other comprehensive income derecognized prior to the maturity date thereof to verify the reasons of disposition thereof to assess whether or not the disposition is consistent with the objective of the business model. The Company adjusts the classification of the financial assets acquired in the subsequent period prospectively, if the business model is found changed.

### **Estimated impairment of financial assets – 2018**

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 12. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

### **Estimated impairment of accounts receivables and other receivables - 2017**

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



6. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	\$ 2,988	\$ 1,880
Checking accounts and demand deposits	418,108	313,078
Cash equivalents (Time deposits with original maturities of less than three months)	<u>244,983</u>	<u>224,912</u>
	<u>\$666,079</u>	<u>\$539,870</u>

Interest rates for deposits in the bank on the balance sheet date were as follows:

	December 31, 2018	December 31, 2017
Deposits	0.01%~3.00%	0.01%~3.80%

7. Financial instruments at fair value through profit or loss

	December 31, 2018	December 31, 2017
<u>Financial assets - current</u>		
Held for trading		
Derivatives (not under hedge accounting)		
— Forward foreign exchange contracts (I)	\$ -	\$ 646
Non- derivatives		
— Fund beneficiary certificate	-	74,182
Mandatorily measured at FVTPL		
Derivatives (not under hedge accounting)		
— Forward foreign exchange contracts (I)	2,527	-
Hybrid financial assets		
— Structured deposits (II)	<u>55,942</u>	<u>-</u>
	<u>\$ 58,469</u>	<u>\$ 74,828</u>
<u>Financial liabilities-current</u>		
Held for trading		
Derivatives (not under hedge accounting)		
— Forward foreign exchange contracts (I)	<u>\$ 4</u>	<u>\$ -</u>

- (I) At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	<u>Currency</u>	<u>Maturity date</u>	<u>Contract Amount (In Thousands)</u>
<u>December 31, 2018</u>			
Sell USD/Buy RMB	USD/RMB	2019.1.24~2019.3.25	USD 8,500/RMB 58,988
Sell USD/Buy RMB	USD/RMB	2019.1.3	USD 1,000/RMB 6,870
<u>December 31, 2017</u>			
Sell USD/Buy RMB	USD/ RMB	January 10, 2018	USD 915/RMB 6,000
Sell USD/Buy RMB	USD/RMB	January 24, 2018	USD 3,658/RMB 24,000

The Group entered into foreign exchange forward contracts and foreign exchange option contracts in 2018 and 2017 to manage exposures to exchange rate and interest rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and, therefore, were not accounted for using hedge accounting.

- (II) 1. The Company enters into the structured time deposits contracts effective for 30 days and 127 days with banks. The structured time deposits include one embedded derivative which is not closely related to the host contract. Since the host contract included in the hybrid contracts refers to the assets falling in the scope of IFRS 9, the entire hybrid contracts shall be mandatorily classified at fair value through profit or loss. The Company is not allowed to redeem the financial instruments earlier prior to expiration of the investment cycle.

8. Financial assets at fair value through other comprehensive income - 2018

Investments in debt instruments at FVTOCI

	<u>December 31, 2018</u>
<u>Current</u>	
Overseas investments	
Overseas bond investment	<u>\$429,183</u>
<u>Non-current</u>	
Overseas investments	
Overseas bond investment	<u>\$ 26,612</u>

(I) Investments in debt instruments at FVTOCI were classified as available-for-sale financial assets under IAS39. Refer to Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

(II) For the information about credit risk management and impairment assessment on the investment of debt instrument at fair value through other comprehensive income, refer to Notes 9.

(III) For the information about pledge/mortgage of the investment of debt instrument at fair value through other comprehensive income, refer to Noted 31.

The additions of overseas bonds investments by the Group in 2018 were as follows:

Issuer	Coupon rate	Effective interest rate	Year/Term
Tianfang Jincheng BVI Limited	5.500%	5.400%	1
HSBC Holdings PLC	6.000%	5.680%	Perpetual
Standard Chartered PLC	7.500%	6.910%	Perpetual
Logan Property Holdings Company Limited	6.375%	6.600%	3

9. Credit risk management of debt instrument investment - 2018  
December 31, 2018

	FVTOCI
Gross carrying Amount	\$ 496,790
Allowance for loss	( 12,798)
Fair Value Adjustments	( 27,376)
Effect of exchange rate changes	( <u>821</u> )
	<u>\$ 455,795</u>

According to the investment policy adopted by the Group, the Group primarily invests in debt instruments that are rated as investment grade or higher and categorized as low-risk. The credit rating information is supplied by independent rating agencies. The Company assesses whether there has been a significant increase in credit risk since initial recognition by keeping following up changes in the credit risk over the investment in debt instruments supervised based on the external credit ratings and also reviewing the other information about bond yield curves and important messages about debtors.

The Group assesses the 12-month expected credit loss and lifetime expected credit loss based on the probability of default and loss given default provided by external credit rating agencies, the debtor's current financial position and the forecast about the vision of the industry engaged in by the debtor. The Group's current credit risk rating mechanism and the total carrying amount of the investments in debt instruments that are rated as investment grade are as follows:

Category	Definition	Basis for Recognizing Expected Credit Loss	Expected credit loss ratio	Total carrying Amount as of December 31, 2018
Performing	The debtor has a low credit risk and a strong capacity to meet contractual cash flows.	12 months expected credit loss	0%	\$ 312,578
Doubtful	There has been a significant increase in credit risk since initial	Lifetime expected credit loss (loss-not	1.40%~ 12.72%	184,212

	recognition, or the debtor has a higher credit risk but still has a strong capacity to meet contractual cash flows.	credit impaired)		
In default	There is evidence showing impairment on credit.	Lifetime expected credit loss (loss -credit impaired)	20.46%	-
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery.	Written off directly	100%	<u>-</u>
				<u>\$ 496,790</u>

The information about changes of allowance for loss on the Group's investment of debt instrument at FVTCO as following by the credit risk ratings:

	Category		
	Performing (12 months expected credit loss)	Doubtful (Lifetime expected credit loss and not credit impaired)	In default (Lifetime expected credit loss and credit impaired)
Balance at January 1, 2018 (IAS 39)	\$ -	\$ -	\$ -
Adjustment on initial application of IFRS 9	<u>-</u>	<u>12,798</u>	<u>-</u>
Balance at December 31, 2018 (IFRS 9)	<u>\$ -</u>	<u>\$ 12,798</u>	<u>\$ -</u>

10. Available-for-sale financial assets – 2017

December 31, 2017

Current

Overseas investments

Overseas bond investment

\$ 692,603

As of December 31, 2017 the relevant product details were as follows:

Issuer	Coupon rate	Effective interest rate	Year/Term
Banco Santander S.A.	5.179%	4.774%	10
Citigroup Inc. (Note 1)	4.125% and 4.450%	3.980%, 4.000% and 4.061%	12
Bank Of America Corp. (Note 2)	4.183%	3.830% and 4.010%	11

Credit Agricole S.A. London Branch	4.125%	4.000%	10
SocieteGenerale S.A.	4.000%	4.040%	10
Credit Suisse Group AG (Note 3)	4.282%	4.040% and 4.070%	11
PetroleosMexicanos	4.500%	4.470% and 4.590%	10
Huarong Finance II Co., LTD.	3.625% and 5.500%	3.320% and 4.372%	5 and 10
ESKOM Holdings SOC Limited	5.750% and 6.750%	5.050% and 6.080%	10
Turkiye IS Bankasi A.S.	5.500%	5.110%	5.5
BanqueOusetAfricaine de Developpement	5.000%	4.500%	10
Republic Of South Africa	4.850%	4.800%	10
Barmenco Finance PTY Limited	6.625%	6.940%	5
Western Digital Corporation (Note 4)	7.375%	5.350%	7
Golden Legacy Pte. Ltd.	6.875%	7.375%	7
Indika Energy Capital III Pte-Anleihe	5.875%	5.350%	7
Yestar Healthcare Holdings Company Limited	6.900%	5.420%	5
Golden Wheel Tiandi Holdings Company Limited	8.250%	6.820%	3
Prime Bloom Holdings Limited	7.500%	6.550%	3
Yuzhou Properties Company Limited	6.000%	5.540%	5
RKP Overseas Finance 2016 (A) Limited	7.950%	7.550%	Perpetual
China Evergrande Group	8.750%	7.960%	8
Softbank Group Corp.	6.875%	6.580%	Perpetual
Zhongrong International Resources Co., Ltd.	7.250%	7.600%	3
China Grand Automotive Services	5.625%	5.590%	Perpetual
Jiuding Group Finance	6.500%	6.640%	3
Yango Justice International Limited	7.500%	7.420%	3
Wuhan Dangdai Science and Technology Industries Group	7.250%	7.170%	3
Times Property Holdings Limited	6.600%	6.620%	5.25
Qinghai Province General Aviation Group (Note 5)	6.000%	5.940%	1

Note 1: The Group has redeemed the bonds in part earlier in August and November 2018.

Note 2: The Group has redeemed the bonds earlier in August 2018.

Note 3: The Group has redeemed the bonds earlier in November 2018.

Note 4: The Group has redeemed the bonds earlier in March 2018.

Note 5: The bonds have been recalled upon maturity in December 2018.

Refer to Note 37 for information relating to debt investments pledged as security.

11. Notes receivable, Trade receivables and other receivables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount -		
from operating		
activities	\$ 9,003	\$ 7,117
Less: Allowance for		
impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 9,003</u>	<u>\$ 7,117</u>
 <u>Trade receivables</u>		
At amortized cost		
Gross carrying Amount	\$923,997	\$999,304
Less: Allowance for		
impairment loss	( <u>1,127</u> )	( <u>1,127</u> )
	<u>\$922,870</u>	<u>\$998,177</u>
 <u>Other receivables</u>		
Tax refund receivable	\$ 21,418	\$12,885
Interest receivable	7,859	8,302
Others	<u>5,654</u>	<u>6,695</u>
	<u>\$34,931</u>	<u>\$27,882</u>

(I) Note and trade receivable  
2018

The average number of days for honoring notes receivable granted by the Group are 30~60 days. The credit periods for the sale of goods granted by the Group are 30~150 days. In order to minimize credit risk, the Group's management has delegated dedicated personnel responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. Meanwhile, the Group reviews the recoverable amount of each individual receivable account on the balance sheet date to ensure that adequate allowance is made for possible irrecoverable amounts. Given this, the Group's management believes that the Group's credit risk should have been significantly reduced.

The Group applies the simplified approach under IFRS 9 to recognize the allowance for loss on trade receivables based on the lifetime expected credit losses under IFRS 9. The lifetime expected credit losses are estimated using a provision matrix by reference to the historical experience, current market condition and looking-forward information. As the Group's historical credit loss experience shows no significantly different loss patterns for different customer segments, the provision

matrix for allowance doesn't further distinguish the customer bases, but sets the expected credit loss ratio based on the number of days of the overdue receivables. The Group writes off the relevant receivables when there is evidence showing that the trading counterpart is in severe financial difficulty and it is impossible for the Group to expect the recoverable amount reasonably. Notwithstanding, the Group will continue to collect the accounts, and the accounts collected therefore are stated as income.

The allowance for loss on notes receivable measured by the Group based on the provision matrix is stated as following:

	<u>Not past due</u>
Expected credit loss ratio	0%
Total carrying Amount	\$ 9,003
Allowance for loss (Lifetime expected credit loss)	<u>-</u>
Amortized cost	<u>\$ 9,003</u>

The allowance for loss on trade receivables measured by the Group based on the provision matrix is stated as following:

December 31, 2018

	<u>Not past due</u>	<u>Past due 1~60 days</u>	<u>Past due 61~90 days</u>	<u>Past due for 91~120 days</u>	<u>Past due over 120 days</u>	<u>Total</u>
Expected credit loss ratio	-	1.858%	-	-	-	
Gross carrying Amount	\$ 863,326	\$ 60,671	\$ -	\$ -	\$ -	\$ 923,997
Allowance for loss (Lifetime expected credit loss)	<u>-</u>	<u>( 1,127)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 1,127)</u>
Amortized cost	<u>\$ 863,326</u>	<u>\$ 59,544</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 922,870</u>

The information about changes of the allowance for loss on trade receivables:

	<u>2018</u>
Balance at January 1, 2018 (IAS 39)	\$ 1,127
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at December 31, 2018 (IFRS 9)	<u>\$ 1,127</u>

2017

The Group applies the same credit policy in 2018 and 2017. The Group assesses the reason of overdue receivables individually periodically by the customer type. If any abnormality is assessed and confirmed, the Group will identify the estimated allowance for bad debt ratio as the overdue amount to the relevant customer's sales, net in the current period, and calculate the allowance for bad debt based on the

allowance for bad debt ratio to the balance of the trade receivables from the customer to estimate the uncollectible receivables.

For the trade receivables that are past due on the balance sheet date but are not yet recognized by the Group as the allowance for bad debt, because there is no significant change in their credit quality and the accounts are overdue due to the difference in the timing of both parties' reconciliation, the Group's management believes that the amounts are still recoverable. No collateral or other credit enhancements are held by the Group for these receivables.

The aging of trade receivables is analyzed as following:

	<u>December 31, 2017</u>
Not past due	\$ 969,875
1~60 days	29,429
61~90 days	-
Over 121 days	-
Total	<u>\$ 999,304</u>

The above analysis is based on the number of overdue days.

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

	<u>December 31, 2017</u>
1~60 days	<u>\$ 28,302</u>

The above analysis is based on the number of overdue days.

The information about changes of the allowance for bad debt on trade receivables:

	<u>Individually Assessed for Impairment</u>	<u>Collectively Assessed for Impairment</u>	<u>Total</u>
Balance at January 1, 2017	\$ -	\$ 3,226	\$ 3,226
Add: Impairment losses recognized on receivables	2,169	-	2,169
Less: Amounts written off during the year as uncollectable	( 2,169)	-	( 2,169)
Less: Reversed impairment losses	-	( 1,980)	( 1,980)
Foreign exchange gains and losses	-	( 119)	( 119)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 1,127</u>	<u>\$ 1,127</u>

(II) Other receivables

2018

The accounts stated by the Group as other receivables are primarily the tax refund receivable and interest receivable. According to the Group's policy, it only trades with the counterparts with fair credit ratings. The Group would continue to follow up and consider the trading counterparts' past payment record and analyze their current financial position to assess whether there has been a significant increase in credit risk



on the other receivables since initial recognition and to measure the expected credit loss. Until December 31, 2018, the expected credit loss ratio for the other receivables estimated by the Group has been 0%.

### 2017

The accounts stated by the Group as other receivables are primarily the tax refund receivable and interest receivable. According to the historical experience, the same were not uncollectible in the past. Meanwhile, after considering the trading counterpart's past payment record and analyzing its current financial position, the Group doesn't provide the allowance for bad debt.

## 12. Inventory

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Commodity	\$ 21,295	\$ 14,770
Finished goods	97,133	61,727
Work in process	103,562	74,859
Raw materials and supplies	95,256	95,745
Inventory in transit	<u>39,385</u>	<u>30,608</u>
	<u>\$356,631</u>	<u>\$277,709</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$2,333,872 thousand and \$2,753,113 thousand, respectively.

The cost of goods sold for the year ended December 31, 2018 and 2017 included inventory write-downs for the decline in market value, obsolescence of inventories were \$7,881 thousand and \$4,496 thousand, respectively.

## 13. Subsidiaries

### Subsidiaries included in the consolidated financial statements

The subsidiaries included into the consolidated financial statements are stated as following:

Investor	Investee	Main business	% of ownership	
			December 31, 2018	December 31, 2017
M.J. International Co., Ltd. ( "M.J. Group" )	Prolong International Co., Limited.( "Prolong HK" )	Investment holding	100%	100%
	M.J. International Flooring And Interior Products Inc.( "M.J. Taiwan" )	Sale and processing of LVT floors	100%	100%
	Opulent International Group Limited( "Opulent" )	International trade	100%	100%
	Fullhouse Investments Limited.	Investment holding	-	-
Prolong HK	Dongguan Mei Jer Plastic Products Co., Ltd.( "M.J. Dongguan" )	Production and sale of tiles, decoration materials and construction materials, and investment holding.	(Note 3) 100%	100%
	Dongguan Prolong Plastic Products Co., Ltd.( "Prolong Dongguan" )	Production and sale of tiles, decoration materials and construction materials, and investment holding.	100%	100%
M.J. Dongguan	Chongqing M.J. Architecture & Decoration Materials Co., Ltd.( "M.J. Chongqing" )	Sale of plastic tiles, decoration materials and construction materials.	100%	100%
	Guangzhou Promax Architecture & Decoration Materials Co., Ltd.( "M.J. Guangzhou" )	Sale of plastic tiles, decoration materials and construction materials.	100%	100%
	Beijing M.J. Architecture & Decoration Materials Co., Ltd. ( "M.J. Beijing" )	Sale of plastic tiles, decoration materials and construction materials.	100%	100%
	Shanghai M.J. Architecture & Decoration Materials Co., Ltd.	Sale of plastic tiles, decoration materials and construction materials.	36%	36%

	("M.J. Shanghai")								
Prolong Dongguan	Wuhan M.J. Architecture & Decoration Materials Co., Ltd. ("M.J. Wuhan")	Sale of plastic tiles, decoration materials and construction materials.	100%	100%					
	M.J. Shanghai	Sale of plastic tiles, decoration materials and construction materials.	64%	64%					
	Xian M.J. Architecture & Decoration Materials Co., Ltd. ("M.J. Xian")	Sale of plastic tiles, decoration materials and construction materials.	100%	100%	(Note 1)	(Note 1)			
	Shenyang M.J. Architecture & Decoration Materials Co., Ltd. ("M.J. Shenyang")	Sale of plastic tiles, decoration materials and construction materials.	100%	-	(Note 2)				

Note 1: Xian Mei Jer Construction and Decoration Materials Co., Ltd. was founded and registered on August 18, 2017, and remitted the capitals, RMB4,000 thousand and RMB1,000 thousand, inward in October 2017 and April 2018 respectively.

Note 2: Shenyang Mei Jer Construction and Decoration Materials Co., Ltd. was founded and registered on May 27, 2018, and remitted the capitals, RMB4,000 thousand, RMB500 thousand and RMB200 thousand, inward in June, October and November 2018 respectively.

Note 3: FULLHOUSE INVESTMENTS LIMITED was incorporation on November 2, 2018, which has not yet contributed any capital by December 31, 2018.

#### 14. Property, Plant and Equipment

	Land	Buildings	Machinery and equipment	Molding equipment	Transportation equipment	Office equipment	Other equipment	Property in Construction	Total
<u>Costs</u>									
Balance at January 1, 2017	\$ 9,393	\$ 529,324	\$ 645,809	\$ 40,938	\$ 21,215	\$ 13,260	\$ 79,300	\$ 548	\$ 1,339,787
Additions	-	16,107	32,683	570	9,764	3,644	3,982	-	66,750
Disposals	-	( 63)	( 10,243)	( 944)	( 3,031)	( 822)	( 1,591)	-	( 16,694)
Reclassified (Note 1)	-	531	-	-	-	-	-	( 531)	-
Effect of exchange rate changes	-	( 10,417)	( 12,615)	( 929)	( 358)	( 246)	( 1,586)	( 17)	( 26,168)
Balance at December 31, 2017	<u>\$ 9,393</u>	<u>\$ 535,482</u>	<u>\$ 655,634</u>	<u>\$ 39,635</u>	<u>\$ 27,590</u>	<u>\$ 15,836</u>	<u>\$ 80,105</u>	<u>\$ -</u>	<u>\$ 1,363,675</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2017	\$ -	\$ 139,629	\$ 316,921	\$ 29,834	\$ 17,268	\$ 11,132	\$ 65,364	\$ -	\$ 580,148
Disposals	-	( 43)	( 9,389)	( 944)	( 3,031)	( 822)	( 1,569)	-	( 15,798)
Depreciation expenses	-	25,198	36,899	4,411	2,015	1,494	4,116	-	74,133
Effect of exchange rate changes	-	( 2,489)	( 6,024)	( 640)	( 361)	( 172)	( 1,300)	-	( 10,986)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 162,295</u>	<u>\$ 338,407</u>	<u>\$ 32,661</u>	<u>\$ 15,891</u>	<u>\$ 11,632</u>	<u>\$ 66,611</u>	<u>\$ -</u>	<u>\$ 627,497</u>
Carrying amounts at December 31, 2017	<u>\$ 9,393</u>	<u>\$ 373,187</u>	<u>\$ 317,227</u>	<u>\$ 6,974</u>	<u>\$ 11,699</u>	<u>\$ 4,204</u>	<u>\$ 13,494</u>	<u>\$ -</u>	<u>\$ 736,178</u>
<u>Costs</u>									
Balance at January 1, 2018	\$ 9,393	\$ 535,482	\$ 655,634	\$ 39,635	\$ 27,590	\$ 15,836	\$ 80,105	\$ -	\$ 1,363,675
Additions	-	-	3,287	5,791	2,302	2,369	19,800	47,816	81,365
Disposals	-	-	( 2,476)	( 1,766)	-	( 4,762)	( 1,689)	-	( 10,693)
Reclassified (Note 2)	-	266,354	791	-	-	-	27,409	-	294,554
Effect of exchange rate changes	-	( 14,113)	( 11,255)	( 819)	( 522)	( 122)	( 2,203)	( 887)	( 29,921)
Balance at December 31, 2018	<u>\$ 9,393</u>	<u>\$ 787,723</u>	<u>\$ 645,981</u>	<u>\$ 42,841</u>	<u>\$ 29,370</u>	<u>\$ 13,321</u>	<u>\$ 123,422</u>	<u>\$ 46,929</u>	<u>\$ 1,698,980</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2018	\$ -	\$ 162,295	\$ 338,407	\$ 32,661	\$ 15,891	\$ 11,632	\$ 66,611	\$ -	\$ 627,497
Disposals	-	-	( 2,476)	( 1,484)	-	( 4,757)	( 1,623)	-	( 10,340)
Depreciation expenses	-	33,731	52,796	3,515	3,602	1,831	9,454	-	104,929
Effect of exchange rate changes	-	( 3,364)	( 6,641)	( 662)	( 343)	( 90)	( 1,337)	-	( 12,437)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 192,662</u>	<u>\$ 382,086</u>	<u>\$ 34,030</u>	<u>\$ 19,150</u>	<u>\$ 8,616</u>	<u>\$ 73,105</u>	<u>\$ -</u>	<u>\$ 709,649</u>
Carrying amounts at December 31, 2018	<u>\$ 9,393</u>	<u>\$ 595,061</u>	<u>\$ 263,895</u>	<u>\$ 8,811</u>	<u>\$ 10,220</u>	<u>\$ 4,705</u>	<u>\$ 50,317</u>	<u>\$ 46,929</u>	<u>\$ 989,331</u>

Note 1: Reclassified into the property, plant and equipment from the property in construction.

Note 2: Reclassified into the property, plant and equipment from the prepayments for purchase of property or equipment.

The Group's property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	5~55 years
Machinery and equipment	2~10 years
Molding equipment	2~5 years
Transportation equipment	4~5 years
Office equipment	3~5 years
Other equipment	3~10 years

15. Other intangible assets

	<u>Patents</u>	<u>Computer software</u>	<u>Total</u>
<u>Costs</u>			
Balance at January 1, 2017	\$ 967	\$ 8,466	\$ 9,433
Additions	-	3,757	3,757
Effect of exchange rate changes	-	( 120)	( 120)
Balance at December 31, 2017	<u>\$ 967</u>	<u>\$ 12,103</u>	<u>\$ 13,070</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2017	(\$ 282)	(\$ 7,088)	(\$ 7,370)
Amortization expenses	( 182)	( 1,122)	( 1,304)
Effect of exchange rate changes	-	39	39
Balance at December 31, 2017	<u>(\$ 464)</u>	<u>(\$ 8,171)</u>	<u>(\$ 8,635)</u>
Carrying amounts at December 31, 2017	<u>\$ 503</u>	<u>\$ 3,932</u>	<u>\$ 4,435</u>
<u>Costs</u>			
Balance at January 1, 2018	\$ 967	\$ 12,103	\$ 13,070
Additions	-	549	549
Disposals	-	( 8,469)	( 8,469)
Effect of exchange rate changes	-	154	154
Balance at December 31, 2018	<u>\$ 967</u>	<u>\$ 4,337</u>	<u>\$ 5,304</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2018	(\$ 464)	(\$ 8,171)	(\$ 8,635)
Amortization expenses	( 182)	( 2,462)	( 2,644)
Disposals	-	8,469	8,469
Effect of exchange rate changes	-	( 78)	( 78)
Balance at December 31, 2018	<u>(\$ 646)</u>	<u>(\$ 2,242)</u>	<u>(\$ 2,888)</u>
Carrying amounts at December 31, 2018	<u>\$ 321</u>	<u>\$ 2,095</u>	<u>\$ 2,416</u>

The intangible assets listed above were amortized on a straight-line basis over the estimated useful life of the related asset as follows:

Patents	5~10 years
Computer software	3~5 years

Amortization expenses summarized by function:

	For the Year Ended December 31	
	2018	2017
Selling expenses	\$ 768	\$ 467
Administrative expenses	<u>1,876</u>	<u>837</u>
	<u>\$ 2,644</u>	<u>\$ 1,304</u>

16. Prepayments for leases

	December 31, 2018	December 31, 2017
Current (classified under other current assets-others)	\$ 1,389	\$ 1,414
Non-current	<u>54,761</u>	<u>57,143</u>
	<u>\$ 56,150</u>	<u>\$ 58,557</u>

Prepayment for leases was for land use rights in mainland China.

17. Other assets

	December 31, 2018	December 31, 2017
<u>Current</u>		
Other financial assets		
Financial products (Note)	<u>\$ -</u>	<u>\$ 75,149</u>
Offset Against Business Tax Payable	\$ 66,733	\$ 40,313
Others	<u>22,847</u>	<u>6,257</u>
	<u>\$ 89,580</u>	<u>\$ 46,570</u>
<u>Non-current</u>		
Prepayments for property	\$ 17,031	\$260,751
Long-term prepayment	24,207	42,029
Prepayments for equipment	42,900	29,735
Refundable deposit	3,260	2,260
Other financial assets (Note 31)	<u>-</u>	<u>2,000</u>
	<u>\$ 87,398</u>	<u>\$336,775</u>

Note: The Group entered into the short-term wealth management product contract with the bank. The product primarily engaged in investment in bonds, funds and other fixed-income short-term investment instruments. According to the contract, the product should not be terminated earlier prior to its maturity date.

18. Borrowings

Short-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Secured borrowings</u>		
Bank loans (Note 31)	<u>\$150,000</u>	<u>\$150,000</u>
<u>Unsecured borrowings</u>		
Bank lines of credit	<u>\$324,000</u>	<u>\$458,000</u>

As of December 31, 2018 and 2017, the interest rates for the secured bank loans were 0.90% and 0.95%, and the loans were secured by a part of the investment in debt instruments held by the Group. Refer to Note 31.

As of December 31, 2018 and 2017, the interest rates on the unsecured bank loans was 0.90% and 0.95% per annum, respectively

19. Other liabilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Current</u>		
Other payables		
Accrued payroll and bonuses (including remuneration to employees and directors)	\$ 72,055	\$ 87,339
Insurance	34,123	34,733
Payable for repairs maintenance	29,946	18,382
Payable for gas and oil expenses	29,453	1,677
Payable for freight	18,218	9,004
Payable for utility fees	15,045	11,542
Payable for professional service fees	4,685	3,155
Payable for royalty	7,576	4,127
Payables for purchase of equipment (Note 26)	705	-
Tax payable	2,075	6,304
Refund liability	1,284	-
Others	<u>53,820</u>	<u>53,943</u>
	<u>\$268,985</u>	<u>\$230,206</u>

Other liabilities

Advance sales receipts	\$ -	\$ 20,465
Others	2,121	787
	<u>\$ 2,121</u>	<u>\$ 21,252</u>

20. Provisions

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Current</u>		
<u>Warranty (I)</u>	\$ 16,219	\$ 17,330
Sales returns and allowances (II)	<u>-</u>	<u>1,030</u>
	<u>\$ 16,219</u>	<u>\$ 18,360</u>
		<u>Warranty</u>
Balance at January 1, 2018		\$ 17,330
Additions		11,379
Usage		( 13,015)
Effect of exchange rate changes		<u>525</u>
Balance at December 31, 2018		<u>\$ 16,219</u>

- (I) The reserve for liability of warranty represents the present value of the best estimate by the Group's management of the future outflow of economic benefits on the Group's warranty obligation. The estimate is based on historical experience in warranty and may vary as a result of the entry of new materials, altered manufacturing processes or other events affecting product quality.
- (II) The reserve for liability of sales returns and allowances was based on historical experience, management's judgments and other known reasons for possible returns and allowances in 2017. The provision was recognized as a reduction in operating revenue in the year in which the related goods were sold.

21. Equity

(I) Share capital

Ordinary shares

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Number of shares authorized (in thousands)	<u>150,000</u>	<u>150,000</u>
Share authorized	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>66,059</u>	<u>66,059</u>
Share issued	<u>\$ 660,590</u>	<u>\$ 660,590</u>

A holder of issued common shares with par value of NT\$10 per share is entitled to

vote and to receive dividends.

(II) Capital surplus

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to capital stock (Note 1)</u>		
Share premium	\$ 1,189,103	\$ 1,189,103
Employee share bonus - share premium	<u>9,599</u>	<u>9,599</u>
	<u>\$ 1,198,702</u>	<u>\$ 1,198,702</u>
<u>May only be used to offset a deficit (Note 2)</u>		
Employee compensation cost - share premium	<u>\$ 7,265</u>	<u>\$ 7,265</u>

Note 1: Such capital surplus may be used to offset a deficit. Additionally, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital stock, provided that the transfer shall be no more than a certain percentage of the Company each year.

Note 2: Such capital surplus doesn't have cash inflow and, therefore, may only be used to offset a deficit.

(III) Retained earnings and dividend policy

Under the dividend policy referred to in the Company's Articles of Incorporation, if the Company earns profit at the end of any fiscal year in the periods in which the Company is listed, the profit shall be firstly used to pay taxes and offset accumulated losses, and then 10% of the remaining profit, if any, is set aside as legal reserve, provided that when the legal reserve amounts to the Company's paid-in capital, the same shall not apply. The balance of said remaining profit, if any, shall provide or reserve special reserve pursuant to laws. Then, the remainder, if any, together with accumulated undistributed retained earnings shall be allocated as bonus and dividend to shareholders' subject to the motion for distribution of earnings proposed by the Board of Directors and resolved by a shareholders' meeting. Subject to financial, business and operational factors, the Company may set aside no less than 10% of the allocable earnings for the same year, plus the unappropriated earnings for the previous years resolved by a shareholders' meeting, in whole or in part, to distribute the bonus and dividend to shareholders based on the relevant shareholdings. The bonus and dividend to shareholders may be distributed in cash or in the form of stock, and the cash dividend to be distributed shall be no less than 10% of the total bonus and dividend distributed to the shareholders for the year. For the policy for distribution of remuneration to employees and directors under the

Company's Articles of Incorporation, please see Note 23(VI) for the remuneration to employees and directors.

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

The appropriations of earnings for 2017 and 2016 were approved in the shareholders' meetings on June 5, 2018 and June 2, 2017, respectively, as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends per share (NT\$)</u>	
	<u>For Year 2017</u>	<u>For Year 2016</u>	<u>For Year 2017</u>	<u>For Year 2016</u>
Legal reserve	\$ 49,472	\$ 56,980	\$ -	\$ -
Special reserve	52,462	-	-	-
Cash dividends	396,354	462,413	6.0	7.0

The appropriation of earnings for 2018 had been proposed by the Company's board of directors on March 8, 2019. The appropriation and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends per share (NT\$)</u>
	Legal reserve	\$ 31,044
Special reserve	27,584	-
Cash dividends	198,177	3.0

The appropriation of earnings for 2018 is subject to the resolution of the shareholders' meeting to be held on June 5, 2019

(IV) Other equity

1. Exchange differences on translation of foreign financial statements

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Balance at January 1	(\$ 52,462)	\$ 39,738
Recognized for the year		
Exchange differences on translating the financial statements of foreign operation	( 208)	( 92,200)
Current other comprehensive income	( 208)	( 92,200)
Balance at December 31	<u>(\$ 52,670)</u>	<u>(\$ 52,462)</u>

2. Unrealized gain or loss on available-for-sale financial assets

	<u>2017</u>
Balance at January 1	\$ -
Recognized for the year	
Unrealized gain or loss	<u>6,934</u>



Current other comprehensive income	<u>6,934</u>
Balance at December 31	<u>\$ 6,934</u>

3. Unrealized gain on financial assets at FVTOCI

	<u>2018</u>
Balance at January 1 (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>19,732</u>
Balance at January 1 (IAS 9)	<u>19,732</u>
Recognized for the year	
Unrealized gain or loss – debt instruments	( 58,300)
Re-classification and adjustment	
Disposition of debt instruments	<u>11,192</u>
Current other comprehensive income	( 47,108)
Balance at December 31	<u>(\$ 27,376)</u>

22. Revenue

(I) Notes to contracts - revenue from sale of goods

The Group engages in production and sale of LVT floors. In consideration of the products keeping innovative and drastic price fluctuation in the market, the discounts offered to few products are estimated based on the expected value within the range of discount offered in the past, while the other products are sold at the fixed price as agreed by contract.

(II) Contract balance

	<u>December 31, 2018</u>
Note receivable (including related party) (Notes 11 and 30)	<u>\$ 9,428</u>
receivable (including related party) (Notes 11 and 30)	<u>\$960,006</u>
Contract liabilities	
Sale of goods	<u>\$ 31,588</u>

For the year ended December 31, 2018, the Company recognized NT\$20,465 thousand as revenue from the beginning balance of contract liability.

(III) Breakdown of revenue from contracts with customers

For the information about the breakdown, refer to Note 36.

23. Income from continuing operation and other comprehensive income

(I) Other revenue

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Interest income		
Bank deposits	\$ 5,745	\$ 4,960
Available-for-sale financial assets	-	17,472

	For the Year Ended December 31	
	<u>2018</u>	<u>2017</u>
Other financial assets	-	2,918
Financial assets at FVTPL	2,967	-
Investment of debt instrument at FVTOCI	<u>31,244</u>	<u>-</u>
	39,956	25,350
Government grants	<u>5,364</u>	<u>4,584</u>
	<u>\$ 45,320</u>	<u>\$ 29,934</u>
(II) Other gains and (losses)		
	For the Year Ended December 31	
	<u>2018</u>	<u>2017</u>
Gain (loss) on disposal of financial assets, net		
Investments in debt instruments at FVTOCI	(\$ 11,192)	\$ -
Gain (loss) on financial assets and financial liabilities		
Financial assets/liabilities		
Mandatorily measured at FVTPL	120	-
Financial liabilities held for trading	( 4)	661
Gain (loss) on disposition of property, plant and equipment	( 91)	1,736
Net gain (loss) on foreign exchange	22,382	( 68,564)
Others	<u>5,123</u>	<u>12,167</u>
	<u>\$ 16,338</u>	<u>(\$ 54,000)</u>
(III) Financial cost		
	For the Year Ended December 31	
	<u>2018</u>	<u>2017</u>
Interest on bank loans	<u>\$ 5,134</u>	<u>\$ 2,468</u>
(IV) Depreciation and amortization		
	For the Year Ended December 31	
	<u>2018</u>	<u>2017</u>
Depreciation expenses summarized by function:		
Operating cost	\$ 77,598	\$ 57,478
Operating expenses	<u>27,331</u>	<u>16,655</u>
	<u>\$ 104,929</u>	<u>\$ 74,133</u>
Amortization expenses summarized by function:		
Operating expenses	<u>\$ 2,644</u>	<u>\$ 1,304</u>
(V) Employee benefit expenses		
	For the Year Ended December 31	
	<u>2018</u>	<u>2017</u>
Post-employment benefits		
Defined contribution plan	\$ 19,900	\$ 17,205
Other employee benefits	<u>368,363</u>	<u>379,607</u>

	For the Year Ended December 31	
	2018	2017
	<u>\$388,263</u>	<u>\$396,812</u>
Summarized by function:		
Operating cost	\$243,306	\$257,110
Operating expenses	<u>144,957</u>	<u>139,702</u>
	<u>\$388,263</u>	<u>\$396,812</u>

(VI) Remuneration to employees and directors

The Company distributes 1%~6% and no more than 5% from the income before tax before deduction of the current remuneration to employees and directors as the remuneration to employees and directors for the year, respectively. The following estimated remuneration to employees and directors for 2018 and 2017 was resolved by the directors' meetings on March 8, 2019 and March 12, 2018:

% of Estimation

	For the Year Ended December 31	
	2018	2017
Remuneration to employees	5.26%	4.70%
Remuneration to directors	4.38%	3.94%

Amount

	For the Year Ended December 31	
	2018	2017
Remuneration to employees	\$ 18,319	\$ 26,569
Remuneration to directors	15,267	22,283

If there is a change in the proposed amounts after the date for ratification and publication of the annual consolidated financial statements, the differences are accounted for as the changes of accounting estimates in the following year.

The Company's distribution of earnings as the remuneration to employees and directors for 2017 and 2016 did not differ from the distribution recognized in the consolidated financial statements 2017 and 2016.

Information on employees' compensation and remuneration of directors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

(VII) Gain (loss) on foreign exchange

	For the Year Ended December 31	
	2018	2017
Gross gains on foreign exchange	\$103,214	\$ 31,732
Gross (loss) on foreign exchange	( <u>80,832</u> )	( <u>100,296</u> )
Net gain (loss)	<u>\$ 22,382</u>	<u>( \$ 68,564 )</u>

## 24. Income tax related to continuing operations

### (I) Income tax recognized in profit or loss

Income tax expenses consist of the following:

	For the Year Ended December 31	
	2018	2017
Current income tax		
In respect of the current year	\$ 71,063	\$ 95,843
Additional income tax on unappropriated earnings	1,100	460
Adjustments for prior years	( 6,101)	( 7,556)
	<u>66,062</u>	<u>88,747</u>
Deferred income tax		
Effect of tax rate changes	( 648)	-
In respect of the current year	( 61,147)	( 66,864)
	<u>( 61,795)</u>	<u>( 66,864)</u>
Income tax expense recognized in profit or loss	<u>\$ 4,267</u>	<u>\$ 21,883</u>

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

	For the Year Ended December 31	
	2018	2017
Income from continuing operations before income tax	<u>\$ 314,703</u>	<u>\$ 516,600</u>
Income tax expense at the statutory rate	\$ 62,138	\$ 95,416
Non-deductible expense items	8,244	3,409
Deferred income tax effects on subsidiaries' earnings	( 62,241)	( 70,970)
Additional income tax on unappropriated earnings	1,100	460
Unrecognized deductible temporary difference	1,775	1,124
Current income tax expenses for prior years adjusted in the current year	( 6,101)	( 7,556)
Effect of tax rate changes	( 648)	-
Income tax expenses recognized in profit or loss	<u>\$ 4,267</u>	<u>\$ 21,883</u>

In 2017, the Company applied a tax rate of 17% for all of its entities which may apply the R.O.C. Income Tax Act. In February 2018, the R.O.C. Income Tax Act was amended and, starting from 2018, the corporate income tax rate was adjusted from 17% to 20%. Meanwhile, the tax rate for 2018 unappropriated earnings was reduced from 10% to 5%, and 25% in the case of subsidiaries in the territories of China. The income tax incurred in any other jurisdictions shall be calculated at the tax rates applicable to the jurisdictions.

Dongguan Mei Jer Plastic Products Co., Ltd. is held qualified as a high and new tech enterprise pursuant to the Enterprise Income Tax Law of the People's Republic of China and Implementation Regulations thereof, and allowed to apply the preferential tax rate until 2018. Any company that is held qualified as a high and new tech enterprise pursuant to said Regulations and related tax revenue requirements is entitled to the preferential tax rate of 15%.

Considering that the distribution of earnings 2019 is still pending resolution by the shareholders' meeting, now it is still impossible to reliably determine the potential income tax consequence to be caused by the unappropriated earnings levied with additional 5% income tax on the entities in the territories of Taiwan in 2018.

(II) Current income tax liabilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Payable income tax	<u>\$ 18,363</u>	<u>\$ 30,205</u>

(III) Deferred income tax assets and liabilities

Changes of the deferred tax assets and liabilities are stated as following:

2018

	<u>Opening balance</u>	<u>Recognized in profit or loss</u>	<u>Exchange difference</u>	<u>Closing balance</u>
Deferred income tax assets				
Temporary difference				
Allowance for loss	\$ 107	\$ 39	\$ -	\$ 146
Inventory				
obsolescence and				
valuation loss	257	45	-	302
Unrealized gain or loss				
on exchange	147	( 59)	-	88
Reserve for				
liability-warranty	2,948	199	98	3,245
Refund liability	<u>173</u>	<u>75</u>	<u>7</u>	<u>255</u>
	<u>\$ 3,632</u>	<u>\$ 299</u>	<u>\$ 105</u>	<u>\$ 4,036</u>
Deferred income tax liabilities				
Temporary difference				
Unrealized gain or loss				
on exchange	\$ -	\$ 745	\$ 14	\$ 759
Investment income	107,297	( 62,241)	-	45,056
Others	<u>8,845</u>	<u>-</u>	<u>( 154)</u>	<u>8,691</u>
	<u>\$ 116,142</u>	<u>( \$ 61,496)</u>	<u>( \$ 140)</u>	<u>\$ 54,506</u>

2017

	Opening balance	Recognized in profit or loss	Exchange difference	Closing balance
<u>Deferred income tax assets</u>				
Temporary difference				
Allowance for bad debt	\$ 137	(\$ 30)	\$ -	\$ 107
Inventory obsolescence and valuation loss	257	-	-	257
Unrealized gain or loss on exchange	-	147	-	147
Reserve for liability-warranty	3,666	( 447)	( 271)	2,948
Reserve for liability - sales returns and allowances	206	( 16)	( 17)	173
Depreciation and amortization	3,895	( 3,774)	( 121)	-
	<u>\$ 8,161</u>	<u>(\$ 4,120)</u>	<u>(\$ 409)</u>	<u>\$ 3,632</u>
Deferred income tax liabilities				
Temporary difference				
Unrealized gain or loss on exchange	\$ 14	(\$ 14)	\$ -	\$ -
Investment income	178,267	( 70,970)	-	107,297
Others	9,028	-	( 183)	8,845
	<u>\$ 187,309</u>	<u>(\$ 70,984)</u>	<u>(\$ 183)</u>	<u>\$ 116,142</u>

(IV) The deductible temporary differences for which no deferred income tax assets have been recognized in the consolidated balance sheets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Inventory obsolescence and valuation loss	<u>\$ 25,625</u>	<u>\$ 20,916</u>

(V) Authorization of income tax

By December 31, 2018, no pending tax legal actions has involved the Company.

The tax collection authorities have authorized the income tax returns by M.J.(Taiwan) and OPULENT Taiwan branch, the Company's subsidiaries, until 2016.

25. EPS

	Unit: NT\$ per share	
	<u>2018</u>	<u>2017</u>
Basic earnings per share	<u>\$ 4.70</u>	<u>\$ 7.49</u>
Diluted earnings per share	<u>\$ 4.67</u>	<u>\$ 7.46</u>

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Operating profit attributable to owners of the company	<u>\$310,436</u>	<u>\$494,717</u>
Operating profit used to calculate the diluted EPS	<u>\$310,436</u>	<u>\$494,717</u>

Quantity of shares

Unit: Thousand shares

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Basic EPS is computed based on the following weighted average number of common shares:	66,059	66,059
Effect of dilutive potential common shares:		
Remuneration to employees	<u>403</u>	<u>300</u>
The diluted EPS is computed based on the following weighted average number of common shares:	<u>66,462</u>	<u>66,359</u>

If the Group offers to settle the compensation or bonuses paid to employees in cash or shares, the Group will assume that the entire amount of the compensation or bonuses to be settled in shares, and the resulting potential shares will be included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## **26. cash flows Information**

### (I) Non-cash transactions

The Group engaged in the following investing activities for non-cash transactions in 2018 and 2017:

By December 31, 2018 and 2017, the Group's payments for acquisition of property, plant and equipment remaining outstanding were NT\$705 thousand and NT\$0 thousand, classified under other payables.

### (II) Reconciliation of liabilities arising from financing activities

2018

	<u>Balance as of January 1, 2018</u>	<u>Changes of cash flows</u>	<u>Non-cash changes foreign exchange changes</u>	<u>Balance as of December 31, 2018</u>
Short-term borrowings	<u>\$ 608,000</u>	<u>(\$ 147,786)</u>	<u>\$ 13,786</u>	<u>\$ 474,000</u>

27. Operating lease arrangements

The Group as the lessee

The Group's operating leases are arrangements on rent of cars, plants and business places, et al. for 3~10 years. The Group reserves no preemptive right with respect to the leased plants and business places upon termination of the leases.

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
No more than one year	\$ 4,375	\$ 6,173
1 to 5 years	<u>6,654</u>	<u>11,102</u>
	<u>\$ 11,029</u>	<u>\$ 17,275</u>

28. Capita management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group maintained the same strategies in 2018 as a whole.

The Group's capital structure consists of the Group's net debts (namely the borrowings less cash and cash equivalents) and equity (namely the capital stock, capital surplus, retained earnings and other equity).

The Group doesn't need to comply with any external requirements about capital.

The Group's key management review the capital structure periodically. The review includes the consideration of costs of capital and related risk. Based on the suggestion by the management, the Company may proceed to balance its entire capital structure by payment of stock dividends and issuance of new shares, *et al.*

29. Financial Instruments

(I) Information about fair value - Non-financial instruments at fair value through profit or loss

The Group considers that the carrying amounts of non-financial assets/liabilities at fair value through profit or loss approximate their fair values.

(II) Information about fair value - financial instruments at fair value on a recurring basis

1. Fair value hierarchy

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial asset at FVTPL</u>				
Derivatives - forward foreign exchange contract	\$ -	\$ 2,527	\$ -	\$ 2,527
Structured deposits	-	<u>55,942</u>	-	<u>55,942</u>
Total	<u>\$ -</u>	<u>\$ 58,469</u>	<u>\$ -</u>	<u>\$ 58,469</u>
<u>Financial assets at FVTOCI</u>				
Investment in debt instruments				
Investment in foreign debt instruments	<u>\$ -</u>	<u>\$ 455,795</u>	<u>\$ -</u>	<u>\$ 455,795</u>
<u>Financial liabilities at FVTPL</u>				
Derivatives - forward foreign exchange contract	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 4</u>



December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial asset at FVTPL</u>				
Derivatives - forward foreign exchange contract	\$ -	\$ 646	\$ -	\$ 646
Non-financial derivatives held for trading - fund beneficiary certificate	<u>74,182</u>	<u>-</u>	<u>-</u>	<u>74,182</u>
	<u>\$ 74,182</u>	<u>\$ 646</u>	<u>\$ -</u>	<u>\$ 74,828</u>
<u>Available-for-sale financial assets</u>				
Investment in foreign debt instruments	<u>\$ -</u>	<u>\$ 692,603</u>	<u>\$ -</u>	<u>\$ 692,603</u>

The Group assesses the bid-ask spread and trading volume of fixed-income securities to determine whether they are quoted prices in active markets. Therefore, the Company categorizes the measurement of fair value of investment in foreign debt instruments as Level 2. There were no transfers between Levels 1 and 2 in 2018 and 2017.

2. Valuation techniques and inputs applied for the purpose of Level 2 fair value measurement

<u>Types of financial Instruments</u>	<u>Valuation techniques and inputs</u>
Derivatives - forward foreign exchange contract	Discounted cash flow: Future cash flows are estimated based on observable forward exchange rates and contractual forward exchange rates, discounted at a rate that reflects the credit risk of various counterparties.
Hybrid financial assets - structured deposits	Discounted cash flow: Future cash flows are estimated based on the contractual rate of return.
Investment in foreign debt instruments	Measured at the quoted prices in active markets provided by third party service providers.

(III) Types of financial instruments

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
At fair value through profit or loss		
Held for trading	\$ -	\$ 74,828
Mandatorily at fair value through profit or loss	58,469	-
Loans and receivables (Note 1)	-	1,683,059
Available-for-sale financial assets	-	692,603

Financial assets measured at amortized cost (Note 2)	1,652,286	-
Financial assets at fair value through other comprehensive income Investment in debt instruments	455,795	-
<u>Financial liabilities</u> At fair value through profit or loss		
Held for trading	4	-
At amortized cost (Note 3)	1,100,227	1,036,470

Note 1: The balances include such loans and receivables measured at amortized cost as cash and cash equivalents, notes receivable notes (including related parties), trade receivables (including related parties), other receivables (exclusive of receivable income tax refund), other financial assets and refundable deposits, *et al.*

Note 2: The balances include such financial assets measured at amortized cost as cash and cash equivalents, notes receivable (including related parties), trade receivables (including related parties), other receivables (exclusive of receivable income tax refund), and refundable deposits, *et al.*

Note 3: The balances include such financial liabilities measured at amortized cost as short-term borrowings, payable accounts and other payables (exclusive of payable salary and bonus, payable accrued tax, payable pension and insurance premium).

(IV) Financial risk management objectives and policies

The Group's major financial instruments include cash and cash equivalents, investment in debt instruments, structured deposits, derivatives-forward foreign exchange contract, notes receivable (including related parties), trade receivables (including related parties), other financial assets, refundable deposits, payables and short-term borrowings.

The financial risks over said financial instruments relating to operations include market risk (including foreign exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group's financial department reports to the management periodically. The management monitors risks and implement policies *ex officio* to mitigate risk exposures.

1. Market risk

The Company's operating activities expose the Company to the major financial risks including risk of foreign exchange rate changes (see (1) below), risk of interest rate changes (see (2) below) and risk of other price (see (3) below).

(1) Foreign exchange rate risk

The Group engages in foreign currency-denominated sales and purchases, which expose the Company to the risk of foreign exchange rate changes. In order to manage the foreign exchange rate risk, insofar as it is permitted by policies, the Company primarily engages in net foreign exchange positions to produce the effect of natural hedging, and utilizes foreign exchange financial derivative instruments to help manage the risk.

For the carrying amount of non-functional currency-denominated monetary assets and liabilities (including the non-functional currency-denominated monetary items already written off in the consolidated financial statements), please see Note 34. For the carrying amount of derivatives exposed to the foreign interest rate risk, please see Note 7.

Sensitivity analysis

The Group is primarily exposed to the fluctuation in foreign exchange rate in USD and NTD.

The following table details the Group's sensitivity analysis in the case of the increase or decrease in various consolidated entities' functional currency against the relevant foreign currency by 1%. 1% means the sensitivity ratio applied by the Company when it reports the foreign exchange rate risk to its management within the Group, and also the management's evaluation on reasonable changes of the foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items, and their translation at the end of the reporting period is adjusted for a 1% change in exchange rates. A positive number indicated in the following table indicates an increase in income before tax and equity associated with each consolidated entity's functional currency depreciation by 1% against the related foreign currency, while it would be the same but negative number reflecting the effect on the income before tax and equity associated with each consolidated entity's functional currency appreciation by 1%.

	<u>Impact on USD</u>		<u>Impact on NTD</u>	
	<u>For the Year Ended December 31</u>		<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Income	\$ 1,681	\$ 4,925	(\$ 4,797)	(\$ 6,348)

Primarily as a result of the Company's receivables, payables, short-term borrowing and on-balance-sheet forward foreign exchange contract stated as financial assets and liabilities at fair value through profit or loss denominated in USD or NTD which are still outstanding on the balance sheet date.

The Group's sensitivity to USD exchange rates declines this year primarily as a result of the decrease in the foreign exchange rate risk resulting from the increase in the forward foreign exchange contracts held by the Company this year. The Company's sensitivity to NTD exchange rates decreases primarily as a result of the decrease in the borrowings denominated in NTD.

(2) Interest rate risk

The Group is exposed to the risk of interest rate changes as a result of the Group's bank deposits, structured deposits, investment in debt instruments, other financial assets and bank borrowings bearing interest accruing at fixed interest rate and floating interest rate.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates on the balance sheet date are stated as following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Fair value interest rate risk		
- Financial assets	\$ 683,496	\$ 904,595
- Financial liabilities	474,000	608,000
Cash flow interest rate risk		
- Financial assets	491,104	402,972

Sensitivity analysis

The sensitivity analysis below was based on the Group's exposure to interest rates for non-derivative instruments on the balance sheet date. For floating rate liabilities, the analysis is prepared under the assumption that the amounts of the liabilities outstanding on the balance sheet date are outstanding during the reporting period. 1% means the interest rate change ratio applied by the Company when it reports interest rates to its management, and also the management's evaluation on reasonable changes of the interest rate.

If the annual interest rate increases/decreases by 1% and all other variables remain the same, the Company's income before tax would increase/decrease by NT\$4,911 thousand and NT\$4,030 thousand in 2018 and 2017, primarily as a result of the Company's exposure to the risk of interest rate changes on its bank deposits, structured deposits and investment in debt instruments at the floating interest rate.

The Company's sensitivity to interest rates increases this year primarily as a result of the increase in variable-rate financial assets.

(3) Other price risk

The Company is exposed to the price risk as a result of the investment in funds and bonds.

Sensitivity analysis

The sensitivity analysis below is made based on the exposure to the price risk of funds and bonds on the balance sheet date.

If the beneficiary certificate-fund price increases/decreases by 1%, the income before tax in 2017 would increase/decrease by NT\$742 thousand

as a result of the changes in the financial assets at fair value through profit or loss.

If the bond price increases/decreases by 1%, the other comprehensive income before tax in 2018 and 2017 would increase/decrease by NT\$4,558 thousand and NT\$6,926 thousand as a result of the changes in fair value.

The Company's sensitivity to price decreases this year primarily as a result of the decrease in the investment in the debt instruments it held.

## 2. Credit risk

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

According to the Company's policy, the Company only trades with the counterparts with renowned goodwill, and would secure sufficient guarantee to mitigate the risk of financial loss to be caused by delinquent payment, if necessary. The Company rates its key customers based on the customers' credit data files created by it pursuant to the regulations governing customers' credit management, and other financial information accessible to the public and both parties' past trading record. The Group continues to monitor the exposure to credit risk and trading counterparts' credit ratings, and control the exposure to credit risk by the responsible supervisors' double check and the credit limit granted to the trading counterparts.

To minimize credit risk, the Company's management appoints the dedicated team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Meanwhile, the Company reviews the recoverable amount of each individual receivable account on the balance sheet date to ensure that adequate allowance is made for possible irrecoverable amounts. Given this, the Company's management believes that the Company's credit risk should have been significantly reduced.

The Group's credit risk is concentrated on the key customers from which the annual sales revenue amounts to more than 10% of the Group's total revenue. Until December 31, 2018 and 2017, the total trade receivables from said customers have accounted for 83% and 88% of the Group's total revenue.

## 3. Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. For the financing facilities that have not yet been drawn down by the Group until December 31, 2018 and 2017, please refer (3) notes to financing facilities below.

(1) Statement of liquidity and interest risk rate of non-derivative financial liabilities

The analysis on the remaining contractual maturity for the non-derivative financial liabilities is prepared based on the undiscounted cash flows of financial liabilities (including the principal and estimated interest thereon) from the earliest date on which the Group can be required to pay. Therefore, the bank borrowings required to be repaid by the Group immediately are included in the earliest time band in the following table, regardless of the probability for the banks to choose exercise of their rights immediately. Notwithstanding, the analysis on the maturity dates for other non-derivative financial liabilities is prepared based on the agreed repayment dates.

December 31, 2018

	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>
<u>Non-derivative financial liabilities</u>			
Variable interest rate borrowings	\$ 624,818	\$ 1,409	\$ -
Fixed interest rate borrowings	<u>474,511</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,099,329</u>	<u>\$ 1,409</u>	<u>\$ -</u>

December 31, 2017

	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>
<u>Non-derivative financial liabilities</u>			
Variable interest rate borrowings	\$ 428,470	\$ -	\$ -
Fixed interest rate borrowings	<u>608,583</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,037,053</u>	<u>\$ -</u>	<u>\$ -</u>

(2) Liquidity tables for derivative financial liabilities

The following table details the Group's liquidity analysis of its derivative financial instruments. The table is based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

December 31, 2018

	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>
--	----------------------	-------------------------------	---------------------

<u>gross Settle</u>			
Forward exchange foreign contracts			
-inflows	\$ 30,715	\$ -	\$ -
-outflows	( 30,719)	-	-
	<u>(\$ 4)</u>	<u>\$ -</u>	<u>\$ -</u>

(3) Financing facilities

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured bank overdraft facility		
- Amount drawn down	\$ 324,000	\$458,000
- Amount not drawn down	<u>677,309</u>	<u>65,776</u>
	<u>\$ 1,001,309</u>	<u>\$523,776</u>
Secured bank overdraft facilities		
- Amount drawn down	\$ 150,000	\$150,000
- Amount not drawn down	<u>138,721</u>	<u>486,864</u>
	<u>\$ 288,721</u>	<u>\$636,864</u>

30. Transactions with related parties

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

:

(I) Names and relationships of related parties

<u>Related Party Name</u>	<u>Related Party Category</u>
Sing Cheng Lin Co., Ltd. (“Sing Cheng”)	Substantial related party
Fu Ming Corporate (“Fu Ming”)	Substantial related party
G.T Floor Co., LTD. (“G.T Floor”)	Substantial related party

(II) Operating revenue

Stated items	Type of related party	<u>For the Year Ended December 31</u>	
		<u>2018</u>	<u>2017</u>
Sales	Substantial related party	<u>\$ 173,843</u>	<u>\$ 143,474</u>

Since no identical transactions for the sale price are available for comparison, the price and terms were determined in accordance with mutual agreements. The

payment terms were O/A 90 days. The payment terms applicable to transactions with non-related parties were T/T and OA 30~150 days.

(III) Receivables from related parties (exclusive of loans to related parties)

<u>Stated items</u>	<u>Type of related party</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable	Substantial related party		
	Sing Cheng	\$ 425	\$ 14,433
	Fu Ming	-	3,001
		<u>\$ 425</u>	<u>\$ 17,434</u>
Trade receivables	Substantial related party		
	Sing Cheng	\$ 18,239	\$ 12,330
	G.T Floor	18,136	13,329
	Fu Ming	761	396
		<u>\$ 37,136</u>	<u>\$ 26,055</u>

The outstanding receivables from related parties were unsecured. No allowance for loss/bad debt was provided for the receivables from related parties in 2018 and 2017.

(IV) Compensation to key management personnel

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 42,213	\$ 51,068
Post-employment benefits	468	333
	<u>\$ 42,681</u>	<u>\$ 51,401</u>

The compensation to directors and other key management personnel were determined by the Remuneration Committee in accordance with the individual performance and the market trends.

31. Assets pledged as collateral or for security

The following assets were provided as collateral for borrowings from banks:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Available-for-sale financial assets	\$ -	\$276,419
At fair value through other comprehensive income		
Financial assets	264,497	-
Other financial assets		
Bank deposits - time deposits	-	2,000
	<u>\$264,497</u>	<u>\$278,419</u>

32. Major contingent liabilities and unrecognized contract commitments

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2018 and 2017 were as follows::

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Acquisition of property, plant and	<u>\$144,480</u>	<u>\$ 14,432</u>



equipment

33. Significant Subsequent Events

The following motions were resolved and passed by the Company's Board of Directors on March 8, 2019:

- (I) The Company plans to acquire 60% of the shares issued by Green Touch Floors Inc., a Canada-based company, via its offshore investee, FULLHOUSE INVESTMENTS LIMITED. The total trading amount would be US\$1,726,159.
- (II) In order to cover the capital need by FULLHOUSE INVESTMENTS LIMITED (hereinafter referred to as "Fullhouse Investments") to acquire the shares of Green Touch Floors Inc., a Canada-based company, the Company plans to increase the investment in Fullhouse Investments by US\$1.75 million.

34. Information about foreign exchange rate of financial assets and liabilities denominated in foreign currencies

The Group entities significant financial assets and liability denominated in foreign currencies aggregated by the foreign currencies other than the functional currency. The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2018

	(All Currencies in Thousands)		
	Foreign Currencies	Foreign exchange rate	Carrying Amount
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 3,740	30.715 (USD:NTD)	\$ 114,866
USD	14,188	6.8632(USD:RMB)	435,794
<u>Non-monetary items</u>			
Derivatives			
RMB	58,988	Note	2,527
 <u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	521	30.715 (USD:NTD)	15,988
USD	2,433	6.8632(USD:RMB)	74,735
NTD	479,675	0.0326(NTD:USD)	479,675
<u>Non-monetary items</u>			
Derivatives			
RMB	6,870	Note	4

December 31, 2017

	Foreign currencies	Foreign exchange rate	Carrying Amount
<u>Financial assets</u>			
<u>Monetary items</u>			

USD	\$ 8,016	29.7600 (USD:NTD)	\$ 238,548
USD	15,290	6.5342 (USD:RMB)	455,042
<u>Non-monetary items</u>			
Derivatives			
RMB	30,000	Note	646
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	2,184	6.5342 (USD:RMB)	64,987
NTD	634,782	0.0336 (NTD:USD)	634,782

Note: The fair value of the forward foreign exchange contract computed based on the discounted cash flow.

The significant gains or losses on foreign exchange are stated as following:

The Company's gains or losses on foreign exchange were NT\$22,382 thousand and (NT\$68,564) thousand in 2018 and 2017. In consideration of the multiple foreign currency transactions or the multiple functional currencies adopted by the Group's entities, it is impossible to disclose the gains or losses on exchange by various significant foreign currencies.

### 35. Disclosures of Notes

- (a) a. Information about significant transactions and investees:
1. Financing provided to others (Table 1)
  2. Endorsements/guarantees provided for others. (Table 2)
  3. Marketable securities held (exclusive of investments in subsidiaries, associates, and joint ventures). (Table 3)
  4. Marketable securities acquired and disposed of at cost or prices of at least \$300 million or 20% of the paid-in capital. (None)
  5. Acquisition of individual real estate at costs of at least \$300 million or 20% of the paid-in capital. (None)
  6. Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital. (None)
  7. Total purchases from or sales to related parties of at least \$100 million or 20% of the paid-in capital. (Table 4)
  8. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital. (Table 5)
  9. Trading in derivative instruments. (Table 7)
  10. Intercompany relationships and significant intercompany transactions. (Table 6)
  11. Information on investees. (Table 7)
- (b) Information Related to Investment in Mainland China:

1. Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investee, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 8)
2. Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Table 8)
  - (1) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
  - (2) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
  - (3) The amount of property transactions and the amount of the resultant gains or losses.
  - (4) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
  - (5) The highest balance, balance at the end of period, interest rate range, and total current period interest with respect to financing of funds.
  - (6) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or acceptance of services.

36. Segments information

(I) Financial information by department

The key operating policy makers identify the units engaged in production and sale of LVT floors in various districts as individual operating departments. Notwithstanding, when preparing the financial statements, the Group takes the following factors into consideration and summarizes said operating departments as the only one operating department. Therefore, no information by operating department is available.

1. Products similar in nature and process;
2. Similar product pricing strategies;
3. Delivery of the products to customers in similar manners.

(II) Revenue from major products: The revenue from main products earned by the Group's continuing operations is analyzed as following:

	2018	2017
LVT floors	<u>\$ 2,979,348</u>	<u>\$ 3,684,253</u>

(III) Geographic information:

The Group operate in three principal geographical areas – Taiwan and Mainland China.

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

	<u>Revenue from external customers</u>	
	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Europe	\$ 1,492,620	\$ 2,149,708
North America	649,099	740,992
Mainland China	336,820	226,817
Taiwan	213,548	186,557
Others	<u>287,261</u>	<u>380,179</u>
	<u>\$ 2,979,348</u>	<u>\$ 3,684,253</u>

	<u>Non-current assets</u>	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	Mainland China and Hong Kong	\$ 1,111,757
Taiwan	<u>18,889</u>	<u>18,998</u>
	<u>\$ 1,130,646</u>	<u>\$ 1,130,271</u>

Non-current assets above exclude deferred tax assets, financial instruments and refundable deposits.

(IV) Information related to major customers:

Any single major customer representing at least 10% of the Company's total revenue:

	<u>2018</u>	<u>2017</u>
P Group	<u>\$ 1,656,428</u>	<u>\$ 2,344,183</u>

M. J. International Co., Ltd. and subsidiaries  
FINANCINGS PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2018

Table1

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

No. (Note 1)	Financing Company	Counter-party	Financial statement account	Related party	Maximum balance for the period (Note 6)	Ending balance (Note 6)	Amount actually drawn (Notes 4 and 6)	Interest rate %	Nature for financing	Transactio n amount	Reason for financing	Allowanc e for bad debt	Collateral		Financing limits for each borrowing company (Note 3)	Financing company's total financing amount limits (Note 2)
													Item	Value		
0	M. J. International Co., Ltd	Opulent International Group Limit	Other receivable - related party	Yes	\$ 184,290 ( USD 6,000 )	\$ 184,290 ( USD 6,000 )	\$ -	2%	Short-term financing	\$	Operating capital	\$	-	-	\$ 974,844	\$ 974,844
1	Prolong Dongguan	M.J. Shanghai	Other receivable - related party	Yes	156,636 ( RMB 35,000 )	35,802 ( RMB 8,000 )	17,901 ( RMB 4,000 )	3.5%	Short-term financing		Operating capital		-	-	327,948	974,844
		M.J. Beijing	Other receivable - related party	Yes	17,901 ( RMB 4,000 )	17,901 ( RMB 4,000 )	\$12,531 ( RMB 2,800 )	3.5%	Short-term financing		Operating capital		-	-	327,948	974,844
2	M.J. Dongguan	M.J. Shanghai	Other receivable - related party	Yes	107,407 ( RMB 24,000 )	107,407 ( RMB 24,000 )	107,407 ( RMB 24,000 )	3.5%	Short-term financing		Operating capital		-	-	633,741	974,844
3	M.J. Guangzhou	M.J. Shanghai	Other receivable - related party	Yes	44,753 ( RMB 10,000 )	44,753 ( RMB 10,000 )	44,753 ( RMB 10,000 )	3.5%	Short-term financing		Operating capital		-	-	49,745	974,844

Note 1: Notes:

(1) The parent company is coded "0".

(2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The total amount available for lending purpose shall not exceed 40% of the net worth of the Company's most recent financial statements audited, certified or reviewed by the independent external auditors.

Note 3: (1) A single financing, if any, should not exceed the amount of purchases or sales between the financing company and trading counterpart for the most recent year or in the current year until the financing is provided, whichever is higher. A single short-term financing, if any, should not exceed 40% of the net worth of the Company's most recent financial statements audited, certified or reviewed by the independent external auditors.

(2) In the case of overseas subsidiaries wholly-owned directly or indirectly by the Company (not incorporated or registered in Taiwan), the financing provided to others shall not exceed 60% of the net worth of the financing company's most recent financial statements.

Note 4: Intercompany balances and transactions were eliminated upon consolidation..

Note 5: The interest income of Prolong Dongguan was NT\$2,248 thousand, and NT\$2,306 thousand for M.J. Dongguan, and NT\$961 thousand for M.J. Dongguan.

Note 6: Translated based on the ending foreign exchange rate on the balance sheet date.

M. J. International Co., Ltd. and subsidiaries  
ENDORSEMENTS AND GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2018

Table 2

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

No. (Note 1)	Endorsement/guarantee provider	Endorsed/guaranteed party		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 3)	Maximum Balance for the Period (Notes 5 and 6)	Ending balance (Notes 5 and 6)	Amount actually drawn down (Notes 4 and 5)	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 3)	Guarantee provided by parent company to subsidiaries endorsement/guarantee	provided by subsidiaries to parent company endorsement/guarantee	Guarantee Provided to Subsidiaries in Mainland China
		Name	Relationship (Note 2)										
0	M. J. International Co., Ltd.	OPULENT	(2)	\$ 3,655,665	\$ 2,036,828	\$ 1,821,823	\$ 474,000	N/A	75%	\$7,311,330	Yes	No	No
1	Prolong HK	OPULENT	(4)	3,655,665	90,000	-	-	N/A	-	7,311,330	No	No	No

Notes:

(1) The parent company is coded "0".

(2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: The relationship between the endorsement/guarantee provider and the endorsed/guaranteed party may be categorized into the following 7 types:

- (1) A company with which the Company does business.
- (2) A company in which the Company directly and indirectly holds more than 50 percent of the voting shares.
- (3) A company holding more than 50 percent of the voting shares of the Company directly and indirectly.
- (4) A company in which the Company directly and indirectly holds more than 90 percent of the voting shares.
- (5) Where the Company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
- (6) Where all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
- (7) Where the Company and other companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: (1) The total endorsement/guarantee provided by the Company for others shall be no more than 300% of the net worth of the Company's most recent financial statements. The total endorsement/guarantee provided by the Company and its subsidiaries for others shall be no more than 300% of the net worth of the Company's most recent financial statements.

- (2) The total endorsement/guarantee provided by the Company and its subsidiaries to any individual entity shall not exceed 40% of the net worth of the Company's most recent financial statements. Notwithstanding, the total endorsement/guarantee provided for the company's wholly holding the voting shares of the Company directly and indirectly, or among the companies in which the Company wholly hold the voting shares directly or indirectly shall be no more than 150% of the net worth of the Company's most recent financial statements.

Note 4: Already consolidated and written off when the consolidated financial statements were prepared.

Note 5: The maximum (ending) endorsement/guarantee balance and amount actually drawn down were translated based on the foreign exchange rate on the balance sheet date.

Note 6: Including mutual endorsement/guarantee.

M. J. International Co., Ltd. and subsidiaries  
MARKETABLE SECURITIES HELD  
DECEMBER 31, 2018

Table 3

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

Holding company name	Marketable Securities Type and name	Relationship with the holding company (Note 2)	Financial Statement Account	December 31, 2018				Note
				Quantity of shares	Carrying Amount (Note 3)	Shareholding	Fair value	
OPULENT INTERNATIONAL GROUP LIMITED	Banco Santander S.A. 5.179% 11/19/2025 DTD 11/19/2015	—	Financial assets at fair value through other comprehensive income – current	-	\$ 30,565	-	\$ 30,565	Pledged borrowings
	Citigroup Inc. (Note 1) 4.45% 09/29/2027 DTD 09/29/2015	—	"	-	23,732	-	23,732	Note 4
	Huarong Finance II Co., LTD. 5.5% 01/16/2025 DTD 01/16/2015	—	"	-	30,740	-	30,740	Pledged borrowings
	Credit Agricole S.A. London Branch 4.125% 01/10/2027 DTD 01/10/2017	—	"	-	29,573	-	29,573	Pledged borrowings
	SocieteGenerale S.A. 4% 01/12/2027 DTD 01/12/2017	—	"	-	29,251	-	29,251	Pledged borrowings
	PetroleosMexicanos 4.5% 01/23/2026 DTD 03/22/2016	—	"	-	26,604	-	26,604	Pledged borrowings
	Huarong Finance II Co., LTD. 3.625% 11/22/2021 DTD 11/22/2016	—	"	-	60,070	-	60,070	Pledged borrowings
	ESKOM Holdings SOC Limited 6.750% 08/06/2023 DTD 08/06/2013	—	"	-	14,064	-	14,064	Note 4
	Turkiye IS Bankasi A.S. 5.5% 04/21/2022 DTD 10/21/2016	—	"	-	13,848	-	13,848	"
	BanqueOusetAfricaine de Developpement 5.0% 07/27/2027 DTD 07/27/2017	—	"	-	28,994	-	28,994	Pledged borrowings
	Republic Of South Africa 4.85% 09/27/2027 DTD 09/27/2017	—	"	-	28,700	-	28,700	Pledged borrowings
	ESKOM Holdings SOC LTD 5.75% 01/26/2021 DTD 01/26/2011	—	"	-	29,051	-	29,051	Note 4
	Barmenco Finance PTY Limited 6.625% 5/15/2022 DTD 5/15/2017	—	"	-	5,987	-	5,987	"
	Golden Legacy Pte. Ltd. 6.875% 3/27/2024 DTD 3/27/2017	—	"	-	5,752	-	5,752	"

(To be continued)

(Brought forward)

Holding company name	Marketable Securities Type and name	Relationship with the holding company (Note 2)	Financial Statement Account	December 31, 2018				Note
				Quantity of shares	Carrying Amount (Note 3)	Shareholding	Fair value	
	Indika Energy Capital III Pte-Anleihe 5.875% 11/9/2024 DTD 11/9/2017	—	Financial assets at fair value through other comprehensive income – current	-	\$ 5,377	-	\$ 5,377	Note 4
	Yestar Healthcare Holdings Company Limited 6.90% 9/15/2021 DTD 9/15/2016	—	"	-	5,064	-	5,064	"
	Golden Wheel Tiandi Holdings Company Limited 8.250% 11/3/2019 DTD 11/3/2016	—	"	-	5,990	-	5,990	"
	Prime Bloom Holdings Limited 7.5% 12/19/2019 DTD 12/19/2016	—	"	-	5,767	-	5,767	"
	Yuzhou Properties Company Limited 6.00% 1/25/2022 DTD 1/25/2017	—	"	-	5,688	-	5,688	"
	China Evergrande Group 8.750% 6/28/2025 DTD 6/28/2017	—	"	-	5,194	-	5,194	"
	Zhongrong International Resources Co., Ltd 7.250% 10/26/2020 DTD 10/26/2017	—	"	-	3,503	-	3,503	"
	Jiuding Group Finance 6.5% 7/25/2020 DTD 7/25/2017	—	"	-	4,239	-	4,239	"
	Yango Justice International Limited 7.500% 11/16/2020 DTD 11/16/2017	—	"	-	5,351	-	5,351	"
	Wuhan Dangdai Science & Technology Industries Group, 7.25% 11/20/2020 DTD 11/20/2017	—	"	-	5,465	-	5,465	"
	Times Property Holdings Limited 6.600% 3/2/2023 DTD 11/30/2017	—	"	-	5,400	-	5,400	"
	Tianfang Jincheng BVI Limited 5.5% 1/24/2019 DTD 1/25/2018	—	"	-	9,214	-	9,214	"
	Logan Property Holdings Company Limited 6.375% 03/07/2021 DTD 03/07/2018	—	"	-	<u>6,000</u>	-	<u>6,000</u>	"
					<u>\$ 429,183</u>		<u>\$ 429,183</u>	

(To be continued)



(Brought forward)

Holding company name	Marketable Securities Type and name	Relationship with the holding company (Note 2)	Financial Statement Account	December 31, 2018				Note
				Shares/Units	Carrying Amount (Note 3)	Percentage of Ownership (%)	Fair value	
	Softbank Group Corp 6.875% Perpetual DTD 7/19/2017	—	Financial assets at fair value through other comprehensive income - non-current	-	\$ 4,956	-	\$ 4,956	Note 4
	RKP Overseas Finance 2016 (A) Limited 7.95% Perpetual DTD 2/17/2017	—	"	-	4,705	-	4,705	"
	China Grand Automotive Services 5.625% Perpetual DTD 10/30/2017	—	"	-	5,167	-	5,167	"
	HSBC Holdings PLC, 6% Perpetual DTD 5/22/2017	—	"	-	5,626	-	5,626	"
	Standard Chartered PLC 7.5% Perpetual DTD 8/18/2016	—	"	-	<u>6,158</u>	-	<u>6,158</u>	"
					<u>\$ 26,612</u>	-	<u>\$ 26,612</u>	
Dongguan Pulong Plastic Products Co., Ltd.	China Construction Bank Company Limited, QianYuan-TianTianYing 30-day Open-end RMB Financial Investment Product	—	Financial assets at fair value through profit or loss - current		\$ 22,377	-	\$ 22,377	"
Guangzhou Pu Li Hua Mei Jer Construction and Decoration Materials Co., Ltd.	ICBC Corporate Banking RMB Wealth Management Product 2018, 212nd Term (Guangdong) (127 days)	—	"		<u>33,565</u>	-	<u>33,565</u>	"
					<u>\$ 55,942</u>	-	<u>\$ 55,942</u>	

Note 1: The marketable securities referred to herein shall mean the stocks, bonds, beneficiary certificates and securities derivative from said instruments falling in the scope under IFRS 9 “Financial Instruments”.

Note 2: The securities issuer is not a related party.

Note 3: The balance of carrying amount at fair value upon adjustment.

Note 4: The securities as listed are not provided as security or pledge/mortgage for borrowings, or restricted according to any other agreements.

M. J. International Co., Ltd. and its subsidiaries  
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2018

Table 4

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

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivable (Payables)		Note
			Purchase/(sale)	Amount (Note 1)	% to total purchase (sale)	Payment Terms	Unit Price	Payment Terms	Ending Balance (Note 1)	% to Total (Note 2)	
OPULENT	M.J. International Flooring And Interior Products Inc.	Associate	(Sale)	( \$ 153,762 )	( 5% )	120 days after monthly closing days	-	-	\$ 14,592	1%	
	M.J. Dongguan	Associate	(Sale)	( 334,740 )	( 11% )	120 days after monthly closing days	-	-	58,613	6%	
	M.J. Dongguan	Associate	Purchase	1,314,417	47%	120 days after monthly closing days	-	-	( 185,944 )	( 36% )	
	Prolong Dongguan	Associate	(Sale)	( 257,770 )	( 8% )	120 days after monthly closing days	-	-	16,122	2%	
	Prolong Dongguan	Associate	Purchase	916,106	32%	120 days after monthly closing days	-	-	( 249,846 )	( 48% )	
M.J. Dongguan	OPULENT	Associate	(Sale)	( 1,314,417 )	( 83% )	120 days after monthly closing days	-	-	185,944	76%	
	OPULENT	Associate	Purchase	334,740	34%	120 days after monthly closing days	-	-	( 58,613 )	( 20% )	
Prolong Dongguan	OPULENT	Associate	(Sale)	( 916,106 )	( 98% )	120 days after monthly closing days	-	-	249,846	99%	
	OPULENT	Associate	Purchase	257,770	40%	120 days after monthly closing days	-	-	( 16,122 )	( 10% )	
M. J. Taiwan	OPULENT	Associate	Purchase	153,762	100%	120 days after monthly closing days	-	-	( 14,592 )	( 100% )	

Note 1: Already consolidated and written off when the consolidated financial statements were prepared.

Note 2: Computed based on the amount or balance of the transactions with each seller and purchaser.

M. J. International Co., Ltd. and subsidiaries

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

DECEMBER 31, 2018

Table 5

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

Company Name	Related Party	Relationship	Ending Balance (Note 1)	Turnover rate	Overdue		Amounts Received in Subsequent Period (Note 2)	Allowance for Bad Debts
					Amount	Action taken		
M.J. Dongguan	OPULENT	Associate	Trade receivables \$ 185,944	6.19	\$ -	—	\$ 185,944	\$ -
M.J. Dongguan	M.J. Shanghai	Associate	Other receivables 108,034 (Note 3)	-	-	—	-	-
Prolong Dongguan	OPULENT	Associate	Trade receivables 249,846	3.93	-	—	155,162	-

Note 1: Already consolidated and written off when the consolidated financial statements were prepared.

Note 2: The amount received in the subsequent period means that the collection was made by March 8, 2019.

Note 3: The amount bears receivable interest.

M. J. International Co., Ltd. and subsidiaries  
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2018

Table 6 (Amounts in thousands of New Taiwan dollars and foreign currencies)

No. (Note 1)	Company Name	Related Party	Relationship (Note 2)	Transactions Details			
				Financial Statements Account	Amount (Notes 4 and 5)	Terms	Percentage of Consolidated Total Gross Sales or Total Assets (Note 3)
0	M. J. International Co., Ltd	OPULENT	(1)	endorsement/guarantee	\$ 1,821,823	—	48%
1	OPULENT	M.J. Dongguan.	(3)	Sales	334,740	the selling price based on the cost	11%
		M.J. Dongguan	(3)	Trade receivables	58,613	120 days after monthly closing days	2%
		Prolong Dongguan	(3)	Sales	257,770	the selling price based on the cost	9%
		Prolong Dongguan	(3)	Trade receivables	16,122	120 days after monthly closing days	-
		M. J. Taiwan	(3)	Sales	153,762	the selling price based on the cost	(5)
		M. J. Taiwan	(3)	Trade receivables	14,592	120 days after monthly closing days	-
2	M.J. Dongguan	OPULENT	(3)	Sales	1,314,417	the selling price by price negotiation	44%
		OPULENT	(3)	Trade receivables	185,944	120 days after monthly closing days	(5)
		M.J. Shanghai	(3)	Other receivables	108,034	Financing (including interest receivable)	3%
3	Prolong Dongguan	OPULENT	(3)	Sales	916,106	OA 120 days after the sale by price negotiation	31%
		OPULENT	(3)	Trade receivables	249,846	—	7%
		M.J. Shanghai.	(3)	Other receivables	17,993	Financing (including interest receivable)	-
		M.J. Beijing	(3)	Other receivables	12,567	Financing (including interest receivable)	-
		M.J. Shenyang	(3)	Investments Accounted for Using Equity Method	21,034 ( RMB 4,700 )	—	1%
4	M.J. Guangzhou	M.J. Shanghai	(3)	Other receivables	45,014	Financing (including interest receivable)	1%

The business relationship between the parent and the subsidiaries:

M. J. International Co., Ltd and Prolong HK are primarily engaged in investment holding.

OPULENT is primarily engaged in international trading.

M.J. Dongguan and Prolong Dongguan are primarily engaged in processing, production and sale of tiles, decoration materials and new construction materials as well as investment holding.

M.J. Taiwan, M.J. Chongqing ,M. J. Guangzhou, M.J. Beijing , M. J. Shanghai, and M.J. Wuhan , M.J. Shenyang are primarily engaged in sale of construction and decoration materials.

Note 1: The information about transactions between the parent and the subsidiaries shall be noted in the following manners:

(1) 0 stands for the parent company.

(2) The subsidiaries shall be numbered from 1 in Arabic numeral sequentially by the company.

Note 2: The relationship with the trader may be categorized into the following 3 types. The schedule only discloses the information about unilateral transactions, which were already consolidated and written off when the consolidated financial statements were preparing.

(1) Parent company vs. subsidiary

(2) Subsidiary vs. parent company

(3) Subsidiary vs. subsidiary

Note 3: The percentage of the amount of transaction to the consolidated total operating revenue or total assets shall be computed as the ending balance to the consolidated total assets, in the case of assets and liabilities, or as the interim accumulated amount to the consolidated total operating revenue, in the case of profit or loss.

Note 4: If it is denominated in foreign currency, translated based on the foreign exchange rate on the balance sheet date.

Note 5: Already consolidated and written off when the consolidated financial statements were prepared.

M. J. International Co., Ltd. and its subsidiaries  
Information about investees' names and territories, et al. (exclusive of the investees in mainland China)  
FOR THE YEAR ENDED DECEMBER 31, 2018

Table 7

(Thousand shares and NT\$ thousand)

Investor	Investee	Territory	Main Business and Product	Original Investment Amount		Balance as of December 31, 2018			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2018	December 31, 2017	Shares (In Thousands)	Percentage of Ownership	Carrying Amount			
M. J. International Co., Ltd.	Prolong HK	Hong Kong	Investment holding	NTD 290,564 ( USD 9,460 )	NTD 281,530 ( USD 9,460 )	-	100	NTD 1,603,518	NTD 61,469	NTD 61,469	Notes 1, 2 and 4
	OPULENT INTERNATIONAL GROUP LIMITED	Hong Kong	International trading	NTD 267,221 ( USD 8,700 )	NTD 258,912 ( USD 8,700 )	8,700	100	NTD 725,105	NTD 181,768	NTD 181,768	Notes 1, 2 and 4
	M.J. International Flooring And Interior Products Inc.	Taiwan	Sale and processing of plastic tiles, decoration materials and construction materials.	NTD 38,000	NTD 38,000	5	100	NTD 137,723	NTD 12,656	NTD 12,656	Notes 1 and 2
	FULLHOUSE INVESTMENTS LIMITED	Samoa	Investment holding	- (Note 5)	-	-	-	-	-	-	-

Note 1: The related investment income shall be recognized based on the investees' financial statements ended for the same periods.

Note 2: Already consolidated and written off when the consolidated financial statements were prepared.

Note 3: For the information about the investees in mainland China, please see Schedule 8 hereto.

Note 4: In the case of investment denominated in foreign currency, it shall be translated based on the foreign exchange rate on the balance sheet date.

Note 5: FULLHOUSE INVESTMENTS LIMITED was founded and registered on November 2, 2018, which has not yet contributed any capital by December 31, 2018.

M. J. International Co., Ltd. and its subsidiaries  
Information Related to Investments in Mainland China  
FOR THE YEAR ENDED DECEMBER 31, 2018

Table 8

Unit: NTD Thousand/foreign currency thousand

Investee Company	Main Business and Product	Total Amount of Paid-in Capital (Note 6)	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Percentage of Ownership %	Net Income (Losses) of the Investee Company	Investment Income (Loss) Recognized (Note 2(II)2)	Carrying Amount as of December 31, 2018 (Note 5)	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
M.J. Dongguan	Production and sale of tiles, decoration materials and construction materials, and investment holding.	\$ 834,544 (USD 27,171)	(II) (1)	\$ -	\$ -	\$ -	\$ -	100	\$ 47,034	\$ 46,320	\$ 1,054,442	\$ -
Prolong Dongguan	Production and sale of tiles, decoration materials and construction materials, and investment holding.	307,948 (HKD 78,538)	(II) (1)	-	-	-	-	100	15,601	15,183	545,701	-
M.J. Chongqing	Sale of plastic tiles, decoration materials and construction materials.	35,802 (RMB 8,000)	(2) (1)	-	-	-	-	100	121	121	17,244	-
M.J. Beijing	Sale of plastic tiles, decoration materials and construction materials.	40,278 (RMB 9,000)	(2) (1)	-	-	-	-	100	( 3,127)	( 3,127)	9,926	-
M.J. Shanghai.	Sale of plastic tiles, decoration materials and construction materials.	210,339 (RMB 47,000)	(2) (1)	-	-	-	-	100	( 33,661)	( 33,661)	145,709	-
M.J. Guangzhou	Sale of plastic tiles, decoration materials and construction materials.	67,130 (RMB 15,000)	(2) (1)	-	-	-	-	100	7,728	7,728	82,908	-

Investee Company	Main Business and Product	Total Amount of Paid-in Capital (Note 6)	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Percentage of Ownership %	Net Income (Losses) of the Investee Company	Investment Income (Loss) Recognized (Note 2(II)2)	Carrying Amount as of December 31, 2018 (Note 5)	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Outward						
M.J. Wuhan	Sale of plastic tiles, decoration materials and construction materials.	49,228 (RMB 11,000)	(2) (1)	-	-	-	-	100	( 760 )	( 760 )	40,867	-
M.J. Xian	Sale of plastic tiles, decoration materials and construction materials.	22,377 (RMB 5,000 )	(2) (1)	-	-	-	-	100	( 396 )	( 396 )	21,404	-
M.J. Shenyang.	Sale of plastic tiles, decoration materials and construction materials.	21,034 (RMB 4,700)	(2) (1)	-	-	-	-	100	( 375 )	( 375 )	20,665	-

Amount accumulated, remitted from Taiwan for investment in Mainland China at the end of the current term	Investment Amount Approved by Investment Commission of MOEA	Limit on Mainland China Investment Amount As Regulated by Investment Commission of MOEA
(Note 4)	(Note 4)	(Note 4)

Note 1: The mode of investment is categorized into the following three types:

- (I) Direct investment in companies in the territories of mainland China.
- (II) Through investing in an existing company in the third area, which then investing in the investee in Mainland China.
  - (1) Investment in companies in mainland China via the company in a third territory (Prolong International Company Limited).
  - (2) Investment in companies in mainland China via M.J. Dongguan and Prolong Dongguan . reinvested by the company in a third territory (Prolong International Company Limited).
- (III) Other modes.

Note 2: In the recognized current investment income section:

- (I) To be noted, if it is under preparation and no investment income has generated therefor.
- (II) The basis for recognition of investment income may be categorized into the following three types. Please identify it.
  - (1) Financial statements audited by the international CPA firm which enters into cooperative relationship with any R.O.C. CPA firm.
  - (2) Financial statement audited by the independent external auditor of the parent company in Taiwan.
  - (3) Others.

Note 3: Already consolidated and written off when the consolidated financial statements were prepared.

Note 4: Not applicable, as the Company is not a company incorporated in the R.O.C.

Note 5: Including the unrealized income from side-stream transactions.



Note 6: Translated based on the foreign exchange rate on the balance sheet date.

Any significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:

1. The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: Please see Table 4.
2. The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: Please see Table 4.
3. The amount of property transactions and the amount of the resultant gains or losses: None.
4. The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: None.
5. The highest balance, balance at the end of period, interest rate range, and total current period interest with respect to financing of funds: See Table 1.
6. Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or acceptance of services: None.

V. Entity financial statement and auditing report for the most recent year: N/A.

VI. If the Company and its affiliates have encountered any financial difficulties in the most recent two years and until the date of publication of the annual report, the impact on the Company's financial condition shall be specified: None.

## Seven. Discussion and Analysis of Financial Position and Financial Performance, and Risks

### (I) Financial position

Unit: NT\$ thousand; %

Item	Year	Year2017	Year2018	Variance	
				Amount	%
Current assets		2,783,394	2,604,307	(179,087)	(6.43%)
Property, Plant and Equipment		736,178	989,331	253,153	34.39%
Intangible Assets		4,435	2,416	(2,019)	(45.52%)
Other assets		397,550	172,807	(224,743)	(56.53%)
Total assets		3,921,557	3,768,861	(152,696)	(3.89%)
Current liabilities		1,235,071	1,277,245	42,174	3.41%
Non-current liabilities		116,142	54,506	(61,636)	(53.07%)
Total liabilities		1,351,213	1,331,751	(19,462)	(1.44%)
Equity attributable to owners of the parent		2,570,344	2,437,110	(133,234)	(5.18%)
Capital stock		660,590	660,590	-	-
Capital surplus		1,205,967	1,205,967	-	-
Retained earnings		749,315	650,599	(98,716)	(13.17%)
Other equity		(45,528)	(80,046)	(34,518)	(75.82%)
Total equity		2,570,344	2,437,110	(133,234)	(5.18%)

The main reasons for the change by more than 20% and the amount of change amounting to more than NT\$10 million are analyzed and stated as following:

1. Ratio of long-term capital to property, plant and equipment: The translation of pre-payment for property into buildings in 2018 resulted in the decrease in other assets and increase in property, plant and equipment.
2. Non-current liabilities: The decrease in deferred income tax liabilities in 2018 resulted in the decrease in non-current liabilities.
3. Other equity: The decrease in realized gain or loss from financial assets at fair value through other comprehensive income in 2018 resulted in the decrease in other equity.

(II) Financial performance

1. Analysis on operating results for the most recent two years:

Unit: NT\$ thousand; %

Item \ Year	Year2017	Year2018	Variance	
			Amount	%
Operating revenue	3,684,253	2,979,348	(704,905)	(19.13%)
Operating cost	2,753,113	2,333,872	(419,241)	(15.23%)
Gross profit	931,140	645,476	(285,664)	(30.68%)
Operating expenses	388,006	387,297	(709)	(0.18%)
Operating profit	543,134	258,179	(284,955)	(52.46%)
Non-operating revenue and expense	(26,534)	56,524	83,058	313.02%
Net profit before tax	516,600	314,703	(201,897)	(39.08%)
Income tax expenses	21,883	4,267	(17,616)	(80.50)
Current operating profit	494,717	310,436	(184,281)	(37.25%)

The main reasons for the change by more than 20% and the amount of change amounting to more than NT\$10 million are analyzed and stated as following:

1. Non-operating revenue and expense: The foreign currency exchange loss generated from the New Taiwan Dollar appreciation in 2018 resulted in the decrease in non-operating revenue and expense.
2. Net profit before tax and current operating profit: The decrease in gross profit and non-operating revenue and expense in 2018 resulted in the decrease in both of the net profit before tax and current operating profit.

2. Expected sales volume and the basis thereof, and the possible impact of such changes upon the Company's financial and business affairs, and how the Company plans to respond

For the Company's expected sales volume, the Company sets the annual shipment target based on the previous year's sales performance, the estimation of market demand and customer orders already in place, and also by taking into account such factors as the supply status of major raw materials. Subject to the market demand and changes, the Company will upgrade its market share to increase the profit to be sought by the Company. The Company's business may grow continuously and its financial position is also considered fair.

(III) Cash flow

1. The cash flow changes during the most recent year (2018) are analyzed and explained as following:

Unit: NT\$ thousand; %

Item \ Year	Year2017	Year2018	Increase (decrease)	
			Amount	%
Net cash inflow from operating activities	78,560	485,559	406,999	518.07%
Net cash inflow(outflow) from investing activities	(1,041,789)	186,606	1,228,395	117.91%
Net cash inflow(outflow) from financing activities	159,316	(544,140)	(703,456)	(441.55%)

Analysis of the changes:

1. Net cash inflow from operating activities: The decrease in accounts receivable at the end of 2018 from the end of last year and the increase in accounts payable at the end of 2018 from the end of last year resulted in the increase in net cash inflow from operating activities.
2. Net cash inflow from investing activities: The sale of bonds and funds in 2018 resulted in the increase in net cash inflow from investing activities from the previous year.
3. Net cash outflow from financing activities: The repayment of short-term loans with the proceeds from sale of bonds and funds in 2018 resulted in the increase in net cash outflow from financing activities from the previous year.

2. Corrective measures to be taken in response to illiquidity:

The Group's cash flow from consolidated operations appears to grow positively in 2018. Therefore, no illiquidity takes place.

3. Liquidity analysis for the coming year (2019):

Unit: NT\$ thousand

Cash balance, beginning (1)	Net cash flow from operating activities for the year (2)	Net cash flow from investing and financing activities for the year (3)	Cash balance (1)+(2)+(3)	Corrective measures against projected insufficient cash position	
				Investment plan	Wealth management plan
666,079	330,295	(384,005)	612,369	-	-

Analyze and explain any changes in the Company's projected cash flow in 2019:

- (1) Net cash inflow from operating activities: Primarily resulting from the cash receipts generated from the projected operating revenue growth in 2019.
- (2) Net cash outflow from investing and wealth management activities: Primarily resulting from the distribution of cash dividends in 2019, and the projected investment in new SPC equipment and other automated equipment.

(IV) Material capital expenditures in the most recent year and impact on business/finance:

The Company's payment for acquisition of property, plant and equipment amounted to NT\$76,732 thousand and NT\$80,660 thousand in 2017 and 2018 respectively, primarily in order to deal with the Shanghai Operations Headquarters purchased in response to the Company's market development strategy and equipment purchased to increase the automation ratio continuously. The Company's property, plant and equipment turnover was 4.93 and 3.01 in 2017 and 2018 respectively. The decrease in turnover was initially a result of 2018 revenue decrease due to the inventory adjustment of customers in Europe. Notwithstanding, the actual investment capital didn't increase significantly last year. Therefore, the impact rendered by the capital expenditure on the Company's business/finance is not considered material.

(V) Investment strategies, causes for investment gains and losses, and planned improvements for the most recent year and the investment plan for the coming year

1. Investment strategies

The Company's investment strategies are set forth in line with the Company's business needs. The operating revenue of the subsidiaries invested by it appears to grow stably, due to the export to European and US markets. The Company's current investment strategies and operating procedures follow the "Regulations Governing Acquisition or Disposition of Assets" and "Regulations Governing Supervision and Management of Subsidiaries" passed by the directors' meeting or shareholders' meeting, and the investment cycles under the internal control system apply. The various subsidiaries shall comply with the Company's requirements and shall also

engage in adequate internal controls pursuant to the local laws and subject to the actual operations.

2. Investment strategies, causes for investment gains and losses, and planned improvements for the most recent year and the investment plan for the coming year

The Company's investment strategies are set forth in line with the Group's business needs. The operating revenue of the subsidiaries invested by it appears to remain stable, due to the export to European and US markets. The Company's current investment strategies and operating procedures follow the "Regulations Governing Acquisition or Disposition of Assets" and "Regulations Governing Supervision and Management of Subsidiaries" passed by the directors' meeting or shareholders' meeting, and the investment cycles under the internal control system apply. The various subsidiaries shall comply with the Group's requirements and shall also engage in adequate internal controls pursuant to the local laws and subject to the actual operations. The investment plan in 2019 concerns the projected investment in new machine and equipment for mass production upon the successful trial production of new SPC products, and the investment in equipment required to increase the automation ratio.

(VI) Analysis and assessment of risk factors for the most recent year until the date of publication of the annual report

(I) Risk factors

1. Impact of interest rate, exchange rate changes, and inflation on the Company's earnings, and responsive measures:

(1) Interest rate changes

The Company's interest revenue amounted to NT\$39,956 thousand and NT\$8,727 thousand in 2018 and Q1 of 2019 respectively, namely 1.34% and 1.03% of the operating revenue, net. The interest expenses were NT\$5,134 thousand and NT\$1,111 thousand, namely 0.17% and 0.13% of the operating revenue, net. The interest revenue and expense accounted for a small proportion of the operating revenue; therefore, the interest rate changes rendered no significant impact on the Company's business and finance. Notwithstanding, the Group will continue to strengthen its communication between it and banks, and closely observe and verify the changes in market interest rates. Meanwhile, it will control the interest rate risk effectively, by sound financial planning, various financial tools, and most favorable fund-raising tools in the capital market.

(2) Exchange rate changes

The Company's main sales revenue is collected in USD, and the mainland China serves as the main production base of the Company. The employees' salary, part of the raw materials and miscellaneous expenses are paid in RMB. Therefore, there is a risk over exchange rate changes for the USD against RMB. Further, after the Company is listed in Taiwan, it will need to distribute the stock dividend to the investors in NTD within the R.O.C. or convert the the fund raised within the R.O.C. from NTD to USD for utilization. Therefore, there is a risk over exchange rate changes for the USD against NTD.

The net foreign currency exchange gains or loss resulting from the operating activities was NT\$22,382 thousand and NT\$2,590 thousand in 2018 and Q1 of 2019 respectively, namely 0.75% and 0.31% of the operating revenue for the years.

The Company has already amended the "Regulations Governing Engagement in Derivatives Trading" to require that the derivatives should be managed for the purpose of hedging only in the future. Further, the responsive measures to be taken against the risk over exchange rate changes resulting from operating activities are stated as following:

- ① For the procurement of major raw materials, subject to the foreign exchange rate fluctuation, the Company will negotiate with suppliers for the denomination in USD to increase the effect of natural hedge.
- ② According to the quotation policy toward clients, when the foreign exchange fluctuation is beyond specific range upon assessment, the sale nit shall feed back to the customers immediately and negotiate with the customers to adjust the selling price.
- ③ Negotiate with customers to shorten the days of accounts receivable to reduce the foreign exchange risk arising from the foreign currency accounts receivable due to the time factor.
- ④ Open a foreign currency deposit account to manage the net foreign currency position; have dedicated personnel to assess the Company's capital needs and decide the timing and amount of foreign exchange, so as to reduce the impact of exchange rate changes on the income and also achieve the effect of natural hedge.

- ⑤ Keep close contact with the bank's foreign exchange department and collect market information actively to control the potential exchange rate trend completely; subject to the exchange rate fluctuation and foreign currency position held by the Company, decide whether to underwrite financial derivatives to evade the foreign exchange risk according to the "Regulations Governing Engagement in Derivatives Trading" established by the Company.

(3) Inflation

For the time being, the inflation renders no significant impact on the Company's income. According to the Company's responsive measures, the Company will refer to the economic indicators and research reports provided by domestic and foreign economic research institutions and professional investment institutions from time to time, and provide the same to the management for reference to help the management make decisions.

2. Policies on high-risk and highly leveraged investments, financing provided to others, endorsements/guarantees, and derivatives trading, main causes of any profits or losses incurred, and future responsive measures:

The Company refrains from engaging in high-risk and highly leveraged investments. It engages in financing provided to others, endorsements/guarantees and derivatives trading per the policies and responsive measures established under the Company's "Regulations Governing Financing Provided to Others", "Regulations Governing Endorsement/Guarantee" and "Regulations Governing Engagement in Derivatives Trading". In the future, the Company's derivatives trading policy will still remain conservative and stable to evade the risk over substantial foreign exchange fluctuation.

3. Future research and development plans and projected R&D expenses:

Though the Company engages in the traditional industry, it invests in R&D actively in order to maintain its profitability and industrial competitiveness. Its future R&D plan includes the improvement of process and development of new products. The improvement of process aims to upgrade the automation and cut production costs. Further, in order to be in line with the market trend and satisfy different market users' needs, the Company will continue to develop new products.

Following the growth in turnover, the Company will also increase the annual R&D expenses step by step to support the future R&D plans and also upgrade the Company's strength in production and industrial competitiveness.

4. Impact on the Company's business/finance due to changes in domestic or foreign important policies and laws, and responsive measures:

The Company is registered in the Cayman Islands, which refer to a country of open economy and free from foreign exchange control. Therefore, the investment environment is stable locally. The Company carries out its operations primarily in the mainland China, Hong Kong and Taiwan, where the political and economic environment is considered stable. The Company engages in production of various products and carries out its operations in accordance with the national policies and laws & regulations of the countries where it is registered and operates. Meanwhile, the Company will keep watching and controlling the development of policies and changes in laws and the impact thereof on the Company, in order to help the Company, take appropriate responsive measures. No material impact on the Company's business/finance due to changes in domestic or foreign important policies and laws has taken place during the most recent year and until the date of publication of the prospectus.

5. Impact on the Company's business/finance due to technological or industrial changes, and responsive measures:

The Company's main business lines refer to the development, production and sale of sheet plastic flooring. The sheet plastic flooring is identified as the product emerging later but growing highly on the flooring industry. The Company is committed to the development of new styles, new materials and new processes for sheet flooring, and continues to research and develop oriented toward environmental-friendly and human-friendly materials. Meanwhile, the Company will keep concerning the relevant technological changes in the industry, controlling the latest trends, and assessing the impact thereof on the Company's operations. No material impact on the Company's business/finance due to technological or industrial changes has taken place during the most recent year and until the date of publication of the prospectus.

6. Impact of changes in the corporate identity on the Company's crisis management, and responsive measures:

The Company upholds the management philosophy focusing on "Ethical Management-Based and Customers as First Priority", dedicated to production and sale of sheet plastic flooring, complying with relevant laws and regulations, promoting various certifications actively, and maintaining harmonious labor-management relations at the same time. Since the Company was founded, it has kept its fair industrial position and goodwill. Therefore, there is no change in corporate identity resulting in the Company's corporate crisis management.

7. Expected benefits, possible risks and responsive measures of merger and acquisitions:

The Company had no merger and acquisition project during the most recent year and until the date of publication of the prospectus.

8. Expected benefits, risks and responsive measures associated with plant expansions:  
None.

9. Risks and responsive measures associated with concentrated sales or purchases:

- (1) Purchases

The Company is a professional manufacturer engaged in manufacturing sheet plastic flooring. The raw materials purchased by it are mainly PVC powder, transparent materials, printed film and plasticizers. In 2018 and Q1 of 2019, the purchase amount to the largest supplier accounted for 17.73% and 21.89% of the consolidated total purchase amount, net. Therefore, there should be no significant risk over excessively concentrated purchases.

In order to enhance the mobility for the source of supply, the Company purchases main raw materials from more than two suppliers. The source of supply is considered stable, and no interruption or shortage of supply has taken place for the most recent year or period.

- (2) Sales

The Group's sales to the largest customer are 32.98% and 39.53% in 2018 and Q1 of 2019. Further, Group K's subsidiaries were used to negotiating with the Company for the sale conditions independently and placing order individually. Group K is one of the leading brand for PVC flooring in Europe. In consideration of the high production cost in Europe, it was used to contracting the production of PVC flooring to other suppliers. Through the cooperation between both parties for many years, both parties signed an exclusive supply contract, agreeing that the Company should be the exclusive OEM for the products referred to therein sold in countries in Europe and North Africa and the Company should supply said products to Group K only in said countries. The Company keeps maintaining the fair relationship with Group K and also strives to enhance its competitive strength in pricing by upgrading the



production capacity and improving process, and developing new products to seek the opportunity for acting as the OEM of leading suppliers in North America. Meanwhile, the Company also starts operating its private brand and develops distribution channels in the mainland China. By developing new customers and expanding the market in the mainland China, the Company should be able to upgrade its sales effectively and thereby enable the Company's business/finance to be more stable.

10. Impacts, risks and responsive measures following a major transfer or replacement of shareholding by directors, supervisors, or shareholders with more than 10% ownership interest:

No business risk has been caused by the major transfer or replacement of shareholding by directors, supervisors, or shareholders with more than 10% ownership interest.

11. Impacts, risks and responsive measures associated with a change of management:

The Company had no change of management during the most recent year and until the date of publication of the prospectus.

The Group has appointed independent directors, established the Audit Committee and strengthened various corporate governance policies. Therefore, the change of management, if any, is not likely to render adverse impact or business risk against the Company.

12. Major litigations and non-contentious cases: Describe the major litigations, non-contentious cases or administrative litigations involving the Company or any director, supervisor, President, person-in-charge or major shareholder with more than 10% ownership interest, whether concluded or pending judgment, that are likely to pose significant impact to shareholders' equity or security prices of the Company, and disclose the nature of dispute, the claimed value, the date when the litigation first started, the key parties involved, and progress as of the publication date of the annual report:

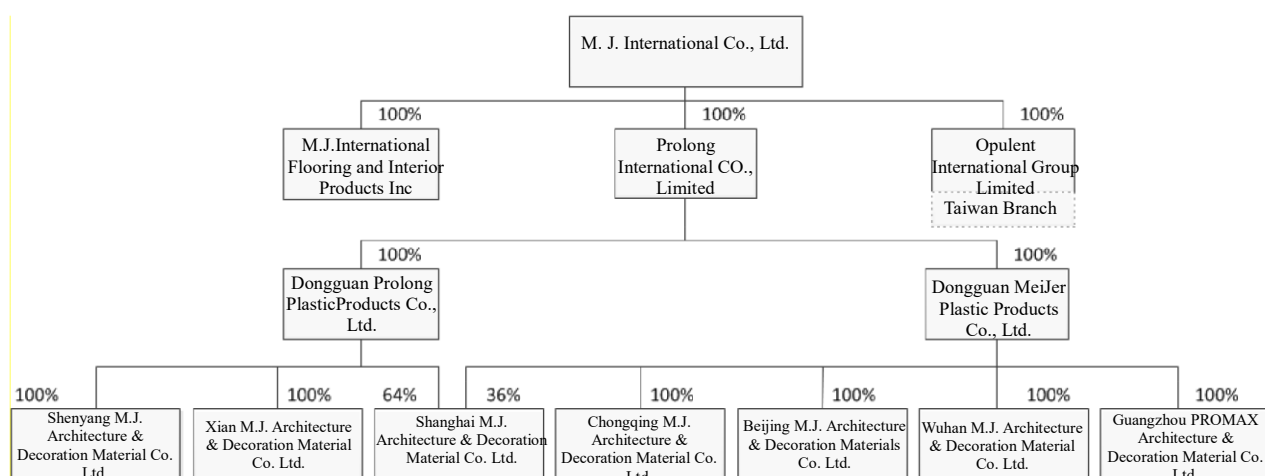
13. Other significant risks and responsive measures: None.

VIII. Other important notes: None.

## Eight. Special notes

### I. Consolidated business reports of affiliated enterprises

#### (I) Organizational chart of affiliated enterprises



#### (II) Basic information by affiliated enterprise

Capital unit: NT\$ thousand

Company name	Date of incorporation	Territory	Paid-in capital	Main functions
Prolong International Co., Limited	November 18, 2010	Hong Kong	USD9,460	Investment holding
Opulent International Group Limited	November 15, 2012	Hong Kong	USD8,700	Procurement of raw materials and acceptance of order for export
Opulent International Group Limited Taiwan Branch	January 4, 2013	Taiwan R.O.C.	-	Business location dedicated to accepting orders for export
M.J.International Flooring and Interior Products Inc	May 15, 1982	Taiwan R.O.C..	NTD50,000	Sales and business location in the territories of Taiwan
Dongguan Prolong PlasticProducts Co., Ltd.	August 10, 1993	China	HKD78,538	Investment holding, and production of sheet plastic flooring
Dongguan MeiJer PlasticProducts Co., Ltd.	January 1, 2002	China	USD27,171	Investment holding, and production of sheet plastic flooring
Chongqing M.J. Architecture & Decoration Material Co. Ltd.	November 23, 2012	China	RMB8,000	Sales and business location in the territories of the mainland China
Beijing M.J. Architecture & Decoration Materials Co. Ltd.	January 6, 2013	China	RMB9,000	Sales and business location in the territories of the mainland China
Shanghai M.J. Architecture & Decoration Material Co. Ltd.	January 7, 2013	China	RMB47,000	Sales and business location in the territories of the mainland China
Guangzhou PROMAX Architecture & Decoration Material Co. Ltd.	August 1, 2013	China	RMB15,000	Sales and business location in the territories of the mainland China
Wuhan M.J. Architecture & Decoration Material Co. Ltd.	June 16, 2016	China	RMB11,000	Sales and business location in the territories of the mainland China
Xian M.J. Architecture & Decoration Material Co. Ltd.	August 18, 2017	China	RMB5,000	Sales and business location in the territories of the mainland China
Shenyang M.J. Architecture & Decoration Material Co. Ltd.	May 27, 2018	China	RMB4,700	Sales and business location in the territories of the mainland China

(III) Information on shareholders presumed to have a controlling and dependent relationship:  
None.

(IV) The industry covered by the business operated by the entire affiliated enterprises

Company name	Main functions within the Group
M.J.International Flooring and Interior Products Inc	Domestic sales and business location in Taiwan
Prolong International Co., Limited	Investment holding
Opulent International Group Limited	Procurement of raw materials
Opulent International Group Limited Taiwan Branch	Business location dedicated to accepting orders for export
Dongguan Prolong PlasticProducts Co., Ltd.	Investment holding, and production of sheet plastic flooring
Dongguan MeiJer PlasticProducts Co., Ltd.	Investment holding, and production of sheet plastic flooring
Chongqing M.J. Architecture & Decoration Material Co. Ltd.	Sales and business location in the territories of the mainland China
Beijing M.J. Architecture & Decoration Materials Co. Ltd.	Sales and business location in the territories of the mainland China
Shanghai M.J. Architecture & Decoration Material Co. Ltd.	Sales and business location in the territories of the mainland China
Guangzhou PROMAX Architecture & Decoration Material Co. Ltd.	Sales and business location in the territories of the mainland China
Wuhan M.J. Architecture & Decoration Material Co. Ltd.	Sales and business location in the territories of the mainland China
Xian M.J. Architecture & Decoration Material Co. Ltd.	Sales and business location in the territories of the mainland China
Shenyang M.J. Architecture & Decoration Material Co. Ltd.	Sales and business location in the territories of the mainland China

(V) Information on directors, supervisors and presidents of the Company's affiliated enterprises

Company name	Director	Supervisor	President
M.J.International Flooring and Interior Products Inc	M.J.International Flooring and Interior Products Inc - representative Chen Pen-Yuan, Kao Chen-Sheng and Lin An-Hsiu	M.J.International Flooring and Interior Products Inc - representative Hsieh Ming-Feng	Chiang Tze-Hua
Prolong International Co., Limited	Chen Pen-Yuan, Kao Chen-Sheng and Lin An-Hsiu	-	Chiang Tze-Hua
Opulent International Group Limited	Chen Pen-Yuan	-	Chiang Tze-Hua
Dongguan Prolong PlasticProducts Co., Ltd.	Lo Fong-Chu, Chen Chien-Yuen and Kao Chen-Sheng	Hsieh Ming-Feng	Chiang Tze-Hua
Dongguan MeiJer PlasticProducts Co., Ltd.	Lo Fong-Chu, Chen Chien-Yuen and Kao Chen-Sheng	Hsieh Ming-Feng	Chiang Tze-Hua
Chongqing M.J. Architecture & Decoration Material Co. Ltd.	Chen I-Hsiu	Liu Chiao-Lu	Chiang Tze-Hua
Beijing M.J. Architecture & Decoration Materials Co. Ltd.	Chen I-Hsiu	Liu Chiao-Lu	Chiang Tze-Hua
Shanghai M.J. Architecture & Decoration Material Co. Ltd.	Chen I-Hsiu	Liu Chiao-Lu	Chiang Tze-Hua
Guangzhou PROMAX Architecture &	Chen I-Hsiu	Liu Chiao-Lu	Chiang Tze-Hua

Decoration Material Co. Ltd.			
Wuhan M.J. Architecture & Decoration Material Co. Ltd.	Chen I-Hsiu	Liu Chiao-Lu	Chiang Tze-Hua
Xian M.J. Architecture & Decoration Material Co. Ltd.	Chen I-Hsiu	Liu Chiao-Lu	Chiang Tze-Hua
Shenyang M.J. Architecture & Decoration Material Co. Ltd.	Chen I-Hsiu	Liu Chiao-Lu	Chiang Tze-Hua

## (VI) Operating overview of affiliated enterprises

Name of enterprise	Currency type	Capital	Worth of total assets	Worth of total liabilities	Net worth	Operating revenue	Operating gain	Current gain (loss)	EPS
								(after tax)	(after tax)
Prolong International Co., Limited	USD	9,460	52,770	0	52,770	0	(1)	2,942	(Note 1)
Opulent International Group Limited	USD	8,700	61,018	33,490	27,528	105,848	14,094	10,024	(Note 1)
M.J.International Flooring and Interior Products Inc	NTD	50,000	153,960	28,894	112,865	186,557	14,490	12,221	2444.22 (Note 2)
Dongguan Prolong PlasticProducts Co., Ltd.	RMB	HKD 78,538	157,130	38,418	118,711	233,768	10,205	6,551	(Note 1)
Dongguan MeiJer PlasticProducts Co., Ltd.	RMB	USD 27,171	285,221	59,522	225,699	431,150	19,178	13,199	(Note 1)
Chongqing M.J. Architecture & Decoration Material Co. Ltd.	RMB	8,000	4,211	384	3,827	1,401	(220)	(211)	(Note 1)
Beijing M.J. Architecture & Decoration Materials Co. Ltd.	RMB	9,000	6,325	3,421	4,234	8,121	(1,336)	(1,333)	(Note 1)
Shanghai M.J. Architecture & Decoration Material Co. Ltd.	RMB	47,000	73,939	33,999	39,940	13,156	(2,776)	(2,786)	(Note 1)
Guangzhou PROMAX Architecture & Decoration Material Co. Ltd.	RMB	15,000	21,378	2,853	18,526	17,575	2,270	1,705	(Note 1)
Wuhan M.J. Architecture & Decoration Material Co. Ltd.	RMB	11,000	9,544	412	9,132	6,716	(167)	(167)	(Note 1)
Xian M.J. Architecture & Decoration Material Co. Ltd.	RMB	5,000	6,307	1,525	4,782	4,083	(81)	(87)	(Note 1)
Shenyang M.J. Architecture & Decoration Material Co. Ltd.	RMB	4,700	4,623	5	4,618	0	(82)	(82)	(Note 1)

Note 1. Not applicable, as it is a limited company.

Note 2. at par value NT\$10,000 per share.

(VII) Consolidated financial statements of affiliated enterprises: Please refer to Pages 105~184, as same as the consolidated financial statements.

(VIII) Affiliation report: N/A.

For the business lines operated by the Company and its affiliates enterprises, except Prolong International Co., Limited, which engages in investment holding, Dongguan MeiJer PlasticProducts Co., Ltd. and Dongguan Prolong PlasticProducts Co., Ltd. are both responsible for production and manufacturing. The other subsidiaries are responsible for the marketing business in various territories. The business lines operated by them are different from the Company's, provided that their source of supply is the Company only. Each affiliated enterprise engages in operations under the labor division system per the Company's entire business planning.

- II. Any private placement of securities in the recent years up to the publication of the annual report: None.
- III. Holding or disposition of the Company's stock by subsidiaries in the most recent year and up to the publication date of the annual report: N/A.
- IV. Other required supplementary notes: None.
- V. Significant matters which might affect shareholders' equity or stock price pursuant to the subparagraph 2, Paragraph 3 of Article 36 of the Securities and Exchange Act during the most recent year and until the date of publication of the annual report: None.

VI. The explanation of any material differences from the rules of the ROC in relation to the protection of shareholder equity:

The Company has amended its Articles of Association in accordance with the important matters of shareholders' equity protection listed in the "checklist of important matters concerning the protection of shareholders' equity for the foreign issuer" announced by TWSE on September 19, 2017. And according to the amendment items of the "checklist of important matters concerning the protection of shareholders' equity for foreign issuer"(hereinafter referred to as "checklist of important matters concerning the protection of shareholders' equity") amended by TWSE on November 30, 2018, the Company has discussed and approved the resolution of amendment for the Memorandum of Association and the Articles of Association of the Company (hereinafter referred to as the "Articles of Association Amendment") in director's meeting on March 8, 2019, and will submit the resolution for the shareholders' meeting in 2019. In addition to complying with the regulations of the Cayman Islands and taking into account the opinion of the Cayman Islands attorney Ogier, there are still some matters that are not applicable, which are different from the "checklist of important matters concerning the protection of shareholders' equity" and have not been revised in the Articles of Association. For details of the reasons, the regulations of the country of registration (if any) and the impact on the shareholders' equity of the Republic of China, please refer to the following table for details:

<b>Difference item</b>	<b>The regulations of the Cayman Islands and description</b>	<b>Articles of Association</b>
<p>Definition of "special resolution:" a resolution adopted, at a shareholders' meeting, by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares. If the total number of shares represented by the shareholders present at shareholders' meeting is not sufficient to meet the criteria specified in the preceding paragraph, the resolution to be made thereto may be adopted by two-thirds or more of the attending shareholders who represent a majority of the total number of its outstanding shares.</p>	<p>According to Item 1a in Article 60 of the Cayman Islands Companies Law, a special resolution shall be adopted by two-thirds of the shareholders with voting right. If the total number of shares represented by the shareholders present at the shareholders' meeting is not sufficient to meet the criteria specified in the preceding paragraph, the resolution to be made thereto may be adopted by two-thirds or more of the attending shareholders who represent a majority of the total number of its outstanding shares.</p>	<p>According to TWSE Tai-Zheng-Shang-Zi No. 0991701319 on April 13, 2010 and Articles 39 and 2(1) of the Articles of Association, a special resolution is a resolution adopted, at a shareholders' meeting, by a majority of the shareholders in person, entrusting agents, or the legally authorized representatives (such as juristic person shareholders), who represent two-thirds or more of the total number of its outstanding shares. It complies with the requirements for voting on public companies of the Cayman Islands laws and the Taiwan Company Act.</p>
<ol style="list-style-type: none"> <li>1. A company shall not cancel its shares, unless a resolution on capital reduction has been adopted at its shareholders' meeting; and a capital reduction shall be effected based on the percentage of shareholding of the shareholders <i>pro rata</i>.</li> <li>2. A company reducing its capital may return share prices (or the capital stock) to shareholders by properties other than cash; the returned property and the amount of such substituted capital contribution shall require a prior approval of the shareholders' meeting and obtain consents from the shareholders who receive such property.</li> <li>3. The board of directors shall first have the value of such property and the amount of such</li> </ol>	<p>Articles 14-18 of Cayman Islands Companies Law provide relevant provisions for the company's capital reduction.</p>	<p>Articles 14-18 of Cayman Islands Companies Law have strict procedures and physical norms for company capital reduction. The relevant provisions are mandatory, may not be amended with the Articles of Association, which is quite different in the company's capital reduction requirements with the checklist of important matters concerning the protection of shareholders' equity. In case of any discrepancies, the attorney of the Cayman Islands have advised to amend Article 14 of the Articles of Association to enable foreign issuers to obtain special resolutions of the shareholders' meeting, the capital reduction will be complied with the procedures and conditions of the Cayman Islands regulations and the listing related laws. As for the checklist of important matters concerning the protection of shareholders' equity,</p>

<p>substituted capital contribution set forth in the preceding Paragraph audited and certified by a certified public accountant before the shareholders' meeting.</p>		<p>the requirements for the company's capital reduction are stipulated in Article 24 of the Articles of Association for buying back the shares from the shareholders.</p>
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<b>Difference item</b>	<b>The regulations of the Cayman Islands and description</b>	<b>Articles of Association</b>
A company choosing to issue no par value shares shall not convert its shares into par value shares.	According to Article 8(1) of the Cayman Islands Companies Law: “Provided further that no exempted company shall divide its capital into both shares of a fixed amount and shares without nominal or par value.” (Original English: Provided further that no exempted company shall divide its capital into both shares of a fixed amount and shares without nominal or par value.)” Taking into account the opinion of the Cayman Islands attorney and according to the above regulations, considering the process of the issuance of shares in practice, Cayman Islands exempted company choosing to issue shares of a fixed amount shall not convert its shares into shares without nominal or par value and vice versa.	Since the issued shares of the Company are par value shares, the Company has not issued or converted into shares without nominal or par value, so the leftmost column provision is not applicable. In case of any discrepancies, the Company has added Article 7(4) in the Articles of Association according to the provisions with the current situation and approved by the board of directors: “The Company shall not issue or convert into no par value shares. “, and will submit the resolution at the shareholders' meeting in 2019.
When conducting its business, every company shall comply with the laws and regulations as well as business ethics and may take actions which will promote public interests in order to fulfill its social responsibilities.	There is no related law in the Cayman Islands Companies Law.	The amendments of Articles of Association approved by the board of directors updated the Article 7 of the Memorandum of Association according to the leftmost column provisions and will submit the resolution for the shareholders' meeting in 2019.
1. If the Directors resolve to hold a general meeting outside Taiwan, the Company shall apply for the approval of the TSE thereof within two days after the board of Directors adopts such resolution. 2. When the company convenes a shareholder meeting outside the Republic of China, it should entrust a professional shareholders' service agent in the territory of the Republic of China to accept shareholder voting matters.	There is no related law in the Cayman Islands Companies Law.	Due to the provision in Article 31: “For so long as the Shares are listed, all general meetings shall be held in the Republic of China.” Without exception, there is no need to regulate in applying for a permit or declaration procedure at a shareholders' meeting outside the Republic of China. In addition, the shareholders' meeting of the foreign issuer during the listing period will be held in the territory of the Republic of China, but the foreign issuer will entrust the professional shareholders' service agent in the Republic of China to accept the shareholder vote.
Shareholder(s) holding one percent (1%) or more of the total number of outstanding shares of a company may propose to the company a	There is no related law in the Cayman Islands Companies Law.	Articles 40(1) and 40(4) of the Articles of Association of the Company stipulate that: “Shareholder(s) holding one percent (1%) or more of the total number of outstanding

<p>proposal for discussion in writing or by way of electronic transmission at a General Shareholders' Meeting. The board of directors shall be listed as a motion, except for the resolutions of the non-shareholders' meeting, the proposal holders' shareholdings of less than 1%, the proposal being submitted outside the period of the announcement, and the proposal exceeding 300 words or more than one proposal. The shareholder proposal is a proposal to urge the company to promote the public interest or to fulfill its social responsibilities. The board of directors still has to include the proposal.</p>		<p>shares of a company may propose to the company a proposal for discussion in writing or by way of electronic transmission at a General Shareholders' Meeting. Provided that only one matter shall be allowed in each single proposal and shall be limited to not more than three hundred (300) words. Where the subject (the issue) of the said proposal can be settled or resolved by a resolution to be adopted at a meeting of shareholders. Where the said proposal contains more than one matter, more than 300 words, or cannot be settled or resolved by a resolution, shall not be included in the agenda. “; “Under any of the following circumstances, the board of directors of the Company may exclude the proposal submitted by a shareholder from the list of proposals to be discussed at a regular meeting of shareholders: (a) According to regulations of Cayman, listed regulations, the Articles, where the subject (the issue) of the said proposal cannot be settled or resolved by a resolution to be adopted at a meeting of the shareholders; (b) Where the number of shares of the Company in the possession of the shareholder making the said proposal is less than one percent (1%) of the total number of outstanding shares at the time when the share transfer registration is suspended by the company,; or (c ) Where the said proposal is submitted on a day beyond the deadline fixed and announced by the company for accepting shareholders' proposals. Some of the provisions requirements in the leftmost column have been included. The amendment of the Articles of Association approved by the board of directors updated the Articles 40(1), 40(4), and addition of 40(5) according to the leftmost column provisions, and will submit the resolution for the shareholders' meeting in 2019.</p>
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<p>The general shareholders' meetings shall also be convened on the requisition in writing of any Shareholder or Shareholders entitled to attend and vote at general meetings of the Company holding at least three percent (3%) of the paid up voting share capital of the Company for a period of one year or a longer time deposited to the Board specifying the subjects for discussion and the reasons. If the Board fails to give a notice for convening such meeting within 15 days after the date of such deposit, subject to the approval of the Taiwan competent authority, the requisitionists themselves may convene the general meeting in the same manner.</p>	<p>There is no competent authority in the Cayman Islands to approve the shareholders' meeting.</p>	<p>Since the foreign issuer is a company established under the Cayman Islands Companies Law, there is no competent authority in the Cayman Islands to review whether or not the shareholder's meeting may be convened by the shareholders themselves. Therefore, Article 32 of the Articles of Association provides that the general shareholders' meetings shall also be convened on the requisition in writing of any Shareholder or Shareholders entitled to attend and vote at general meetings of the Company holding at least three percent (3%) of the paid up voting share capital of the Company for a period of one year or a longer time deposited to the Board specifying the subjects for discussion and the reasons. If the Board fails to give a notice for convening such meeting within 15 days after the date of such deposit, the requisitionists themselves may convene the general meeting in the same manner and no need to have the approval of the Taiwan competent authority. This is in line with the intention of the TWSE Tai-Zheng-Shang-Zi No. 0991701319 on April 13, 2010, which shall have no adverse impact on shareholders' equity.</p>
<p>Extraordinary general meetings shall also be convened on the requisition of any Shareholder or Shareholders entitled to attend and vote at general meetings of the Company holding at least half (50%) of the paid up voting share capital of the Company for a period of three months. The calculation of the shareholders' shareholding period and the number of shares held shall be based on the date on which share transfer registration is suspended.</p>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>The amendment of the Articles of Association approved by the board of directors updated the Article 32(2) according to the leftmost column provisions, and will submit the resolution for the shareholders' meeting in 2019.</p>

<p>The following matters and details shall be specified in the notice of a general meeting, and shall not be proposed as ad hoc motions. The main content of the website must be placed on the website designated by the Taiwan Securities Competent Authority, and its website should be stated in the notice: ...</p> <p>(3) capital reduction  (4) Apply to stop public offering;...(Omitted)</p>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>The amendment of the Articles of Association approved by the board of directors updated the Article 36 according to the leftmost column provisions, and will submit the resolution for the shareholders' meeting in 2019.</p>
<p>A shareholder exercising voting rights by correspondence or electronic means will be deemed to have attended the meeting in person.</p>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>A shareholder exercising voting rights by correspondence or electronic means shall be deemed to have appointed the chairman of the shareholders' meeting as an agent in the Cayman Islands. Therefore, in the latter part of Article 57 of Articles of Association, such circumstances are deemed to be the appointment of the chairman of the shareholders' meeting as an agent, and the voting rights shall be exercised in accordance with the contents contained in the written or electronic documents.</p>

Difference item	The regulations of the Cayman Islands and description	Articles of Association
<p>In case a shareholder who has exercised his/her/its voting power in writing or by way of electronic transmission intends to attend the shareholders' meeting in person, he/she/it shall, two days prior to the meeting date of the scheduled shareholders' meeting and in the same manner previously used in exercising his/her/its voting power, serve a separate declaration of intention to rescind his/her/its previous declaration of intention made in exercising the voting power. In the absence of a timely rescission of the previous declaration of intention, the voting power exercised in writing or by way of electronic transmission shall prevail.</p>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>According to the opinion of the Cayman Islands attorney, as far as he/she is aware, there is no relevant court decision in the Cayman Islands. However, the British precedent (the persuasive precedent for the Court of the Cayman Islands) has argued that even if the entrustment of the agent is not revoked in accordance with the provisions of the company's Articles of Association, it does not prevent the shareholder from making the voting rights by himself, and excludes the calculation of the voting rights of the entrusted agent. Therefore, Articles 58 and 61 of the Articles of Association have stipulated that: "In case a shareholder who has exercised his/her/its voting power in writing or by way of electronic transmission intends to attend the shareholders' meeting in person, he/she/it shall, two days prior to the meeting date of the scheduled shareholders' meeting and in the same manner previously used in exercising his/her/its voting power, serve a separate declaration of intention to rescind his/her/its previous declaration of intention made in exercising the voting power. In the absence of a timely rescission of the previous declaration of intention, the voting power exercised in writing or by way of electronic transmission shall prevail. However, if a shareholder fails to send a notice of revocation in accordance with the provisions of this Article and exercises the voting rights of the shareholders' meeting in person, the act of attending and exercising the voting right in person shall be deemed to be revoked by the industry in accordance with the provisions of this article. The willingness of the voting rights is expressed. Issuing the said proxy shows intent to attend the shareholders' meeting in person or to exercise his/her/its voting power in writing or by way of electronic transmission, a proxy rescission notice shall be filed with the company two days prior to the date of the shareholders' meeting as scheduled in the shareholders' meeting notice to rescind the proxy at issue, otherwise, the voting power exercised by the authorized proxy at the meeting shall prevail. However, the shareholder has not given notice of revocation in accordance with the provisions of this article. Where the person attends the shareholders' meeting and exercises the right to vote in person, the act of the</p>

<p>After the serving of the power of attorney of a proxy to the company, in case the shareholder issuing the said proxy intends to attend the shareholders' meeting in person or to exercise his/her/its voting power in writing or by way of electronic transmission, a proxy rescission notice shall be filed with the company two days prior to the date of the shareholders' meeting as scheduled in the shareholders' meeting notice so as to rescind the proxy at issue, otherwise, the voting power exercised by the authorized proxy at the meeting shall prevail.</p>		<p>shareholder attending and exercising the voting right in person shall be deemed to be the intention to revoke his previous entrustment in accordance with the provisions of this Article. " If the shareholder exercised the voting right in writing or electronically, or issued the power of attorney, he did not revoke the previous exercise of voting rights or cancel the entrustment two days before the meeting of the shareholders' meeting in accordance with Article 58 or Article 61 of the Articles of Association. While attending the shareholders' meeting to exercise the voting rights in person, although the shareholder actually did not send a notice of revocation, the act of attending and exercising the voting right of the shareholder should still be regarded as the fact that the shareholder has revoked the previous voting rights in writing or electronically in accordance with the provisions of the articles of association, which complies with the provisions of the Cayman Islands laws.</p>
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Difference item	The regulations of the Cayman Islands and description	Articles of Association
<ol style="list-style-type: none"> <li>1. A company may explicitly provide for in its Articles of Incorporation that the surplus earning distribution or loss off-setting proposal may be proposed at the close of each quarter or each half fiscal year.</li> <li>2. The proposal of surplus earning distribution or loss off-setting for the first three quarters or half fiscal year, together with the business report and financial statements, shall be forwarded to supervisors for their auditing, and afterwards be submitted to the board of directors for approval.</li> <li>3. A company distributing surplus earning in accordance with the provision of the preceding paragraph shall estimate and reserve the taxes and dues to be paid, the losses to be covered and the legal reserve to be set aside. Where such legal reserve amounts to the total paid-in capital, this provision shall not apply.</li> <li>4. A company distributing surplus earning in the form of new shares to be issued by the company in accordance with the provision of Paragraph Two shall follow the provisions of a resolution adopted by a majority of the shareholders present who represent two-thirds or more of the total number of its outstanding shares of the company. If the total number of shares represented by the shareholders present at a meeting of shareholders is less than the threshold specified in the preceding Paragraph, the resolution may be adopted by a large majority (2/3 or more) vote of the shareholders present at that meeting of shareholders attended by the shareholders representing a majority of the total number of the outstanding shares of the company. If such surplus earning is distributed in the form of cash, it shall be approved by a meeting of the board of directors.</li> <li>5. Surplus earning distribution or loss off-setting proposal by the company in accordance with the provisions of the preceding four paragraphs shall be made based on the financial statements audited</li> </ol>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>According to Article 100(3) of the Articles of Association of the Company, the Company adopts the annual surplus earning distribution and does not adopt the “each half the fiscal year surplus earning distribution.” Therefore, the provision requirements of the leftmost column are not applicable to the Company.</p>

<p>or reviewed by a certified public accountant.</p>		
<ol style="list-style-type: none"> <li>1. The Board of directors shall keep at the office of its Shareholders' Service Agent in Taiwan copies of these Articles, the minutes of every meeting of the Shareholders and the financial statements, the roster of shareholders and the counterfoil of corporate bonds issued by the Company. Any Shareholder of the Company may request, by submitting evidentiary document(s) to show his/her interests involved and indicating the scope of interested matters, an access to inspect, duplicate, and to make copies of the Memorandum and Articles and accounting books and records. The Company should request the Shareholders' Service Agent to offer the said documents.</li> <li>2. The board of directors or other authorized conveners of shareholders' meetings may require a company or its shareholder service agent to provide with the roster of shareholders.</li> </ol>	<ol style="list-style-type: none"> <li>1. Articles 29, 44, 59, and 73 of Cayman Islands Companies Law provide relevant provisions for the issuance of the company's memorandum of association and the copy of the articles of association, the assess of the roster of shareholders, the preservation of the books and the minutes of the meeting.</li> <li>2. In addition, according to the opinion of the Cayman Islands attorney, the shareholders shall be allowed to assess company's articles of association or roster of shareholders.</li> </ol>	<p>Articles 107 of Association of the Company stipulate that: "The Board of directors shall keep at the office of its Shareholders' Service Agent in Taiwan copies of these Articles, the minutes of every meeting of the Shareholders and the financial statements, the roster of shareholders and the counterfoil of corporate bonds issued by the Company. Any Shareholder of the Company may request, by submitting evidentiary document(s) to show his/her interests involved and indicating the scope of interested matters, an access to inspect, duplicate, and to make copies of the Memorandum and Articles and accounting books and records." The said access and duplicate which reference to the English version of "access to inspect and to make copies" should include making copies. In case of any discrepancy, the amendment of Articles of Association approved by the board of directors updated the Articles 107 and 18 according to the leftmost column provisions, and will submit the resolution for the shareholders' meeting in 2019.</p>
<p>A person who is under any of the following circumstances shall not act as board of director of the company. If he has been appointed as such, he shall certainly be discharged:</p> <ol style="list-style-type: none"> <li>1. Having committed an offence as specified in the Statute for Prevention of Organizational Crimes and subsequently convicted of a crime, and has not started serving the sentence, has not completed serving the sentence, or five years have not elapsed since completion of serving the sentence, expiration of the probation, or pardon.</li> <li>2. Having committed the offence in terms of fraud, breach of trust or misappropriation and subsequently convicted with imprisonment for a term of more than one year, and has not started serving the sentence, has not completed serving the sentence, or two years have not elapsed since completion of serving the sentence, expiration of the probation, or pardon.</li> <li>3. Having committed the offense as specified in the</li> </ol>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>The amendment of Articles of Association approved by the board of directors updated the Article 83(1) according to the leftmost column provisions, and will submit the resolution for the shareholders' meeting in 2019.</p>



<p>Anti-corruption Act and subsequently convicted of a crime, and has not started serving the sentence, has not completed serving the sentence, or two years have not elapsed since completion of serving the sentence, expiration of the probation, or pardon.</p> <p>4. Having been adjudicated bankrupt or adjudicated of the commencement of liquidation process by a court, and having not been reinstated to his rights and privileges.</p> <p>5. Having been dishonored for unlawful use of credit instruments, and the term of such sanction has not expired yet.</p> <p>6. Having no or only limited disposing capacity.</p> <p>7. Having been adjudicated of the commencement of assistantship and such assistantship having not been revoked yet.</p>		
<p>Where the spouse, a blood relative within the second degree of kinship of a director, or any company which has a controlling or subordinate relation with a director has interests in the matters under discussion in the meeting of the preceding paragraph, such director shall be deemed to have a personal interest in the matter.</p>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>The amendment of Articles of Association approved by the board of directors updated the Article 91 according to the leftmost column provisions, and will submit the resolution for the shareholders' meeting in 2019.</p>
<p>Where all directors of a company are re-elected, prior to the expiration of the term of office of existing directors, and in the absence of a resolution that existing directors will not be discharged until the expiry of their present term of office, all existing directors shall be deemed discharged in advance.</p>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>The amendment of Articles of Association approved by the board of directors updated the Article 68(2) according to the leftmost column provisions, and will submit the resolution for the shareholders' meeting in 2019.</p>
<p>1. Supervisors of a company shall be elected by the meeting of shareholders, among them at least one supervisor shall have a domicile within the territory of the Republic of China.</p> <p>2. The term of office of a supervisor shall not exceed three years. But he may be eligible for re-election.</p> <p>3. In case all supervisors of a company are discharged, the board of directors shall, within 60 days, convene a special meeting of shareholders to elect new supervisors.</p> <p>4. Supervisors shall supervise the execution of business operations of the company, and may at any time or from time to time investigate the business and financial conditions of the company, inspect, transcribe or make copies of the</p>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>The Company has established an audit committee instead of a supervisor. Therefore, the provision requirements of the leftmost column are not applicable to the Company.</p>

<p>accounting books and documents, and request the board of directors or managerial personnel to make reports thereon.</p> <p>5. Supervisors shall audit the various statements and records prepared for submission to the shareholders' meeting by the board of directors, and shall make a report of their findings and opinions at the meeting of shareholders.</p> <p>6. In performing their functional duties under the preceding Paragraph, the supervisors may appoint a certified public accountant or attorney to conduct the auditing</p> <p>7. Supervisors of a company may attend the meeting of the board of directors to their opinions. In case the board of directors or any director commits any act, in carrying out the business operations of the company, in a manner in violation of the laws, regulations, the Articles of Incorporation or the resolutions of the shareholders' meeting, the supervisors shall forthwith advise, by a notice, to the board of directors or the director, as the case may be, to cease such act.</p> <p>8. Supervisor may each exercise the supervision power individually.</p> <p>9. A supervisor shall not be concurrently a director, a managerial officer or other staff/employee of the company.</p>		
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<ol style="list-style-type: none"> <li>1. Shareholder(s) who has/have been continuously holding 1% or more of the total number of the outstanding shares of the company over six months may request in writing the supervisors of the company to institute, for the company, an action against a director of the company. And the Taiwan Taipei District Court was the court of first instance jurisdiction.</li> <li>2. In case the supervisor fails to institute an action within 30 days after having received the request made under the preceding Paragraph, then the shareholders filing such request under the preceding Paragraph may institute the action for the company. And the Taiwan Taipei District Court was the court of first instance jurisdiction.</li> <li>3. Subject to the condition that the board of directors does not or is unable to convene a meeting of shareholders, the supervisors or independent director of audit committee may, for the benefit of the company, call a meeting of shareholders when it is deemed necessary.</li> </ol>	<p>There is no related law in the Cayman Islands Companies Law.</p>	<p>According to the foreign issuer, the provision of the leftmost column regarding supervisors shall apply to the independent directors of the audit committee, with reference to the fourth paragraph of Article 14-4 of the Taiwan Securities and Exchange Act and the Ministry of Economic Affairs Jing-Shang-Zi No. 10000533380 on March 1, 2011. Article 86 of the Articles of Association stipulate that shareholder(s) who has/have been continuously holding 1% or more of the total number of the outstanding shares of the company may request any independent director of audit committee to institute, for the foreign issuer, an action to a court of competent jurisdiction (including Taiwan Taipei District Court) against a director of the company for causing any damage to the foreign issuer, or violating the provisions of regulations of Cayman Islands, listed regulations, or the Articles.</p> <p>The amendment of Articles of Association approved by the board of directors according to the leftmost column provisions of Article 86 for qualification of minority shareholders who may request any independent director of audit committee to institute against a director of the company and Articles 32(3) for the convening party of shareholders meeting, which will submit the resolution for the shareholders' meeting in 2019.</p>
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Upon investigation, the additional items of the checklist of important matters concerning the protection of shareholders' equity, the company will adopt the amendments to the articles of association at the 2019 shareholders' meeting to meet the requirements of the regulations. As some of the differences, the content of the checklist is not strictly due to the stricter or substantive content of the foreign regulations, so it should not adversely affect the shareholders' equity of the company.