

**LUO LIH-FEN HOLDING CO., LTD. AND
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2018 AND 2017

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

To the Board of Directors and Shareholders of Luo Lih-Fen Holding Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Luo Lih-Fen Holding Co., Ltd. and subsidiaries (the “Group”) as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Existence and occurrence of sales revenue arising from distributors

Description

For accounting policy applied on revenue recognition and related details of revenue, please refer to Notes 4(22) and 6(13).

The Group's revenue is derived from the sales of goods and the rendering of skin-care consulting services, of which 92% of total sales are arising from the sales of goods. Given that revenue is the Group's main operating activity and has significant risk, in addition, the Group's goods are sold by distributors, a significant amount of resources is required in performing the audit through the testing of occurrence of sales transaction. Thus, we identified existence and occurrence of sales revenue from distributors a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Tested internal control procedures on sales revenue, including orders processing, delivery, revenue recognition and write-off of advance collections, and assessed the effectiveness of control procedures.
2. Examined general information of main distributors, including the distributors' registration documents, name of representatives, list of major shareholders, registered address, amount of registered capital, main operating activities, and assessed the reasonableness of the existence of counterparties.
3. Performed confirmation with main distributors on the ending balance of advance collections and total sales revenue in order to confirm the rights of advance collections and the existence and occurrence of sales revenue.
4. Selected a sample of sales transactions during current year, and inspected related sales orders, delivery notes, delivery orders, waybills and invoices in order to assess the reasonableness of sale revenue recognition.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting

Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and,

based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the 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.


Weng, Shih-Tung


Lin, Chun-Yao

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2019

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

LUO LIH-FEN HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
	Current assets					
1100	Cash and cash equivalents	6(1)	\$ 1,782,992	84	\$ 995,927	79
1136	Current financial assets at amortised cost		2,900	-	-	-
1170	Accounts receivable, net	6(2)	1,530	-	427	-
1200	Other receivables		4,909	-	2,277	-
130X	Inventories	6(3)	53,724	3	51,042	4
1410	Prepayments	7	22,178	1	20,301	2
1479	Other current assets, others		18,440	1	3,638	-
11XX	Current Assets		<u>1,886,673</u>	<u>89</u>	<u>1,073,612</u>	<u>85</u>
	Non-current assets					
1600	Property, plant and equipment	6(4) and 7	197,647	9	152,630	12
1780	Intangible assets	6(5) and 7	1,603	-	1,775	-
1840	Deferred income tax assets	6(18)	9,211	1	6,790	1
1990	Other non-current assets, others	6(6)	25,972	1	32,109	2
15XX	Non-current assets		<u>234,433</u>	<u>11</u>	<u>193,304</u>	<u>15</u>
1XXX	Total assets		<u>\$ 2,121,106</u>	<u>100</u>	<u>\$ 1,266,916</u>	<u>100</u>
	Liabilities and Equity					
	Current liabilities					
2130	Current contract liabilities	6(7)	\$ 161,061	8	\$ -	-
2170	Accounts payable		44,498	2	28,478	2
2219	Other payables, others	6(8)	132,400	6	115,531	9
2230	Current income tax liabilities		58,562	3	44,022	4
2310	Advance collections	6(7)	-	-	127,831	10
2399	Other current liabilities, others		19,706	1	18,671	2
21XX	Current Liabilities		<u>416,227</u>	<u>20</u>	<u>334,533</u>	<u>27</u>
	Non-current liabilities					
2570	Deferred income tax liabilities	6(18)	7,441	-	17,214	1
2670	Other non-current liabilities, others		35	-	-	-
25XX	Non-current liabilities		<u>7,476</u>	<u>-</u>	<u>17,214</u>	<u>1</u>
2XXX	Total Liabilities		<u>423,703</u>	<u>20</u>	<u>351,747</u>	<u>28</u>
	Equity					
	Equity attributable to owners of parent					
	Share capital	6(10)				
3110	Share capital - common stock		430,800	20	330,000	26
	Capital surplus	6(11)				
3200	Capital surplus		829,495	39	379,160	30
	Retained earnings	6(12)				
3350	Unappropriated retained earnings		439,172	21	205,925	16
	Other equity interest					
3400	Other equity interest		(2,064)	-	84	-
3XXX	Total equity		<u>1,697,403</u>	<u>80</u>	<u>915,169</u>	<u>72</u>
	Significant contingent liabilities and unrecognized contract commitments	9				
	Significant events after balance sheet date	11				
3X2X	Total liabilities and equity		<u>\$ 2,121,106</u>	<u>100</u>	<u>\$ 1,266,916</u>	<u>100</u>

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

LUO LIH-FEN HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share)

		Year ended December 31			
Items	Notes	2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(13)	\$ 1,358,184	100	\$ 868,559	100
5000 Operating costs	6(3)(16)(17) and 7	(447,660)	(33)	(344,279)	(40)
5900 Net operating margin		<u>910,524</u>	<u>67</u>	<u>524,280</u>	<u>60</u>
Operating expenses	6(16)(17) and 7				
6100 Selling expenses		(158,008)	(12)	(108,023)	(13)
6200 General and administrative expenses		(140,206)	(10)	(80,207)	(9)
6300 Research and development expenses		(40,144)	(3)	(20,877)	(2)
6000 Total operating expenses		(338,358)	(25)	(209,107)	(24)
6900 Operating profit		<u>572,166</u>	<u>42</u>	<u>315,173</u>	<u>36</u>
Non-operating income and expenses					
7010 Other income	6(14) and 7	13,296	1	6,409	1
7020 Other gains and losses	6(15)	(2,022)	-	(2,832)	(1)
7000 Total non-operating income and expenses		<u>11,274</u>	<u>1</u>	<u>3,577</u>	<u>-</u>
7900 Profit before income tax		<u>583,440</u>	<u>43</u>	<u>318,750</u>	<u>36</u>
7950 Income tax expense	6(18)	(152,193)	(11)	(78,735)	(9)
8200 Profit for the year		<u>\$ 431,247</u>	<u>32</u>	<u>\$ 240,015</u>	<u>27</u>
Other comprehensive income					
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Other comprehensive income, before tax, exchange differences on translation		(\$ 2,148)	-	(\$ 3,183)	-
8500 Total comprehensive income for the year		<u>\$ 429,099</u>	<u>32</u>	<u>\$ 236,832</u>	<u>27</u>
Profit attributable to					
8610 Owners of the parent		\$ 431,247	32	\$ 221,198	25
8615 Predecessor interests under common control		<u>-</u>	<u>-</u>	<u>18,817</u>	<u>2</u>
		<u>\$ 431,247</u>	<u>32</u>	<u>\$ 240,015</u>	<u>27</u>
Comprehensive income attributable to					
8710 Owners of the parent		\$ 429,099	32	\$ 221,621	25
8715 Predecessor interests under common control		<u>-</u>	<u>-</u>	<u>15,211</u>	<u>2</u>
		<u>\$ 429,099</u>	<u>32</u>	<u>\$ 236,832</u>	<u>27</u>
Basic earnings per share	6(19)				
9710 Basic earnings per share from owners of the parent		\$	11.09	\$	32.73
9720 Basic earnings per share from predecessor interests under common control		<u>-</u>	<u>-</u>	<u>2.79</u>	<u>2.79</u>
9750 Basic earnings per share		<u>\$ 11.09</u>		<u>\$ 35.52</u>	
Diluted earnings per share	6(19)				
9810 Diluted earnings per share from owners of the parent		\$	11.08	\$	32.73
9820 Diluted earnings per share from predecessor interests under common control		<u>-</u>	<u>-</u>	<u>2.79</u>	<u>2.79</u>
9850 Diluted earnings per share		<u>\$ 11.08</u>		<u>\$ 35.52</u>	

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

LUO LIH-FEN HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent					Equity attributable to predecessor interests under common control	Total equity
Notes	Share capital - common stock	Capital surplus, additional paid-in capital	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Total			
<u>For the year ended December 31, 2017</u>								
	Balance at January 1, 2017	\$ 1	\$ -	(\$ 3,336)	(\$ 339)	(\$ 3,674)	\$ 96,816	\$ 93,142
	Profit for 2017	-	-	221,198	-	221,198	18,817	240,015
	Other comprehensive income(loss) for 2017	-	-	-	423	423	(3,606)	(3,183)
	Total comprehensive income	-	-	221,198	423	221,621	15,211	236,832
6(12)	Appropriation of 2016 earnings:							
	Cash dividend	-	-	-	-	-	(53,354)	(53,354)
6(10)	Issuance of common stock	49,499	659,660	-	-	709,159	-	709,159
6(10)	Issuance of common stock from capital surplus	280,500	(280,500)	-	-	-	-	-
6(20)	Organisational restructuring	-	-	(11,937)	-	(11,937)	(58,673)	(70,610)
	Balance at December 31, 2017	\$ 330,000	\$ 379,160	\$ 205,925	\$ 84	\$ 915,169	\$ -	\$ 915,169
<u>For the year ended December 31, 2018</u>								
	Balance at January 1, 2018	\$ 330,000	\$ 379,160	\$ 205,925	\$ 84	\$ 915,169	\$ -	\$ 915,169
	Profit for 2018	-	-	431,247	-	431,247	-	431,247
	Other comprehensive loss for 2018	-	-	-	(2,148)	(2,148)	-	(2,148)
	Total comprehensive income	-	-	431,247	(2,148)	429,099	-	429,099
6(12)	Appropriation of 2017 earnings:							
	Cash dividend	-	-	(145,200)	-	(145,200)	-	(145,200)
	Stock dividend	52,800	-	(52,800)	-	-	-	-
6(10)	Issuance of common stock	48,000	450,335	-	-	498,335	-	498,335
	Balance at December 31, 2018	\$ 430,800	\$ 829,495	\$ 439,172	(\$ 2,064)	\$ 1,697,403	\$ -	\$ 1,697,403

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

LUO LIH-FEN HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	Notes	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 583,440	\$ 318,750
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation expense	6(4)(16)	19,707	7,765
Amortization expense	6(5)(16)	532	308
Long-term prepaid rents recognised as expenses	6(6)(16)	680	672
Interest income	6(14)	(11,739)	(1,706)
Loss on disposal of property, plant and equipment	6(4)(15)	491	764
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable, net	(	1,103)	47,054
Accounts receivable - related parties		-	1,354
Other receivables		1,464	(182)
Other receivables - related party		-	2,252
Inventories	(	2,682)	62,200
Prepayments	(	1,877)	(12,092)
Other current assets, others	(	14,802)	(3,473)
Other non-current assets	(	1,807)	(6,557)
Changes in operating liabilities			
Current contract liabilities		36,540	-
Accounts payable		16,020	(40,353)
Accounts payable - related parties		-	(484)
Other payables		21,070	47,813
Other payables - related party		-	(954)
Advance collections		-	(486)
Other current liabilities, others		1,035	18,671
Other non-current liabilities, others		35	-
Cash inflow generated from operations		647,004	441,316
Interest received		7,643	1,706
Income tax paid	(	148,687)	(47,734)
Net cash flows from operating activities		505,960	395,288
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in current financial assets at amortised cost		(2,900)	-
Acquisition of property, plant and equipment	6(22)	(64,784)	(61,157)
Acquisition of intangible assets	6(5)	(393)	(1,267)
Proceeds from disposal of property, plant and equipment		-	78
Net cash flows used in investing activities		(68,077)	(62,346)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Acquisition of subsidiary		-	(70,610)
Decrease in other payables - related party		-	(56,034)
Proceeds from issuance of common stock	6(10)	498,335	709,160
Cash dividends paid	6(12)	(145,200)	(53,354)
Net cash flows from financing activities		353,135	529,162
Effect of exchange rate changes on cash and cash equivalents		(3,953)	(3,640)
Net increase in cash and cash equivalents		787,065	858,464
Cash and cash equivalents at beginning of year		995,927	137,463
Cash and cash equivalents at end of year		\$ 1,782,992	\$ 995,927

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

LUO LIH-FEN HOLDING CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE
INDICATED)

1. HISTORY AND ORGANISATION

Luo Lih-Fen Holding Co., Ltd. (the “Company”) was incorporated in the Cayman Islands on September 21, 2016. The Company was established as part of an organizational restructuring as a result of applying for listing on the Taiwan Stock Exchange. On December 29, 2016, the Company’s subsidiary, Luo Lih-Fen Group Limited (Luo Lih-Fen Group), acquired 53.33% equity interest in Juwenlee (Fujian) Cosmetics Co., Ltd. (Juwenlee (Fujian)) through capital injection, and subsequently acquired 46.67% equity interest in Juwenlee (Fujian) on March 31, 2017. Consequently, Juwenlee (Fujian) became a 100% holding interest subsidiary of Luo Lih-Fen Group. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the research and development, manufacturing and sales of skin care products. The Company was listed on the Taiwan Stock Exchange starting from November 19, 2018.

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

These consolidated financial statements were reported to the Board of Directors on March 15, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from contracts with Customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

IFRS 15, 'Revenue from contracts with customers' and amendments

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected not to restate prior period financial statements and used the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Presentation of assets and liabilities in relation to contracts with customers

Under IFRS 15, liabilities in relation to sales contracts are recognised as contract liabilities, but were previously presented as advance collections in the balance sheet. As of January 1, 2018, the balance amounted to \$127,831.

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

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

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

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

IFRS 16, 'Leases'

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

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by \$28,089 and \$5,790, respectively, and other non-current assets will be decreased by \$22,299.

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

- A. The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach, and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(3) and (4) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
 - (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
 - (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2018	December 31, 2017	
The Company	Luo Lih-Fen Group	Holding company	100%	100%	
The Company	Luo Lih-Fen Enterprise Limited	General investment	100%	-	Note 4
Luo Lih-Fen Group	Juwenlee (Fujian)	Manufacturing and sales of skin care products	100%	100%	Note 1
Juwenlee (Fujian)	Xiamen Luo Lih-Fen Cosmetics Co.,	Sales of skin care products	100%	100%	Note 3
Juwenlee (Fujian)	Xiamen Sunlily Cosmetics Co., Ltd.	Sales of skin care products	100%	100%	
Juwenlee (Fujian)	Xiamen Glingluo Cosmetics Co., Ltd.	Sales of skin care products	100%	100%	
Juwenlee (Fujian)	Xiamen Draise Cosmetics Co., Ltd.	Sales of skin care products	100%	100%	Note 2

Note 1: To implement organisational restructuring, Luo Lih-Fen Group acquired 53.33% equity interest in Juwenlee (Fujian) through capital injection amounting to \$25,521 (US\$0.8 million) on December 29, 2016, and subsequently acquired 46.67% equity interest in Juwenlee (Fujian) on May 30, 2017 with the consideration of \$21,231 (US\$0.7 million). The registration was completed on June 30, 2017, and the consideration was paid on December 29, 2017.

Note 2: In January 2017, Juwenlee (Fujian) invested \$4,565 (RMB 1 million) and established Xiamen Draise Cosmetics Co., Ltd. ("Xiamen Draise").

Note 3: For the purpose of expanding the scope of operations in the Mainland China market, the Group's second-tier subsidiary, Juwenlee (Fujian), as resolved at the shareholders' meeting, acquired 100% equity interest of Xiamen Luo Lih-Fen Cosmetics Co., Ltd. from other related parties on July 28, 2017, and the consideration was \$49,379 (RMB 11 million). The registration for the equity transaction was completed on August 1, 2017, and the consideration was paid on September 12, 2017.

Note 4: To develop business and provide services for investors in Taiwan, the Company established Luo Lih-Fen Enterprise Limited in June 2018 in Taiwan.

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

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

E. Significant restrictions: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional

currency”). The Company’s functional currency is USD; however, the consolidated financial statements are presented in NTD under the regulations of the country where the consolidated financial statements are reported to the regulatory authorities.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gains and losses’.

B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and all resulting exchange differences are recognised in other comprehensive income

(5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

(7) Financial assets at amortised cost

Effective 2018

A. Financial assets at amortised cost are those that meet all of the following criteria:

- (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
- (b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.

D. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(8) Accounts receivable

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

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

(9) Impairment of financial assets

For financial assets at amortised cost, including accounts receivable that have a significant financing component, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit

risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Inventories

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

(12) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	20~40 years
Machinery and equipment	3~10 years
Transportation equipment	4~10 years
Office equipment	3~5 years

(13) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 5 to 10 years.

(14) Impairment of non-financial assets

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

(15) Accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and those resulting from operating and non-operating activities.
- B. The short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(16) Derecognition of financial liabilities

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

(17) Offsetting financial instruments

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

(18) Employee benefits

A. Short-term employee benefits

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

B. Pensions-defined contribution plans

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

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

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

If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(19) Income taxes

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

(20) Share capital

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

(21) Dividends

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

(22) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells a range of skin care products. Sales are recognised when control of the products has been transferred, being when the products are delivered to the

distributor, and there is no unfulfilled obligation that could affect the distributor's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the distributor, and either the distributor has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

- (b) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Skin care consulting service

The Group provides skin care consulting services. Revenue from providing services are recognised in the accounting period in which the services are rendered.

(23) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Company will comply with conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(24) Operating segments

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

(25) Organisational restructuring

The acquisition of subsidiaries by the Company was classified as an organisational restructuring. In accordance with Accounting Research And Development Foundation Interpretation ("ARDF Interpretation") 100-390, the Group recognised the acquisition in long-term equity investments based on the carrying amount of subsidiary, net of impairment loss. The difference between the original net equity and investment cost will be adjusted in retained earnings accordingly. In addition, in accordance with ARDF Interpretation 101-301, such subsidiaries are considered as consolidated subsidiaries at the beginning and the consolidated financial statements of prior years are revised. The share capital held by the parent are classified as 'predecessor interests under common control' when preparing the consolidated comparative balance sheets; the share of profit (loss) of predecessor interests under common control are recognized as 'share of profit (loss) of associates and joint ventures accounted for using equity method' when preparing consolidated comparative statements of comprehensive income.

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates

concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The related information is addressed below:

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

None.

(2) Critical accounting estimates and assumptions

None.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand	\$ 221	\$ 745
Demand deposits	159,279	995,182
Time deposits	<u>1,623,492</u>	<u>-</u>
	<u>\$ 1,782,992</u>	<u>\$ 995,927</u>

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

B. The Group has no cash and cash equivalents pledged to others.

(2) Accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	<u>\$ 1,530</u>	<u>\$ 427</u>

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Not past due	<u>\$ 1,530</u>	<u>\$ 427</u>

The above ageing analysis was based on past due date.

B. As at December 31, 2018 and 2017, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable were both the book value at the end of the year.

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

(3) Inventories

December 31, 2018			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 14,273	(\$ 70)	\$ 14,203
Work in progress	4,298	-	4,298
Finished goods	35,667	(444)	35,223
	<u>\$ 54,238</u>	<u>(\$ 514)</u>	<u>\$ 53,724</u>

December 31, 2017			
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 20,144	(\$ 78)	\$ 20,066
Work in progress	10,936	-	10,936
Finished goods	20,105	(65)	20,040
	<u>\$ 51,185</u>	<u>(\$ 143)</u>	<u>\$ 51,042</u>

The cost of inventories recognised as expense for the year:

	Years ended December 31,	
	2018	2017
Cost of goods sold	\$ 358,930	\$ 287,430
Loss on (gain on reversal of) decline in market value	381 (	10,066)
Loss on disposal of inventory	75	8,192
Cost of goods sold in relation to inventories	359,386	285,556
Cost in relation to skin care consulting service	88,274	58,723
	<u>\$ 447,660</u>	<u>\$ 344,279</u>

The Group reversed a previous inventory write-down and accounted for as reduction of cost of goods sold because the inventories were subsequently disposed or sold.

(4) Property, plant and equipment

	<u>Buildings and structures</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Transportation equipment</u>	<u>Construction in progress</u>	<u>Total</u>
At January 1, 2018						
Cost	\$ 144,275	\$ 27,809	\$ 2,338	\$ 2,767	\$ -	\$ 177,189
Accumulated depreciation	(11,194)	(11,564)	(584)	(1,217)	-	(24,559)
	<u>\$ 133,081</u>	<u>\$ 16,245</u>	<u>\$ 1,754</u>	<u>\$ 1,550</u>	<u>\$ -</u>	<u>\$ 152,630</u>
<u>2018</u>						
Opening net book amount as at January 1	\$ 133,081	\$ 16,245	\$ 1,754	\$ 1,550	\$ -	\$ 152,630
Additions	14,055	38,626	1,032	1,723	7,006	62,442
Transfers	1,312	788	4,699	-	-	6,799
Disposals	-	(317)	(174)	-	-	(491)
Depreciation expense	(13,883)	(4,165)	(1,237)	(422)	-	(19,707)
Net exchange differences	(2,740)	(1,007)	(118)	(26)	(135)	(4,026)
At December 31	<u>\$ 131,825</u>	<u>\$ 50,170</u>	<u>\$ 5,956</u>	<u>\$ 2,825</u>	<u>\$ 6,871</u>	<u>\$ 197,647</u>
December 31, 2018						
Cost	\$ 154,177	\$ 64,661	\$ 7,335	\$ 4,431	\$ 6,871	\$ 237,475
Accumulated depreciation	(22,352)	(14,491)	(1,379)	(1,606)	-	(39,828)
	<u>\$ 131,825</u>	<u>\$ 50,170</u>	<u>\$ 5,956</u>	<u>\$ 2,825</u>	<u>\$ 6,871</u>	<u>\$ 197,647</u>

	Buildings and structures	Machinery and equipment	Office equipment	Transportation equipment	Construction in progress	Total
At January 1, 2017						
Cost	\$ 44,043	\$ 23,903	\$ 1,286	\$ 4,675	\$ 37,488	\$ 111,395
Accumulated depreciation	(6,958)	(10,311)	(885)	(2,804)	-	(20,958)
	<u>\$ 37,085</u>	<u>\$ 13,592</u>	<u>\$ 401</u>	<u>\$ 1,871</u>	<u>\$ 37,488</u>	<u>\$ 90,437</u>
2017						
At January 1	\$ 37,085	\$ 13,592	\$ 401	\$ 1,871	\$ 37,488	\$ 90,437
Additions	17,757	6,099	1,503	559	45,097	71,015
Transfers	81,692	-	-	-	(81,692)	-
Disposals	-	(694)	(29)	(119)	-	(842)
Depreciation expense	(4,259)	(2,636)	(134)	(736)	-	(7,765)
Net exchange differences	806	(116)	13	(25)	(893)	(215)
At December 31	<u>\$ 133,081</u>	<u>\$ 16,245</u>	<u>\$ 1,754</u>	<u>\$ 1,550</u>	<u>\$ -</u>	<u>\$ 152,630</u>
December 31, 2017						
Cost	\$ 144,275	\$ 27,809	\$ 2,338	\$ 2,767	\$ -	\$ 177,189
Accumulated depreciation	(11,194)	(11,564)	(584)	(1,217)	-	(24,559)
	<u>\$ 133,081</u>	<u>\$ 16,245</u>	<u>\$ 1,754</u>	<u>\$ 1,550</u>	<u>\$ -</u>	<u>\$ 152,630</u>

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation: None.

B. The Group has no property, plant and equipment pledged to others as collaterals.

(5) Intangible assets

	2018	2017
Cost	\$ 2,256	\$ 983
Accumulated amortisation	(481)	(170)
	<u>\$ 1,775</u>	<u>\$ 813</u>
At January 1	\$ 1,775	\$ 813
Additions — acquired separately	393	1,267
Amortisation charge	(532)	(308)
Net exchange differences	(33)	3
At December 31	<u>\$ 1,603</u>	<u>\$ 1,775</u>
Cost	\$ 2,595	\$ 2,256
Accumulated amortisation	(992)	(481)
	<u>\$ 1,603</u>	<u>\$ 1,775</u>

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

	Years ended December 31,	
	2018	2017
General and administrative expenses	<u>\$ 532</u>	<u>\$ 308</u>

B. Amount of borrowing costs capitalised as part of intangible assets and the range of the interest rates for such capitalisation: None.

C. The Group has no intangible assets pledged to others as collaterals.

(6) Long-term prepaid rents (shown as ‘Other non-current assets’)

	Years ended December 31,	
	2018	2017
Balance at the beginning of year	\$ 23,443	\$ 24,399
Provision for the year	(680)	(672)
Net exchange differences	(464)	(284)
	<u>\$ 22,299</u>	<u>\$ 23,443</u>

The Group entered into a land use right contract to acquire the use of the land with a term of 40 years in Baijiao Village, Jiaomei Town, Longhai City; Longchi Development Area, Longhai City, Jiaomei Town and Baijiao and Jinshan Village, Jiaomei Town, Longhai City in February 2009 and March 2014. The registration for the land use right was completed.

(7) Contract liabilities and advance receipts

	December 31, 2018	December 31, 2017
Contract liabilities	<u>\$ 161,061</u>	<u>\$ -</u>
	December 31, 2018	December 31, 2017
Advance collections	<u>\$ -</u>	<u>\$ 127,831</u>

Contract liabilities and advance collections arose mainly from sales received in advance, and will be recognised as revenue when the goods are delivered.

(8) Other payables

	December 31, 2018	December 31, 2017
Wages and salaries payable	\$ 12,997	\$ 7,959
Accrued commission	39,749	14,594
Insurance payable	34,585	24,588
Tax payable	21,671	45,237
Other payables	23,398	23,153
	<u>\$ 132,400</u>	<u>\$ 115,531</u>

(9) Pensions

- A. The Company's Taiwanese subsidiary has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- B. The Company's mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. The contribution percentage for the years ended December 31, 2018 and 2017 were ranged between 14%~18% and 12%~20%, respectively. Other than the monthly contributions, the Group has no further obligations.
- C. The pension cost under defined contribution pension plans of the Group for the years ended December 31, 2018 and 2017 were \$16,347 and \$11,523, respectively.

(10) Share capital

- A. The Company was established as part of an organisational restructuring as a result of applying for listing on the Taiwan Stock Exchange on September 21, 2016. As of September 30, 2017, the Company's paid-in capital was US\$5 with a par value of US\$1 (in dollars) per share, and the number of outstanding shares was 5 shares.
- B. On March 1, 2017, the Board of Directors resolved to increase the capital by issuing 1,378,645 new shares with a par value of US\$1 (in dollars), and the issue price was US\$1 per share. The total amount of the capital increase amounted to \$41,360 (US\$1,378,645). All proceeds from shares issued have been collected on October 20, 2017 (record date for the capital increase).
- C. On September 27, 2017, the Board of Directors resolved to increase the capital by issuing 97,500 new shares with a par value of US\$1 (in dollars), and the issue price was US\$50 per share. The total amount of the capital increase amounted to \$146,250 (US\$4,875,000). All proceeds from shares issued have been collected on November 10, 2017 (record date for the capital increase).

- D. On November 30, 2017, the Board of Directors resolved to increase the capital by issuing 173,850 new shares with a par value of US\$1 (in dollars), and the issue price was US\$100 per share. The total amount of the capital increase amounted to \$521,550 (US\$17,385,000). All proceeds from shares issued have been collected on December 19, 2017 (record date for the capital increase).
- E. On November 30, 2017, the Board of Directors resolved to convert the currency of the authorised capital and issue new shares. The Company's original authorised capital was US\$2 million, equivalent to 2 million shares with a par value of US\$1 per share. Before the currency conversion, the Company has issued 1,650 thousand shares, and the conversion of USD-denominated par value to NTD-denominated was based on 30 :1 ratio, therefore, the currency and face value will be converted from US\$1 per share to NT\$10 per share. The record date for the conversion was December 28, 2017, and the authorised capital was \$1,000,000, equivalent to 100 million shares with a par value of NT\$10, of which 4,950 thousand shares have been issued.
- F. On November 30, 2017, the Board of Directors resolved to issue common stock of 28,050 thousand shares from capital surplus amounting to \$280,500. The record date for the issuance of common stocks from capital surplus was December 28, 2017.
- G. On May 3, 2018, the shareholders resolved to distribute stock dividends from the earnings of year 2017 amounting to \$52,800, equivalent to 5,280 thousand shares, and the record date was May 7, 2018. The registration for the distribution of stocks dividends was completed.
- H. In accordance with the Securities and Exchange Act Article 28-1, on March 23, 2018, the Board of Directors resolved to increase capital by issuing common stock of 4.8 million shares with par value of \$10, with the issuing price of NT\$105 per share. The capital increase was effective from October 2, 2018, and the Company's chairperson has been authorised to determine the record date, being November 15, 2018. The registration for the capital increase was completed.
- I. As of December 31, 2018, the Company's paid-in capital was \$430,800 with a par value of NT\$10 (in dollars) per share. All proceeds from shares issued have been collected.

(11) Capital surplus

- A. Unless otherwise provided in the Companies Law of the Cayman Islands, listed companies' regulations, and the company's Articles of Incorporation, neither the statutory reserve nor the capital reserve shall be used except for offsetting the losses of the Company. The Company shall not use the capital reserve to offset its capital losses unless the statutory reserve and special reserve set aside for purposes of loss offset is insufficient to offset such losses.
- B. At any time other than during the listing period, subject to the Companies Law of the Cayman Islands, the Board of Directors may capitalise any sum for the time being standing to the credit of the share premium account or any of the other Company's reserve accounts which are available for distribution or any sum standing to the credit of the profit and loss account or otherwise available for distribution and to appropriate such sums to shareholders in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend/bonus and to apply such sum on their behalf in paying up in full unissued shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid.

- C. During the listing period, subject to the Companies Law of the Cayman Islands, where the Company incurs no loss, it may, by a special resolution, distribute its statutory reserve, the share premium account and/or the income from endowments received by the Company, which are in the capital reserve which are available for distribution, in whole or in part, by issuing new, fully paid shares and/or by cash to its shareholders.

(12) Retained earnings

- A. At any time other than during the listing period, subject to the Companies Law of the Cayman Islands and the Company's Articles of Incorporation, and except as otherwise provided by the rights attaching to any shares, the board may from time to time declare dividends/bonuses (including interim dividends/bonuses), and other distributions to the shareholders by issuing new, fully paid shares and/or by cash in proportion to the number of shares held by them respectively and authorise payment of the same out of the funds of the Company lawfully available therefore. The directors may, before declaring any dividends, bonuses or distributions, set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the directors, be applicable for any purpose of the Company and pending such application may, at the like discretion, be employed in the business or investments of the Company.
- B. During the listing period, subject to the Companies Law of the Cayman Islands, listed companies' regulations, and the Company's Articles of Incorporation, and except as otherwise provided by the rights attaching to any shares, where the Company still has annual net profit for the year, after paying all relevant taxes, offsetting losses (including losses of previous years and adjusted undistributed profits, if any), setting aside the statutory reserve of the remaining profits in accordance with the listed companies' regulations (provided that the setting aside of the statutory reserve does not apply if the aggregate amount of the statutory reserve amounts to the Company's total issued capital), and setting aside the special reserve (if any), the Company may distribute not less than ten percent (10%) of the remaining balance (including the amounts reversed from the special reserve), plus undistributed profits of previous years (including adjusted undistributed profits) in part or in whole as determined by an ordinary resolution passed at an annual general meeting of the Company duly convened and held in accordance with the Company's Articles to the shareholders as dividends/bonuses in proportion to the number of shares held by them respectively pursuant to the Company's Articles, provided that, cash dividends/bonuses shall not be less than ten percent (10%) of the total amount of dividends/bonuses to shareholders.
- C. As the Company is in the growing stage, the dividend/bonuses of the Company may be distributed in the form of cash dividends/bonuses and/or stock dividends/bonuses. The Company shall take into consideration the Company's capital expenditures, future expansion plans, and financial structure, funds requirement and other plans for sustainable development needs in assessing the amount of dividends/bonuses the Company wish to distribute.
- D. On February 28, 2017, the shareholders of the Company's second-tier subsidiary, Juwenlee (Fujian), resolved that total dividends for the distribution of earnings for the year of 2016 was \$53,354 (RMB 11,914,747).

E. Appropriation of earnings

- (a) The appropriation of 2017 earnings has been resolved at the annual shareholders' meeting on May 3, 2018. Details are summarized below:

	Years ended December 31,	
	2018	2017
	Amount	Dividends per share (in dollars)
Cash dividends	\$ 145,200	NT\$ 4.40
Stock dividends	52,800	1.60
	<u>\$ 198,000</u>	

- (b) Subsequent event: The appropriation of 2018 earnings had been proposed at the Board of Directors' meeting on March 15, 2019. Details are summarized below:

	Years ended December 31,	
	2018	2017
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 43,125	
Special reserve	2,064	
Cash dividends	301,560	NT\$ 7.00
Stock dividends	43,080	1.00
	<u>\$ 389,829</u>	

As of March 15, 2019, the aforementioned appropriations of 2018 earnings had not yet been resolved at the shareholders' meeting.

- F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(17).

(13) Operating revenue

	Years ended December 31,	
	2018	2017
Revenue from contracts with customers:		
Sales revenue	\$ 1,242,858	\$ 791,743
Skin care consultanting service	115,326	76,816
	<u>\$ 1,358,184</u>	<u>\$ 868,559</u>

- A. The Group derives revenue from the transfer of goods and services at a point in time.

- B. Related disclosures for 2017 operating revenue are provided in Note 12(4) B.

(14) Other income

	Years ended December 31,	
	2018	2017
Interest income:		
Interest income from bank deposits	\$ 11,739	\$ 1,706
Rental income	133	234
Other income, others	1,424	4,469
	<u>\$ 13,296</u>	<u>\$ 6,409</u>

(15) Other gains and losses

	Years ended December 31,	
	2018	2017
Loss on disposal of property, plant and equipment	\$ 491	\$ 764
Foreign exchange losses	161	1,131
Miscellaneous disbursements	1,370	937
	<u>\$ 2,022</u>	<u>\$ 2,832</u>

(16) Expenses by nature

	Years ended December 31,	
	2018	2017
Employee benefit expense	\$ 223,848	\$ 153,336
Event planning expense	81,496	53,589
Advertising costs	45,074	34,494
Depreciation charges on property, plant and equipment	19,707	7,765
Amortisation charges on intangible assets	1,212	980

(17) Employee benefit expense

	Years ended December 31,	
	2018	2017
Salary expenses	\$ 184,025	\$ 105,152
Labour and health insurance fees	223	-
Pension costs	16,347	11,523
Other personnel expenses	23,253	36,661
	<u>\$ 223,848</u>	<u>\$ 153,336</u>

A. Except as otherwise set forth by the Companies Law of the Cayman Islands, listed companies' regulations, and the Company's Articles of Incorporation, where the Company has annual profits at the end of a financial year, upon the approval of a majority of the directors present at a meeting attended by at least two-thirds or more of the total number of the directors, the Company may distribute not less than 1% of the profits for such year to the employees as the employees' compensation in the form of shares and/or in cash and may distribute not more than 3% thereof

to the directors as the directors' compensation, provided, however, that the total amount of accumulated losses of the Company (including adjusted undistributed profits) shall be reserved from the said profits in advance, and the Company shall distribute the remaining balance thereof to the Employees and directors in the proportion set out above.

- B. For the year ended December 31, 2018, employees' compensation was accrued at \$4,500; while directors' and supervisors' remuneration was accrued at \$9,120, of which employees' compensation will be distributed in the form of cash.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(18) Income tax

A. Income tax expense

Components of income tax expense:

	Years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the year	\$ 163,983	\$ 69,353
Prior year income tax under (over) estimation	404	(1,311)
Total current tax	164,387	68,042
Deferred tax:		
Origination and reversal of temporary differences	(12,194)	10,693
Income tax expense	\$ 152,193	\$ 78,735

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate (note)	\$ 154,313	\$ 81,884
Effects from items disallowed by tax regulation	(2,524)	(1,838)
Prior year income tax under (over) estimation	404	(1,311)
Income tax expense	\$ 152,193	\$ 78,735

Note: The Company was incorporated in the Cayman Islands, and the Company is entitled to the income tax exemption in accordance with the local regulations. Luo Lih-Fen Enterprise Limited was incorporated in the R.O.C, and income tax is recognised based on Taiwan's Income Tax Act. Luo Lih-Fen Group Limited was incorporated in the Hong Kong Special Administrative Region, and only revenue from Hong Kong sources shall be taxed based on the Hong Kong Inland Revenue Ordinance. Juwenlee (Fujian) Cosmetics Co., Ltd., Xiamen Luo Lih-Fen Cosmetics Co., Ltd., Xiamen Sunlily Cosmetics Co., Ltd.,

Xiamen Glingluo Cosmetics Co., Ltd. and Xiamen Draise Cosmetics Co., Ltd. were incorporated in Mainland China, and their income taxes are recognised based on the Enterprise Income Tax Law of the People's Republic of China, and the applicable income tax rates are both 25% for the years ended December 31, 2018 and 2017.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, tax losses and investment tax credits are as follows:

	2018		
	January 1	Recognised in profit or loss	December 31
Temporary differences:			
-Deferred tax assets:			
Inventory valuation loss	\$ 36	\$ 93	\$ 129
Unrealised accrued expenses	6,147	2,499	8,646
Others	607	(171)	436
Subtotal	<u>\$ 6,790</u>	<u>\$ 2,421</u>	<u>\$ 9,211</u>
-Deferred tax liabilities:			
Book-tax difference on revenue recognition	(17,214)	9,773	(7,441)
Subtotal	<u>(\$ 17,214)</u>	<u>\$ 9,773</u>	<u>(\$ 7,441)</u>
Total	<u>(\$ 10,424)</u>	<u>\$ 12,194</u>	<u>\$ 1,770</u>

	2017		
	January 1	Recognised in profit or loss	December 31
Temporary differences:			
-Deferred tax assets:			
Inventory valuation loss	\$ 2,614	(\$ 2,578)	\$ 36
Unrealised accrued expenses	4,056	2,091	6,147
Others	1,578	(971)	607
Subtotal	<u>\$ 8,248</u>	<u>(\$ 1,458)</u>	<u>\$ 6,790</u>
-Deferred tax liabilities:			
Book-tax difference on revenue recognition	(7,979)	(9,235)	(17,214)
Subtotal	<u>(\$ 7,979)</u>	<u>(\$ 9,235)</u>	<u>(\$ 17,214)</u>
Total	<u>\$ 269</u>	<u>(\$ 10,693)</u>	<u>(\$ 10,424)</u>

(19) Earnings per share

	Year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 431,247	38,885	NT 11.09
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 431,247	38,885	
Assumed conversion of all dilutive potential ordinary shares employees' compensation	-	25	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 431,247	38,910	NT 11.08
Year ended December 31, 2017			
	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 221,198		NT 32.73
Equity attributable to predecessor interests under common control	18,817		2.79
	\$ 240,015	6,758	NT 35.52

(20) Predecessor interests under common control

The Company's subsidiary, Luo Lih-Fen Group Limited, acquired 53.33% equity interest in Juwenlee (Fujian) Cosmetics Co., Ltd. through capital injection amounting to \$25,521 (US\$0.8 million) as approved by the shareholders on December 29, 2016, and subsequently acquired 46.67% equity interest in Juwenlee (Fujian) Cosmetics Co., Ltd. on March 31, 2017. Consequently, Juwenlee (Fujian) became a 100% holding subsidiary of Luo Lih-Fen Group Limited. Also, the Company and Juwenlee (Fujian) Cosmetics Co., Ltd. were controlled by the same controller and the economic substance of this transaction is part of the organisational restructuring. As a result, according to IFRS Q&A issued by Accounting Research and Development Foundation, and in

accordance with ARDF Interpretation 101-301, Juwenlee (Fujian) Cosmetics Co., Ltd. is a considered as consolidated subsidiary at the beginning, which would be included in the consolidated financial statements for the year ended December 31, 2017.

In addition, under ARDF Interpretation 100-390, the subsidiary is recognised based on the carrying amount, and the difference between the original net capital share and investment cost will be adjusted in retained earnings and capital surplus accordingly. Therefore, the Company wrote off predecessor interests under common control amounting to \$22,185 and \$38,444 on December 29, 2016 and March 31, 2017 (record date for the equity transferred), respectively.

On July 28, 2017, the Company's second-tier subsidiary, Juwenlee (Fujian) Cosmetics Co., Ltd., entered in to a contract to acquire a 100% equity interest in Xiamen Luo Lih-Fen Cosmetics Co., Ltd. with other related parties. Also, Xiamen Luo Lih-Fen Cosmetics Co., Ltd. and Juwenlee (Fujian) Cosmetics Co., Ltd. were controlled by the same controller and the economic substance of this transaction is part of the organisational restructuring. As a result, according to IFRS Q&A issued by Accounting Research and Development Foundation, and in accordance with ARDF Interpretation 101-301, Xiamen Luo Lih-Fen Cosmetics Co., Ltd. is considered as a consolidated subsidiary at the beginning, which would be included in the consolidated financial statements for the year ended December 31, 2017.

In addition, under ARDF Interpretation 100-390, the subsidiary is recognised based on the carrying amount, and the difference between the original net capital share and investment cost will be adjusted in retained earnings and capital surplus accordingly. Therefore, the Company wrote off predecessor interest under common control amounting to \$20,229 on the record date for the equity transferred.

(21) Operating leases

The Company's second-tier subsidiary leases offices and plants to others under operating lease agreements. These leases have terms expiring between 2013 and 2019. In December 2016, March 2017 and December 2017, the Group reached an agreement with lessees to terminate the contract earlier. The Group recognised rental expenses of \$234 for these leases in profit or loss for the year ended December 31, 2017.

The Company's subsidiaries leases offices from others under operating lease agreements. The Group recognised rental expenses of \$133 and \$0 for these leases in profit or loss for the years ended December 31, 2017 and 2018, respectively. The lease agreement will be terminated in August 2019, and is not renewable. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Not later than one year	\$ 280	\$ -
Later than one year but not later than five years	-	-
Later than five years	-	-
	<u>\$ 280</u>	<u>\$ -</u>

(22) Supplemental cash flow information

A. Investing activities with partial cash payments

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 62,442	\$ 71,015
Add: Opening balance of payable on constructions	10,971	1,113
Less: Ending balance of payable on constructions	(8,629)	(10,971)
Cash paid during the year	<u>\$ 64,784</u>	<u>\$ 61,157</u>

B. Financing activities with no cash flow effects

	Years ended December 31,	
	2018	2017
Stock dividends paid	<u>\$ 52,800</u>	<u>\$ -</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Name of related parties	Relationship with the Company
Xiamen Moko Beauty Biologic Technology Co., Ltd	Other related party
Xiamen Jiadai Beauty Co., Ltd.	
(Formerly named Xiamen Beili Ya Trading Co., Ltd.)	Other related party
Xiamen Jiabi Beauty Co., Ltd.	Other related party
Xin Kang Mei(Fujian) Cosmetics Co.,Ltd	Other related party (Before April 2, 2018)
Zhangzhou Care-pro Biologic Technology Co., Ltd	Other related party
Zhangzhou Weidu Electronic Technology Co., Ltd	Other related party
Zhangzhou Crown Moko Health Management Co.,	Other related party
Luo Li Fen International Beauty Care Ltd	Other related party
Kang Jing Biologic Technology Co., Ltd.	Other related party
Care-pro Biologic Technology Co., Ltd	Other related party
Luo Li-Fen	The Company's CEO

(2) Significant related party transactions

A. Purchases:

	December 31, 2018	December 31, 2017
Purchases of goods:		
Other related parties	<u>\$ 710</u>	<u>\$ 613</u>

Goods sold to other related parties are based on normal commercial terms and conditions.

B. Prepayments:

	December 31, 2018	December 31, 2017
Prepayments:		
Other related parties	\$ -	\$ 196

C. Operating expenses

	Years ended December 31,	
	2018	2017
Utilities expenses		
Other related parties	\$ -	\$ 511
Rent expense:		
Luo Li-Fen	\$ 700	\$ -
Advertising costs:		
Other related parties	\$ 78	\$ -

As of December 31, 2018, the Group leases offices and plants with Luo Lih-Fen under operating lease agreements, with monthly rental payment amounting to \$100.

D. Other income:

Leased object	Lessee	Book value December 31, 2017
Buildings and structures	Other related parties	\$ 17,229
		Year ended December 31, 2017
Rental income:		
Xiamen Jiadai Beauty Co., Ltd.		\$ 45
Xiamen Moko Beauty Biologic Technology Co., Ltd		43
Zhangzhou Weidu Electronic Technology Co., Ltd		146
		\$ 234

Details of termination of lease contracts are provided in Note 6(21).

E. Property transactions

(a) Acquisition of long-term equity investment accounted for using equity method

- i. To implement organisational restructuring, the shareholders approved to acquire 46.67% equity interest in Juwenlee (Fujian) from Juwenlee (Fujian)'s original shareholders on May 30, 2017. Please refer to Note 4(3)B for more information.
- ii. On July 28, 2017, the Company's second-tier subsidiary, Juwenlee (Fujian), entered into a contract with other related parties to acquire Xiamen Luo Lih-Fen Cosmetics Co., Ltd., please refer to Note 4(3)B for more information.

(b)Acquisition of property, plant and equipment

	Years ended December 31,	
	2018	2017
Acquisition of property, plant and equipment		
Other related parties	\$ 2,107	\$ -

F. Transfer of trademarks

(a)For the year ended December 31, 2018, the Company paid the considerations to the related parties, Luo Li Fen and Luo Li Fen International Beauty Care Ltd for acquiring trademarks amounting to NT\$1,450 (RMB 3 and USD 49).

(b)For the year ended December 31, 2018, the Company's second-tier subsidiary, Juwenlee (Fujian), sells trademarks to other related parties, Xiamen Jiabi Beauty Co., Ltd., Zhangzhou Care-pro Biologic Technology Co., Ltd. and Zhangzhou Crown Moko Health Management Co., Ltd., and the total consideration was NT\$157 (RMB 6, RMB 2 and RMB 26). Juwenlee (Fujian) acquired trademarks from another related party, Xiamen Jiadai Beauty Co., Ltd., and the total consideration is NT\$23 (RMB 5).

(3) Key management compensation

	Years ended December 31,	
	2018	2017
Salaries and short-term employee benefits	\$ 28,165	\$ 7,714
Post-employment benefits	845	-
	\$ 29,010	\$ 7,714

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	December 31, 2018	December 31, 2017
Property, plant and equipment	\$ 6,871	\$ 19,479

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 6(12) F for further information.

12. Others

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial assets</u>		
Financial assets at amortised cost		
Cash and cash equivalents	\$ 1,782,992	\$ 995,927
Financial assets at amortised cost	2,900	-
Accounts receivable	1,530	427
Other receivables	4,909	2,277
	<u>\$ 1,792,331</u>	<u>\$ 998,631</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Accounts payable	\$ 44,498	\$ 28,478
Other payables	132,400	115,531
Guarantee deposits received	19,741	18,671
	<u>\$ 196,639</u>	<u>\$ 162,680</u>

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk.

(b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Exchange rate risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.

- ii. The Group's businesses involve some non-functional currency operations (the Company's functional currency: USD; certain subsidiaries' functional currency: RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018			
	Foreign currency		
	amount	Exchange	Book value
	(in thousands)	rate	(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:RMB	\$ 188	6.6174	\$ 4,839

December 31, 2017			
	Foreign currency		
	amount	Exchange	Book value
	(in thousands)	rate	(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:RMB	\$ 520	6.5342	\$ 15,516

- iii. The total exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2018 and 2017, amounted to \$161 and \$1,131, respectively.
- iv. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Year ended December 31, 2018			
	Sensitivity analysis		
	Degree of	Effect on	Effect on other
	variation	profit or loss	comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:RMB	1%	\$ 48	\$ -

	Year ended December 31, 2017		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:RMB	1%	\$ 155	\$ -

(b) Credit risk

Effective 2018

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored
- iii. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Group classifies customers' accounts receivable in accordance with credit rating of customer and customer types. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.
- v. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.
- vi. The Group uses historical and timely information to individually assess the default possibility of accounts receivable. On December 31, 2018, the Group's loss allowance was \$0.

	Not past due
<u>December 31, 2018</u>	
Expected loss rate	0%-0.03%
Total book value	\$ 1,530
Loss allowance	\$ -

vii. Credit risk information of 2017 is provided in Note 12(3).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<u>Non-derivative financial assets</u>	Less than	Between 1	Between 2
December 31, 2018	1 year	and 2 years	and 3 years
Accounts payable	\$ 44,498	\$ -	\$ -
Other payables	132,400	-	-
<u>Non-derivative financial liabilities</u>	Less than	Between 1	Between 2
December 31, 2017	1 year	and 2 years	and 3 years
Accounts payable	\$ 28,478	\$ -	\$ -
Other payables	115,531	-	-

(3) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

(a) Accounts receivable

Accounts receivable are receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(b) Impairment of financial assets

- i. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the issuer or debtor;
 - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;

- (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) The disappearance of an active market for that financial asset because of financial difficulties;
- (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

iii. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, had no impact to the Group's balance sheets.

C. The significant accounts as of December 31, 2017 are as follows:

Financial assets at cost

	<u>December 31, 2017</u>
Accounts receivable	<u>\$ 427</u>

D. Credit risk information as of December 31, 2017 and for the year ended December 2017 are as follows:

- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to distributors, including outstanding receivables.
- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The credit quality information of financial assets that are neither past due nor impaired is as follows:

	<u>December 31, 2017</u>
Group 1	\$ 427
Group 2	-
	<u>\$ 427</u>

Group 1: Including those customers who have significant business scope, good credit rating and low credit risk.

Group 2: Others.

- (d) The Group does not hold any collateral as security.

(4) Effects of initial application of IFRS 15 and information on application of IAS 11 and IAS 18 in 2017

A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below.

- (a) Sales of goods

The Group manufactures and sells beauty and skin care products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor

effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

(b) Sales of services

The Group provides beauty consulting services. Revenue from delivering services is recognised when the outcome of services provided can be estimated reliably. If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognised only to the extent that contract costs incurred are likely to be recoverable.

B. The revenue recognised by using above accounting policies for the year ended December 31, 2017 are as follows:

	Year ended December 31, 2017
Sales revenue	\$ 791,743
Event planning revenue of beauty consultant	76,816
	<u>\$ 868,559</u>

C. The effects and description of current balance sheet items if the Group continues adopting above accounting policies are as follows:

	December 31, 2017		
	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policy
Contract liabilities	\$ 127,831	\$ -	\$ 127,831
Advance sales receipts	-	127,831	(127,831)

Explanation: Under IFRS 15, liabilities in relation to sales contracts are recognised as contract liabilities, but were previously presented as advance sales receipts in the balance sheet. As of January 1, 2018, the balance amounted to \$127,831.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.

D. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.

E. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.

F. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.

- G. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Trading in derivative instruments undertaken during the reporting periods: None.
- I. Significant inter-company transactions during the reporting periods: Please refer to table 1.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 2.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 3.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry. The chief operating decision-maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Measurement of segment information

The chief operating decision-maker evaluates operating segments by their profit or loss before tax. The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4.

(3) Information about segment profit or loss

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

	Years ended December 31,	
	2018	2017
Total segment revenue	\$ 1,358,184	\$ 868,559
Segment income	\$ 583,440	\$ 318,750

(4) Reconciliation for segment income (loss)

The performance of the Group's reportable segments were assessed based on profit/(loss) before tax, which is consistent with the income/(loss) before tax from continuing operations, therefore, no additional reconciliation was needed.

(5) Information on products and services

Revenue from external customers is mainly from sales of skin care products. Analysis of revenue is provided in Note 6(13).

(6) Geographical information

For the years ended December 31, 2018 and 2017, the Group operates business only in a single industry; therefore, no additional disclosure was needed.

(7) Major customer information

For the years ended December 31, 2018 and 2017, the Group's sales to a single party are lower than 10% of the Group's operating revenue, therefore, no additional disclosure was needed.

LUO LIH-FEN Holding Co., LTD. and Subsidiaries
Significant inter-company transactions during the reporting periods
Year ended December 31, 2018

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
1	Juwenlee (Fujian) Cosmetics Co., Ltd.	Xiamen Sunlily Cosmetics Co., Ltd.	3	Sales	\$ 17,457	Note 4	1.29%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: Goods are sold based on the price that is lower than non-related parties, and the collection term is no significantly different from the terms to third parties.

Note 5: Remaining inter-company transactions will not be disclosed if their transaction amounts are lower than 1% of consolidated total assets and total operating revenue.

LUO LIH-FEN Holding Co., LTD. and Subsidiaries
Information on investees
Year ended December 31, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee (Note1 and Note 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018				Net profit (loss)	Investment income (loss)	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership	Book value	of the investee for the year ended December 31, 2018	of the investee for the year ended December 31, 2018	recognised by the Company for the year ended December 31, 2018	
LUO LIH-FEN Holding Co., LTD.	Luo Lih-Fen Group Limited	Hong Kong	Holding company	\$ 49,152	\$ 44,640	1,600 thousands	100%	\$ 707,247	\$ 455,792	\$ 455,792		Subsidiary (original investment for the years ended December 31, 2018 and 2017 was US\$1.6 million and US\$1.5 million, respectively)
"	Luo Lih-Fen Enterprise Limited	R.O.C	General investments	\$ 25,000	-	-	100%	20,860 (	4,140) (	4,140)		Subsidiary

Note 1: Ending balance of original investment was translated based on the exchange rate prevailing at December 31, 2018.

Note 2: The carrying amount of investees at end of year was translated based on the exchange rate prevailing at December 31, 2018, and investees' profit or loss was translated based on the average exchange rate for the year ended December 31, 2018.

LUO LIH-FEN Holding Co., LTD. and Subsidiaries

Information on investments in Mainland China

Year ended December 31, 2018

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China / Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee for the year ended December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 7)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Juvenile (Fujian) Cosmetics Co., Ltd.	Sales of beauty and skin care products	\$ 49,099	Note 1 (2)	-	-	-	-	\$ 455,817	100%	\$ 455,817	\$ 704,231	-	Note 2(2)B
Xiamen Luo Lih-Fen Cosmetics Co., Ltd.	Sales of beauty and skin care products	29,068	"	-	-	-	-	(1,796)	100%	(1,796)	20,456	-	"
Xiamen Sunlily Cosmetics Co., Ltd.	Sales of beauty and skin care products	2,236	"	-	-	-	-	5,459	100%	5,459	9,312	-	"
Xiamen Glingluo Cosmetics Co., Ltd.	Sales of beauty and skin care products	2,236	"	-	-	-	-	3,761	100%	3,761	5,962	-	"
Xiamen Draise Cosmetics Co., Ltd.	Sales of beauty and skin care products	4,472	"	-	-	-	-	50	100%	50	5,025	-	"

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1)Directly invest in a company in Mainland China..

(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.(Investee in the third area: Luo Lih-Fen Group Limited)

(3) Others

Note 2: In the 'Investment income (loss) recognised by the Company for the year ended December 31, 2018' column:

(1)It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.

(2)Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:

A.The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

B.The financial statements that are audited and attested by R.O.C. parent company's CPA.

C.Others.

Note 3: The Company was established in Cayman Islands, therefore, the ceiling specified in the Regulations Governing the Permission of Investment or Technical Cooperation in Mainland Area is not applicable.

Table 3