



**葡萄王生技**

**GRAPE KING BIO**

# Investor Presentation

*May 2018*

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# Executive Summary

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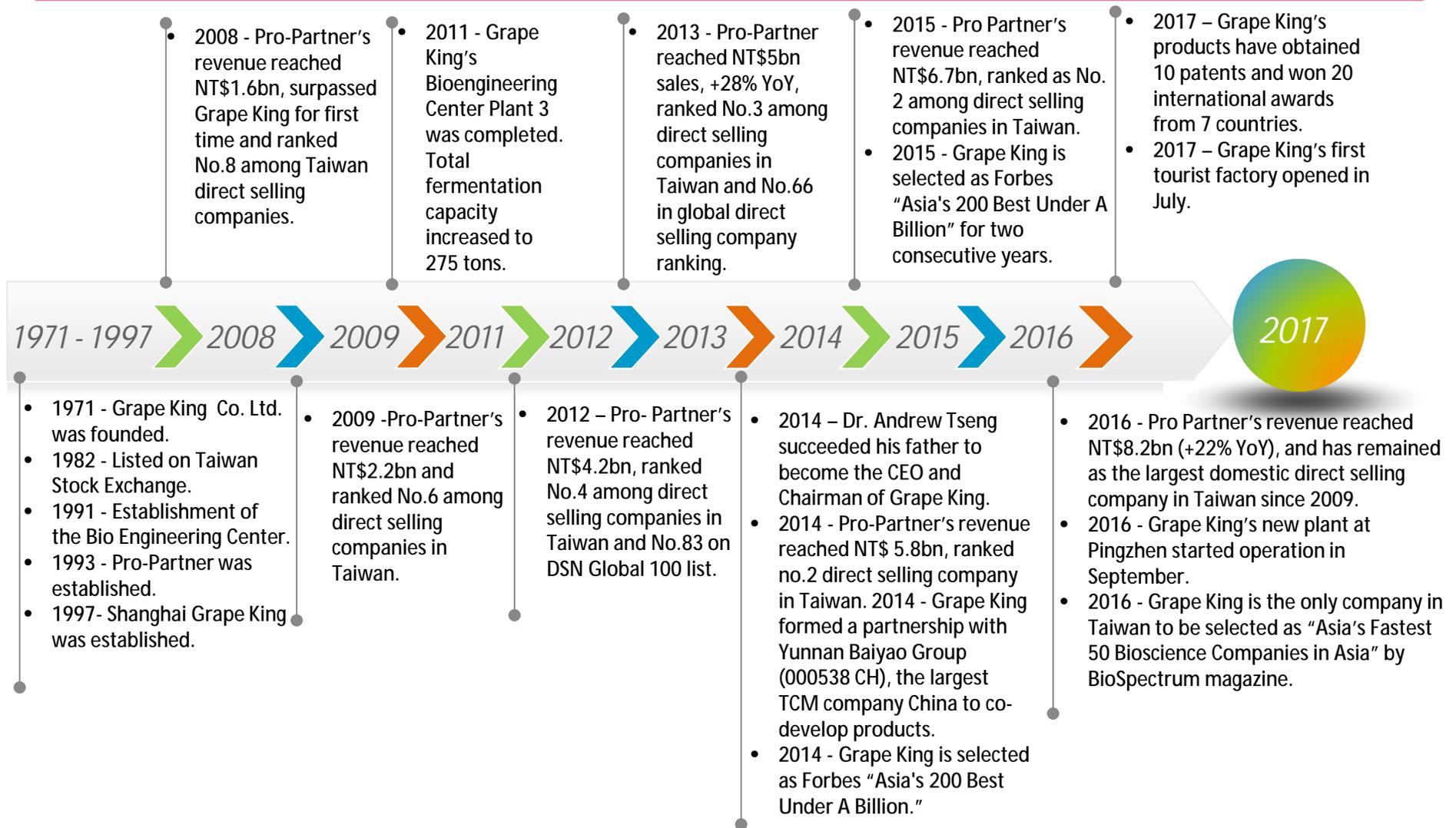
- We are a leading health food manufacturer in Taiwan with product development strength focusing on probiotics and herbal-based supplements.
- We are one of the few companies in Taiwan that possess the capability to produce our own raw materials, manufacture our product and distribute through our own brands and channels.
- We have been gaining market share in Taiwan's health food industry and we are also the industry leader in both probiotics and mushroom-based supplements.
- We also operate the second largest direct-selling company in Taiwan – Pro-Partner – with a 2016 market share of 9.8%.
- We have delivered a solid earnings CAGR of 26% in 2008-2017 averaging a 21% ROE during the same period.
- We are committed to return our earnings back to our shareholders, we have maintained more than 60% dividend payout in the past five years.
- We strive to maintain a double digit growth rate through continuous market share gain by Pro-Partner and growth in our OEM/ODM businesses in China and overseas markets.





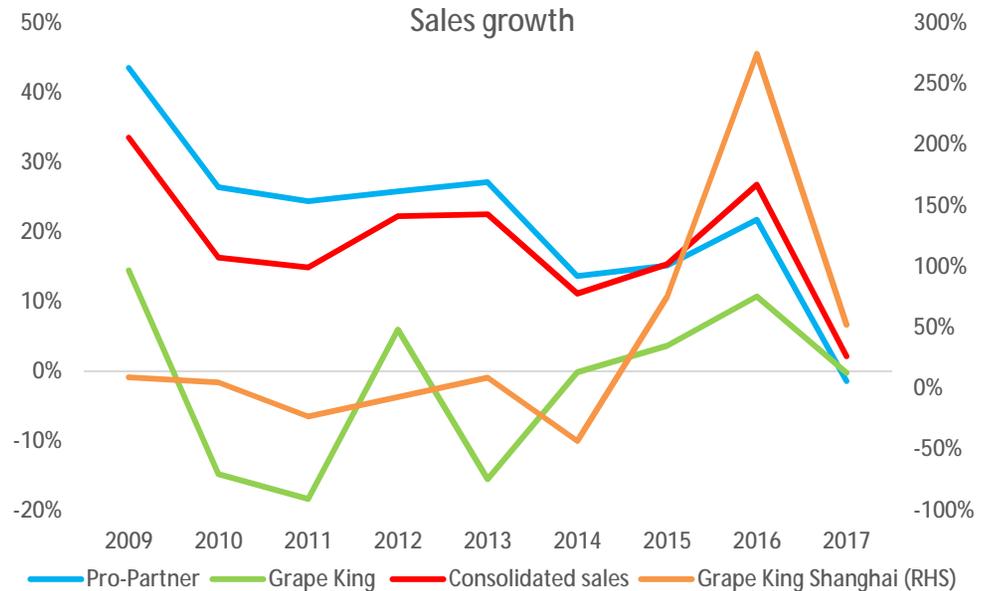
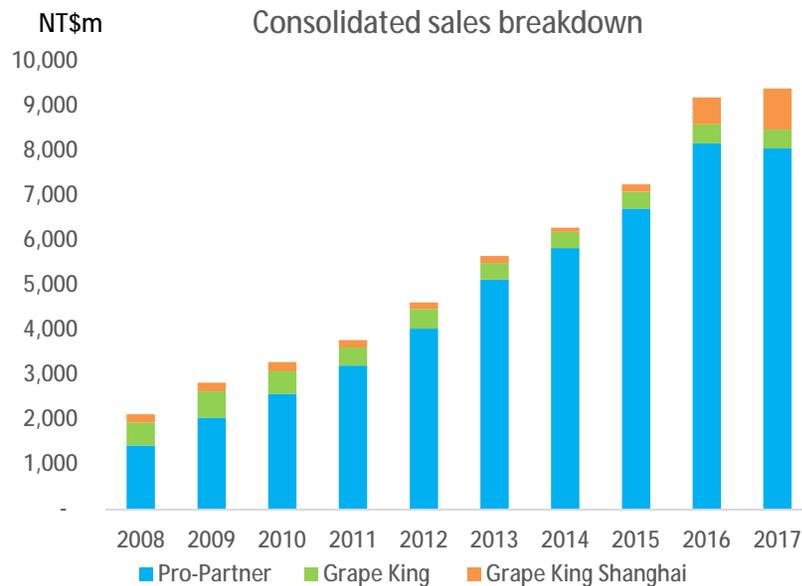
# Company Background

# Company Milestone



# Company Overview

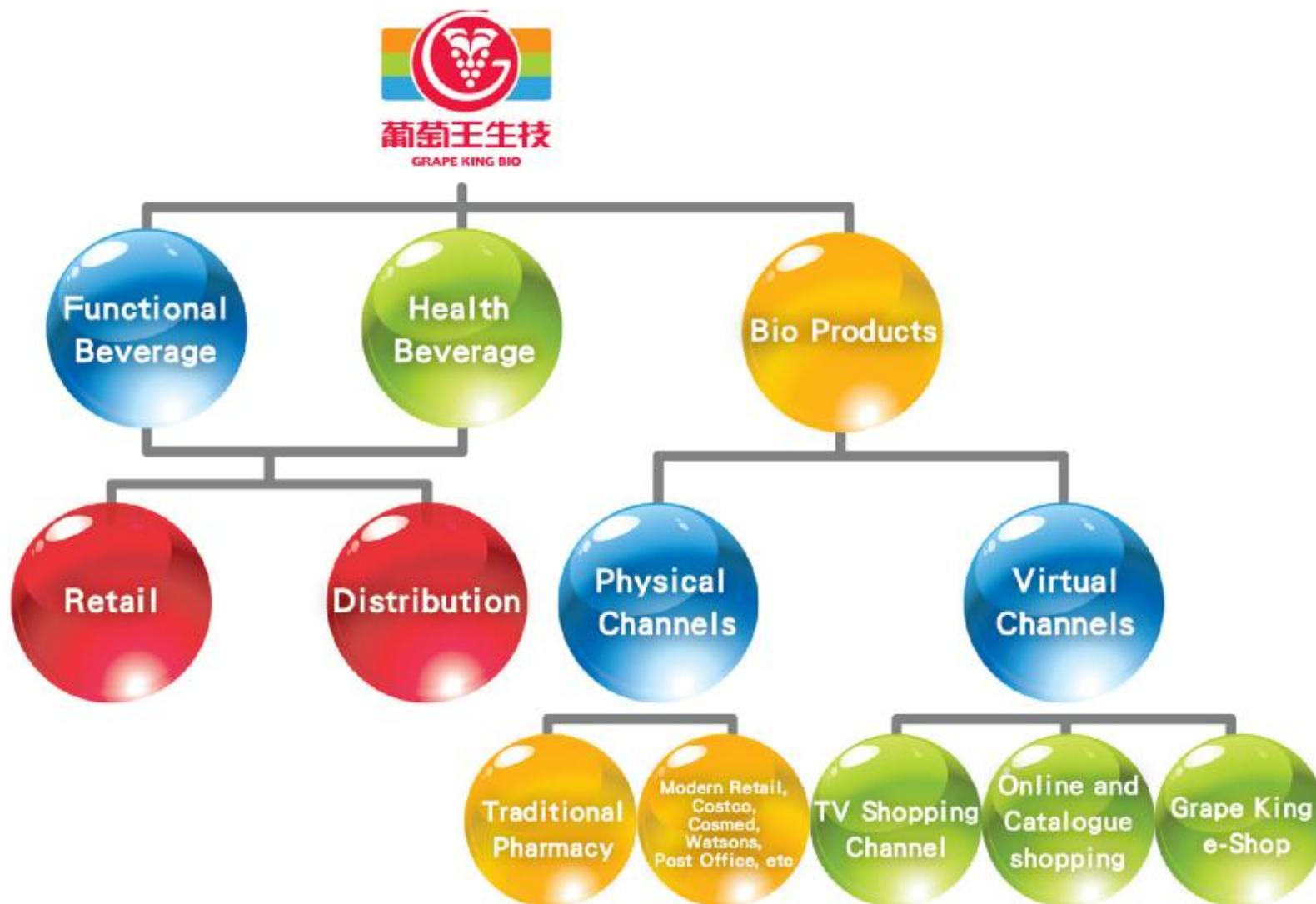
- Our Group is composed of three business units:
  - Grape King brand (retail sales channel)
  - Pro-Partner (direct selling channel)
  - Grape King Shanghai (OEM and ODM business)
- Since 2008, Pro-Partner has experienced an explosive growth thanks to robust member growth and successful product launches.
- However, Grape King is the locus of all key ingredient design, formulation, and production for the whole Group.



# We have a complete product range



# Grape King Brand Sales Channels



# Grape King Products – A Diverse Portfolio

## ComeBest Series/Golden ComeBest/Power BOMB

Energy drinks that restore fatigue and provides necessary vitamins



## Snow Brightening Essential Drink

Beauty drink that enhance metabolism



## Grape King Ling Zhi King

Strengthens the immune system and suppress allergic reactions



## Grape King Antrodia King

Liver protection and hangover prevention and alleviation



## Grape King Probiotics

Improves digestion and defecation



## Yo-Shi Premium Lutein

Vision protection



## Grape King "Sugar Safe" Roseroot pills

Balancing blood sugar

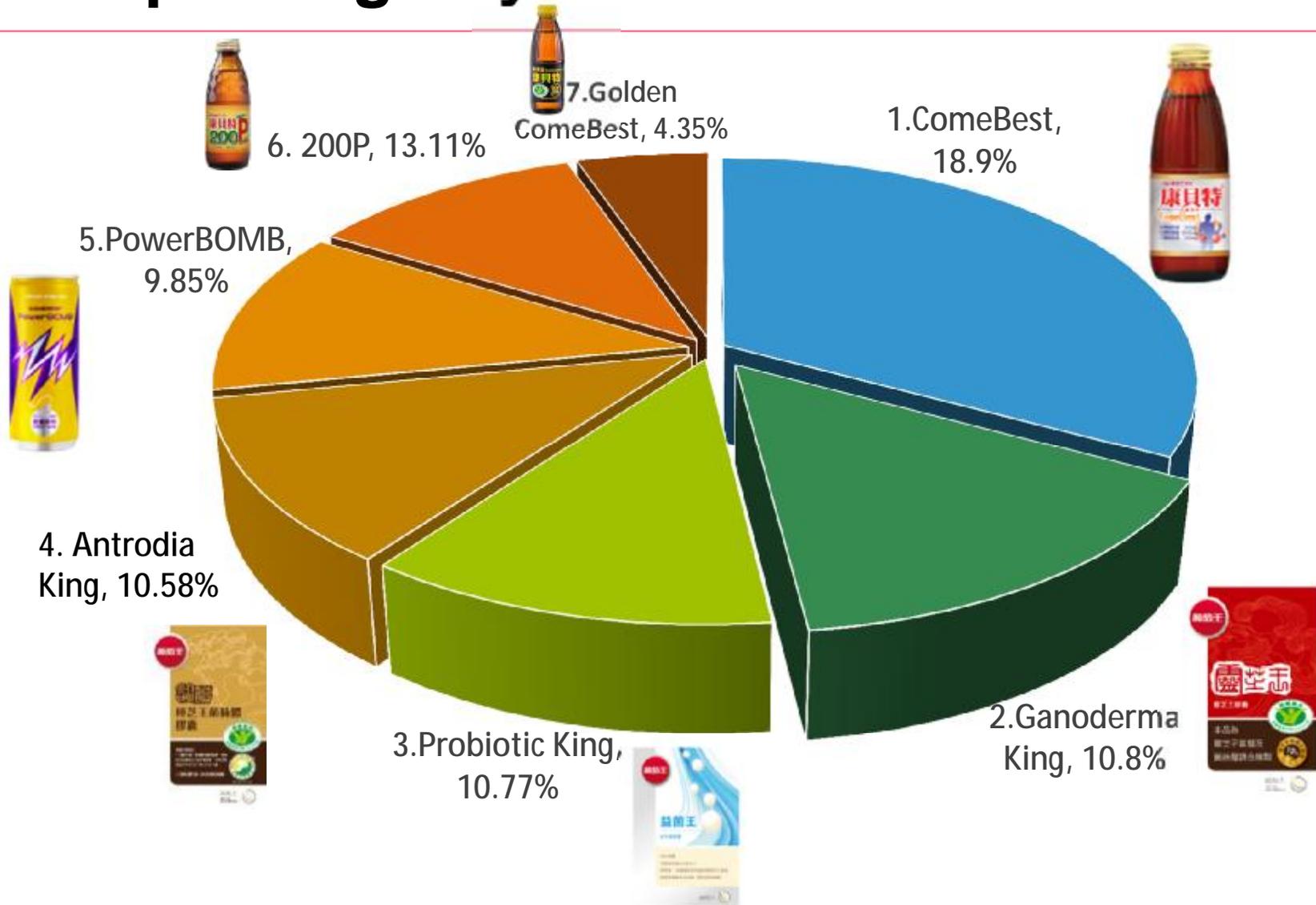


## Grape King Fu Jia Ning

Helps relieve menopause symptoms



# Grape King Key Products Sales 2018 Q1



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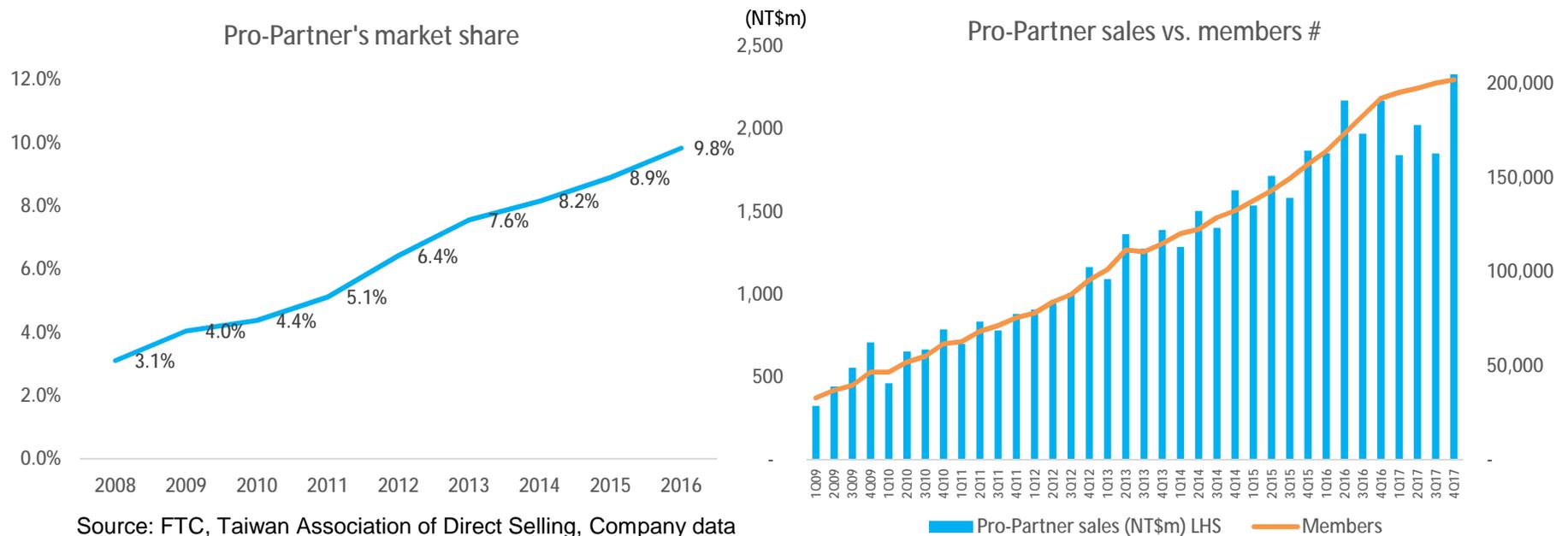
# Pro-Partner Overview

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- 1 • Largest domestic direct selling company in Taiwan based on revenue
- 2 • Second largest overall direct selling company (including global companies) in Taiwan
- 26 • Smallest product range – 26 Health and Beauty products among the top 5
- 56 • No. 56 in the worldwide direct selling company rankings for 2016
- 200,000 • Currently have over 200,000 members

# Pro-Partner Overview

- Established in 1993, Pro-Partner was initially 100% owned by Grape King.
- In 1998, a capital injection was completed by the new management team, with the management team now owning 40% of Pro-Partner.
- To date, Pro-Partner remains one of the fastest growing direct selling companies in Taiwan, having delivered a 21% sales CAGR from 2008 to 2017.
- Pro-Partner products are manufactured using more complicated and high-end formulas vs. Grape King brands, hence the products are also more expensive.



# Pro-Partner Products - More Complex Formulas

## Probiotics & Prebiotics

Promote healthy digestive system and suppress allergy



## Super 13 Probiotics & Prebiotics

Promote healthy digestive system and suppress allergy



## 995 Bio-tech Nourishment

Post operative convalescence



## Antrodia Bio Aid

Post operative convalescence



## Pro-Partner Meal Supplement

Nutrition supply, restore physical strength



## Lion's Mane Mushroom Powder

Promote brain health and cognitive function



## Bai Ke Sz

Promote healthy respiratory system

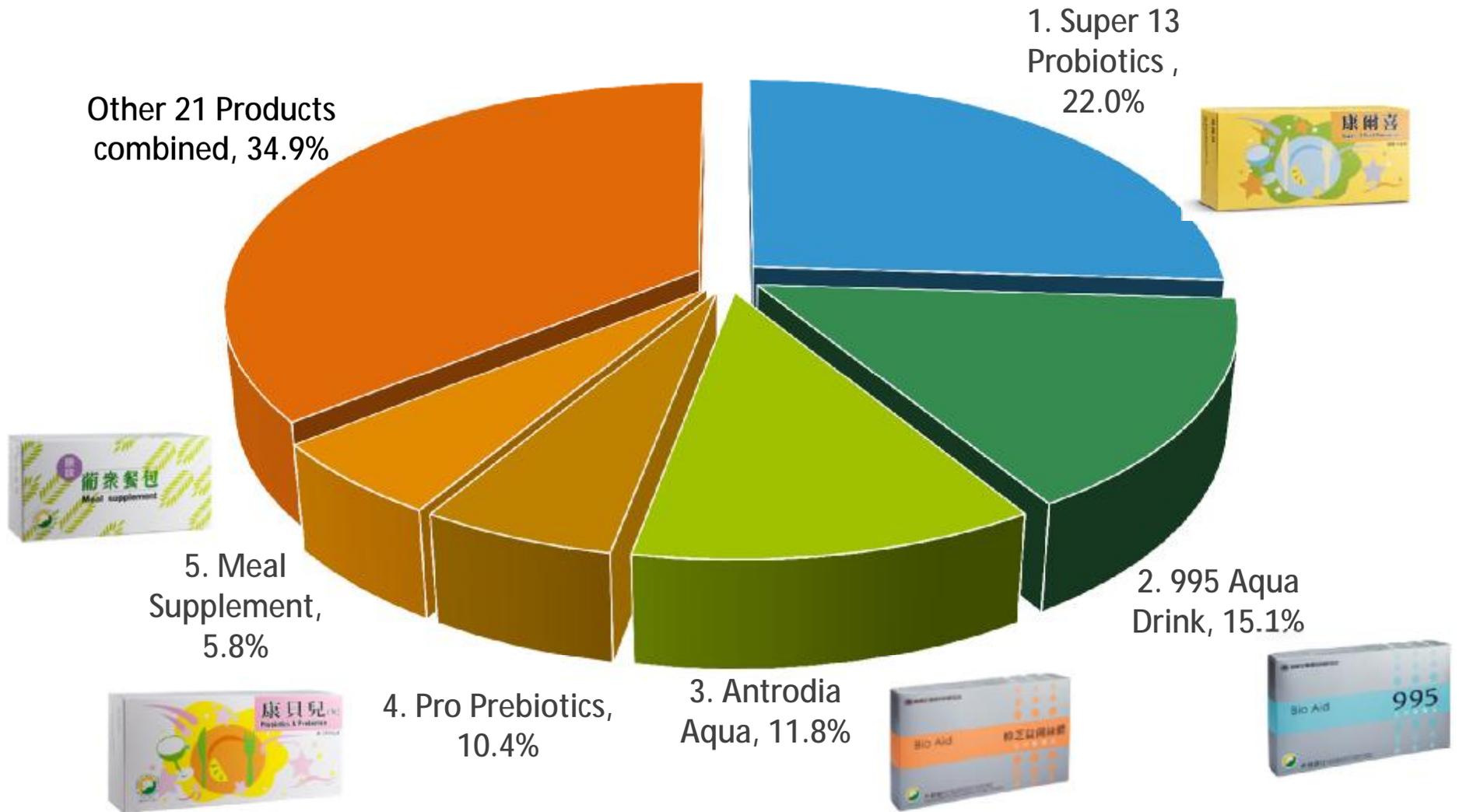


## Wei-Jie

Promote stomach health



# Pro-Partner Key Products Sales 2018 Q1



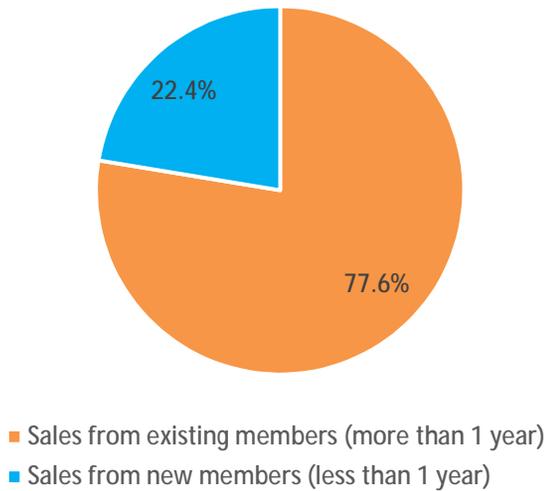
## How is Pro-Partner different from other direct selling companies?

	Traditional Direct Selling Business	Pro-Partner
Products purchase	<ul style="list-style-type: none"> <li>x Minimum purchase requirement.</li> <li>x Initial investment could be significant.</li> <li>x Members may need to bear P&amp;L risk.</li> </ul>	<ul style="list-style-type: none"> <li>ü No minimum purchase requirement.</li> <li>ü Members buy products directly from the company, thus, no inventory pressure.</li> </ul>
Products' uniqueness	<ul style="list-style-type: none"> <li>x Low entry barrier for products.</li> <li>x Products lack national certifications.</li> <li>x Production is mostly outsourced.</li> </ul>	<ul style="list-style-type: none"> <li>ü Products are bio-researched and engineered.</li> <li>ü Symbol of National Quality (SNQ) and Taiwan FDA health food certified.</li> <li>ü Products are mostly manufactured in-house.</li> </ul>
Membership/ Training	<ul style="list-style-type: none"> <li>x Members may need to pay training fees.</li> <li>x High drop out rate of members.</li> <li>x Inconsistent training quality.</li> </ul>	<ul style="list-style-type: none"> <li>ü All the trainings and venues are held by the company and free to members.</li> <li>ü High retention rate of members.</li> </ul>
Compensation	<ul style="list-style-type: none"> <li>x Opaque compensation structure.</li> <li>x Compensation scores can not be accumulated.</li> <li>x Compensation calculation and eligibility is different among membership status.</li> </ul>	<ul style="list-style-type: none"> <li>ü Transparent compensation structure.</li> <li>ü All purchases will be recorded as scores for compensation and will not reset to zero.</li> <li>ü All compensation are paid accordingly to each member's sales contribution to the company.</li> <li>ü All compensation are paid directly to the members by the company.</li> </ul>
Support	<ul style="list-style-type: none"> <li>x Lack of dedicated customer services.</li> <li>x Lack of local office support.</li> <li>x Poor return and refund policies.</li> </ul>	<ul style="list-style-type: none"> <li>ü Pro-Partner is supported and managed by Grape King, a well-respected health food company in Taiwan with 48 years of history.</li> </ul>

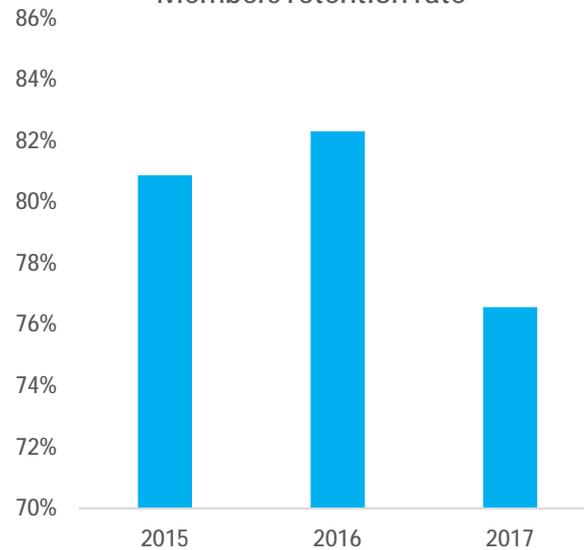
# How is Pro-Partner different from other direct selling companies?

- Nearly 78% of Pro-Partner’s sales are contributed by old members.
- Our members retention rate in the past three years are more than 75%, which is a remarkably high number in the direct selling industry.
- The growth rate of our executive distributors are similar to the growth rate of our members in the past five years. This imply that our members are proportionally promoted each year based on their contribution to the group.
- All of these data are proof of that we are a product-driven direct selling company.

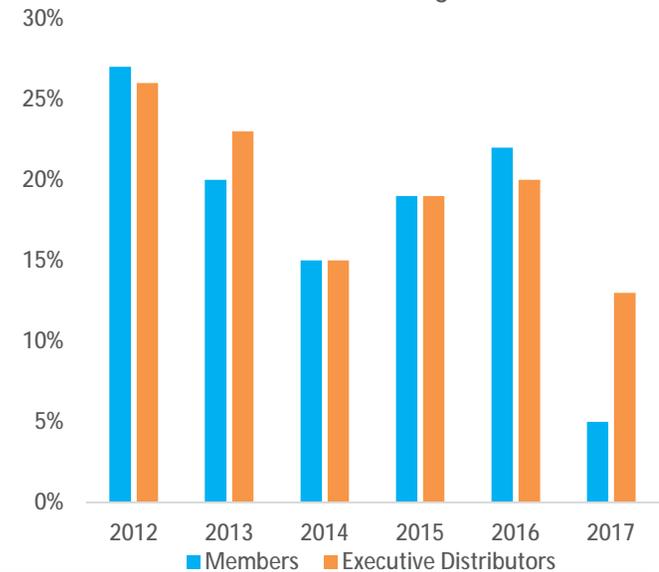
Pro-Partner sales contribution (2017)



Members retention rate



Pro-Partner members growth rate



# Grape King Shanghai Overview

- Established in 1993, Grape King Shanghai was initially targeted as the production base for Grape King's own brand products in China.
- The operation lost money in most of the years since its establishment.
- However, a change in strategy steered by the new management to an OEM/ODM model has reversed several years of losses and turned the operation profitable.
- The company has five products of its own brand certified by the China FDA with "Blue Hat" registration, a strict requirement for all health foods and supplement. The company is planning on launching these products to the market.



# Grape King's Competitive Strengths

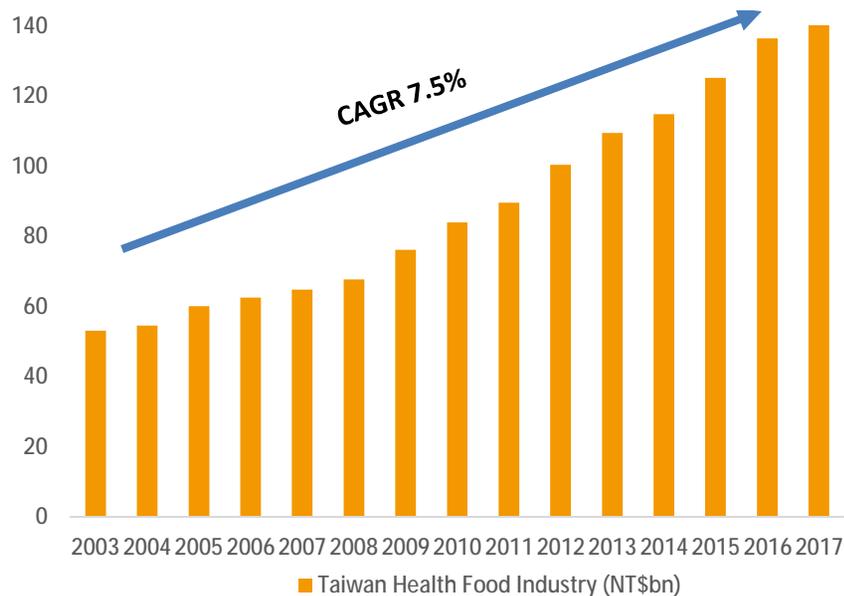




# Industry Trends

# Taiwan Health Food Industry

- Taiwan's health food industry saw a 7.5% CAGR from 2003-2017.
- The industry will continue to be driven by consumers' increasing interest in healthier lifestyles as a cost-effective way to combat ageing and prevent modern illness.
- We have been gaining marketing share in Taiwan's health food industry and we are also the industry leader in both mushroom-based supplements and probiotics.



Source: AC Nielsen

Grape King's market share in Taiwan health food industry					
	2013	2014	2015	2016	2017
Taiwan health food	4.90%	5.19%	5.44%	5.99%	5.78%
Mushroom	32.06%	31.46%	32.33%	36.61%	38.54%
Probiotics	13.89%	20.92%	31.54%	35.78%	39.57%
Energy drink	12.23%	11.70%	13.94%	14.89%	13.71%

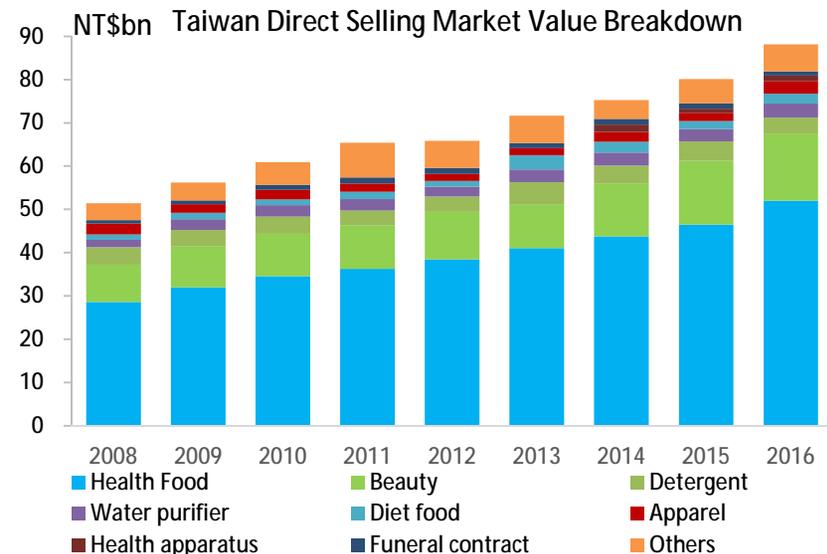
Source: AC Nielsen, Company data

# Taiwan Direct Selling Industry

- Taiwan is ranked in the top 15 markets for direct selling globally. The direct selling industry in Taiwan delivered 6% 2010-2016 CAGR, with health food accounting for nearly 60% of the value.
- Direct selling in Taiwan is strictly regulated particularly in 1) product and price (mark-up on pricing); 2) compensation structure (distribution of profit).
- It is illegal in Taiwan to produce earnings by simply introducing new participants instead of engaging in promotion and selling goods or services at reasonable market pricing, and companies in violation of this may be subject to imprisonment and/or fines.

Rank	Country	2015 Retail sales (US\$bn)	3-Year CAGR
1	United States	36.12	4.5%
2	China	35.46	22.0%
3	South Korea	16.89	7.5%
4	Germany	15.19	5.2%
5	Japan	14.66	-0.7%
6	Brazil	9.13	2.1%
7	Mexico	6.93	4.7%
8	France	4.59	2.5%
9	Malaysia	4.44	9.4%
10	United Kingdom	4.04	9.8%
11	Taiwan	3.35	6.6%
12	Italy	2.93	4.7%

Source: World Federation of Direct Selling Association



Source: Taiwan FTC

# Taiwan Direct Selling Industry

- While Taiwan's direct selling industry delivered a 6% CAGR during 2010-2016, Pro-Partner delivered a 22% CAGR during the same period.
- Pro-Partner is the only domestic company among the top 10, with the remainder being foreign companies. Top 10 companies accounted for roughly 60% of the industry.
- Pro-Partner currently has 203k members as at the end of Jan 2018, while market leader Amway has around 350k members.
- Among the market leaders, Pro-Partner has the highest sales per product.

Taiwan Direct Selling Ranking and Market Share %					
	2012	2013	2014	2015	2016
Amway	1 (15.1%)	1 (15.2%)	1 (14.9%)	1 (14.7%)	1 (13.45%)
Pro-Partner	4 (6.4%)	4 (7.6%)	2 (8.2%)	2 (8.9%)	2 (9.83%)
Melaleuca	2 (9.7%)	2 (9.2%)	3 (7.6%)	3 (6%)	7 (4.3%)
Herbalife	3 (6.7%)	5 (5.9%)	6 (5.1%)	4 (5.7%)	6 (5.1%)
Nu Skin	5 (6.1%)	3 (8.3%)	4 (6.1%)	5 (5.6%)	3 (5.5%)
Market America	7 (4%)	6 (4.6%)	5 (5.4%)	6 (5.3%)	5 (5.2%)
Total Swiss	9 (0.8%)	8 (1.6%)	7 (4.2%)	7 (5.3%)	4 (5.2%)
Jeunesse	10 (0.7%)	9 (1.2%)	10 (1.8%)	8 (3.3%)	8 (4.0%)
E.EXCEL	8 (2.7%)	7 (3.1%)	9 (2.9%)	9 (2.9%)	10 (2.6%)
Avon	6 (4.6%)	6 (4.6%)	8 (4%)	10 (2.6%)	> 10 (N.A.)

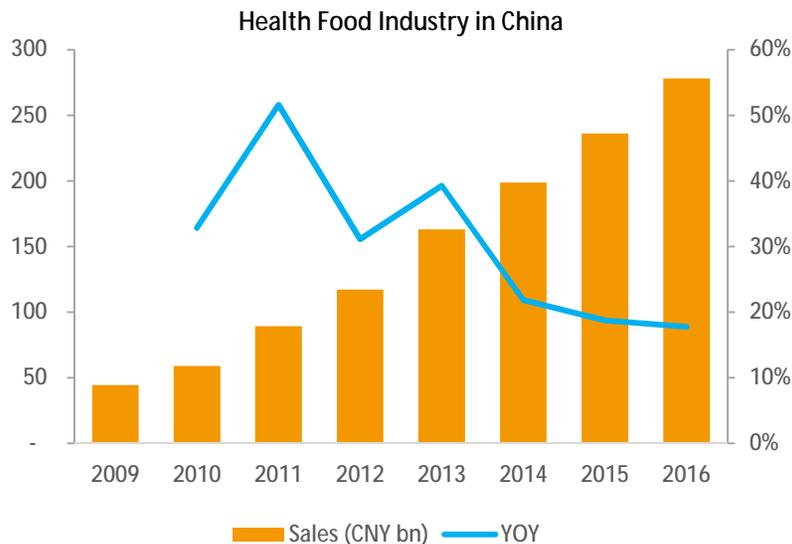
Source: Taiwan Association of Direct Selling

Company	Members ('000)	Sales contribution per member (NT\$)	# of Products	Sales contribution per product (NT\$m)
Pro-Partner	200	43,300	30	288.7
Herbalife	66	69,486	91	50.5
Nu Skin	120	40,000	219	21.9
Melaleuca	180	21,111	502	7.6
Amway	350	33,857	289	41.0
Jeunesse	180	19,444	23	152.2

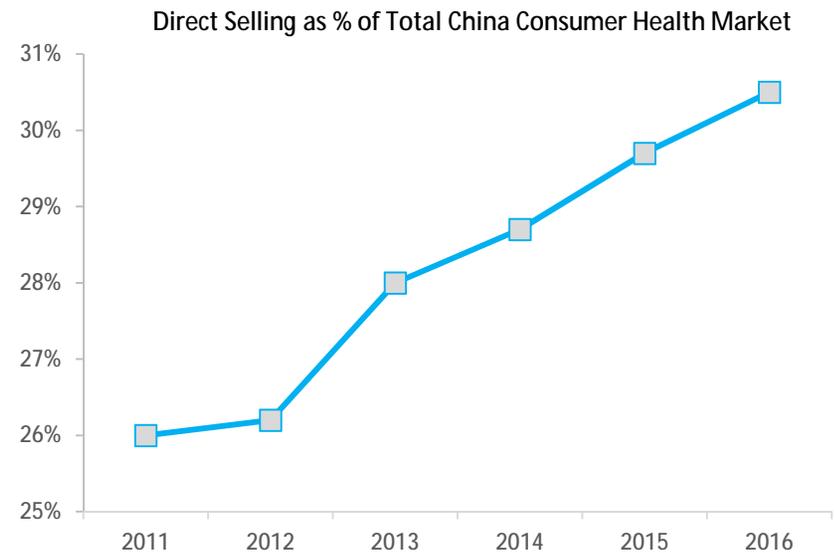
Source: Company data, FTC, Taiwan Association of Direct Selling

# China Health Food Industry

- China's health food industry delivered a 30% CAGR between 2009-2016, mainly driven by economic growth, disposable income, and rising health awareness.
- Direct selling has become an important distribution channel as sales from direct selling has grown from 26% in 2011 to 30% in 2016, according to Euromonitor.
- Despite the latest Administrative Measure of Health Food Registration and Filing having streamlined the certification process for vitamins and minerals, other products still need to go through the "Blue Hat" certification process by the CFDA.



Source: National Bureau of Statistics of PRC



Source: Euromonitor



# Our Goals and Strategies

# Our Group Goals

## Long-term Goals

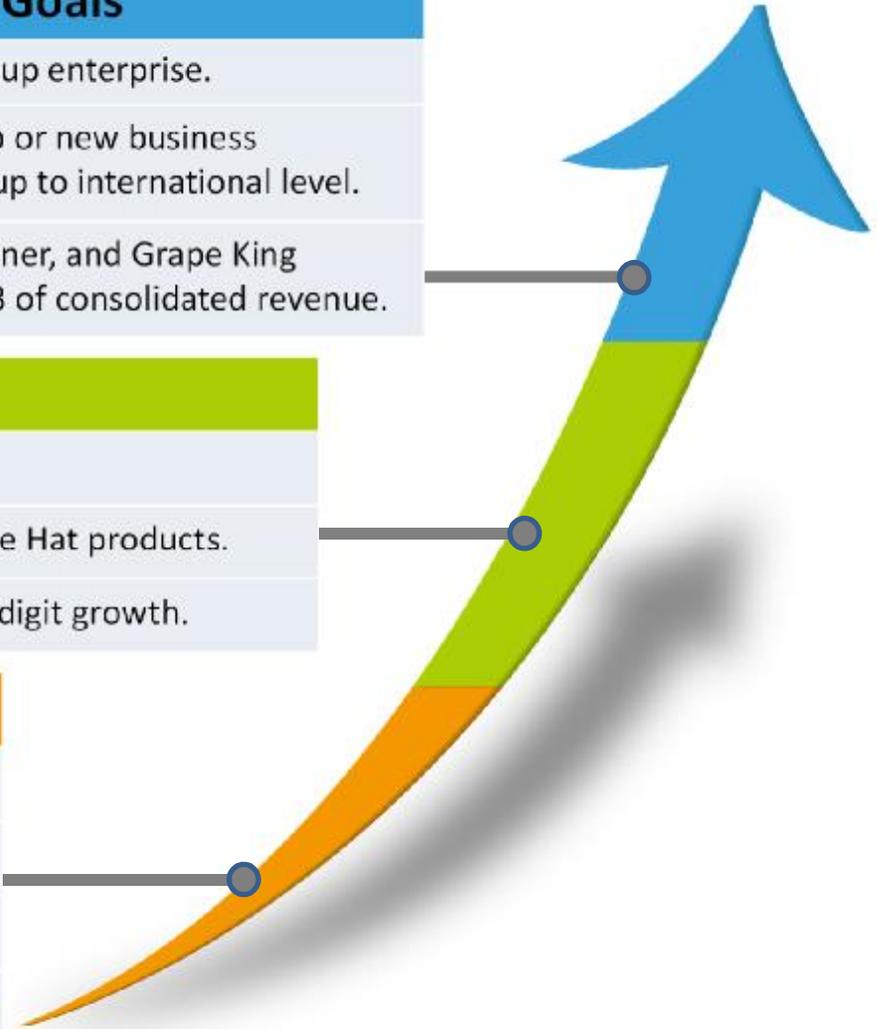
- Transform Grape King into a group enterprise.
- Continue to explore partnership or new business opportunities and take the Group to international level.
- Grape King own brand, Pro-Partner, and Grape King Shanghai each to contribute 1/3 of consolidated revenue.

## Mid-term Goals

- Continue overseas expansion.
- Establish retail channels in China for the 5 Blue Hat products.
- China business to continue delivering double digit growth.

## Near-term Goals

- Continue to improve brand equity.
- Continue to invest in food safety measures and protection.
- Smooth ramp-up for our capacity expansion.
- Consolidated revenue to resume to double-digit growth.



# Integrated Marketing Strategy

## Cross-Channel Integration

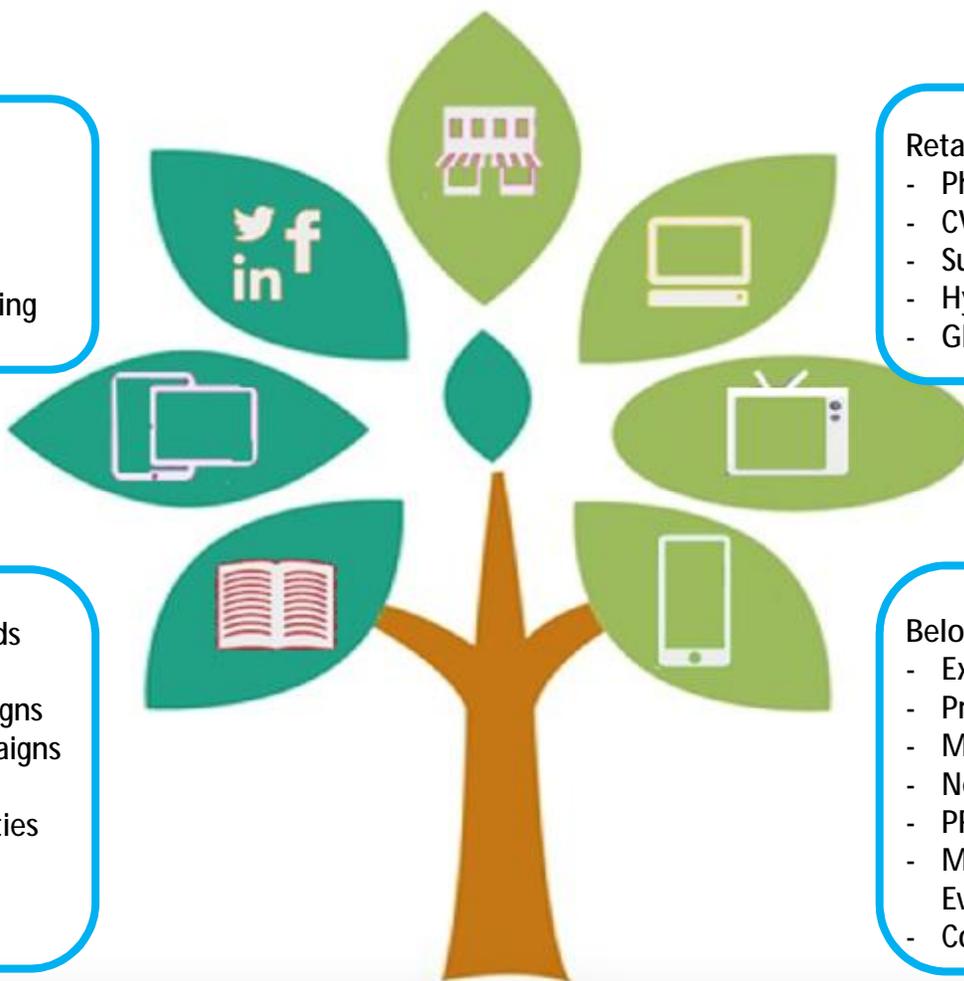
### Virtual channel penetration

- Grape King online store
- Online B2C stores
- TV shopping channels
- Catalogue and mail shopping

### Above the line marketing

- Internet: Promo videos, ads
- Facebook: Fan pages
- Google: Adwords, Campaigns
- Yahoo: Advertising, Campaigns
- YouTube
- Soft-selling ads by celebrities and bloggers.
- TV commercials
- Grape King websites

## CRM



## Loyalty Program

### Retail channel penetration

- Pharmacies
- Drugstores
- CVS
- Department Stores
- Supermarkets
- Discount Stores
- Hypermarkets
- Restaurants
- GK Visitor Centre
- Post offices

### Below the line marketing

- Exhibitions
- Billboard
- Press Conferences
- Store Signs
- Magazines
- Sample
- Newspaper
- Giveaways
- PR
- Brochures
- Mailing Campaigns
- Sporting Events
- Concerts and live events

# Creative Brand Building and Product Campaigns

Grape King Antrodia King (liver protection)  
Anger causes high blood pressure but also harms liver.



Grape King's micro film commercial series  
Who do you want to deliver health to? Health is mom's handmade rice dumpling (Health is Accompanying)

Grape King Ginseng Vitamin B Complex Plus  
Flight attendant no longer needs to roll her eyes for unreasonable requests

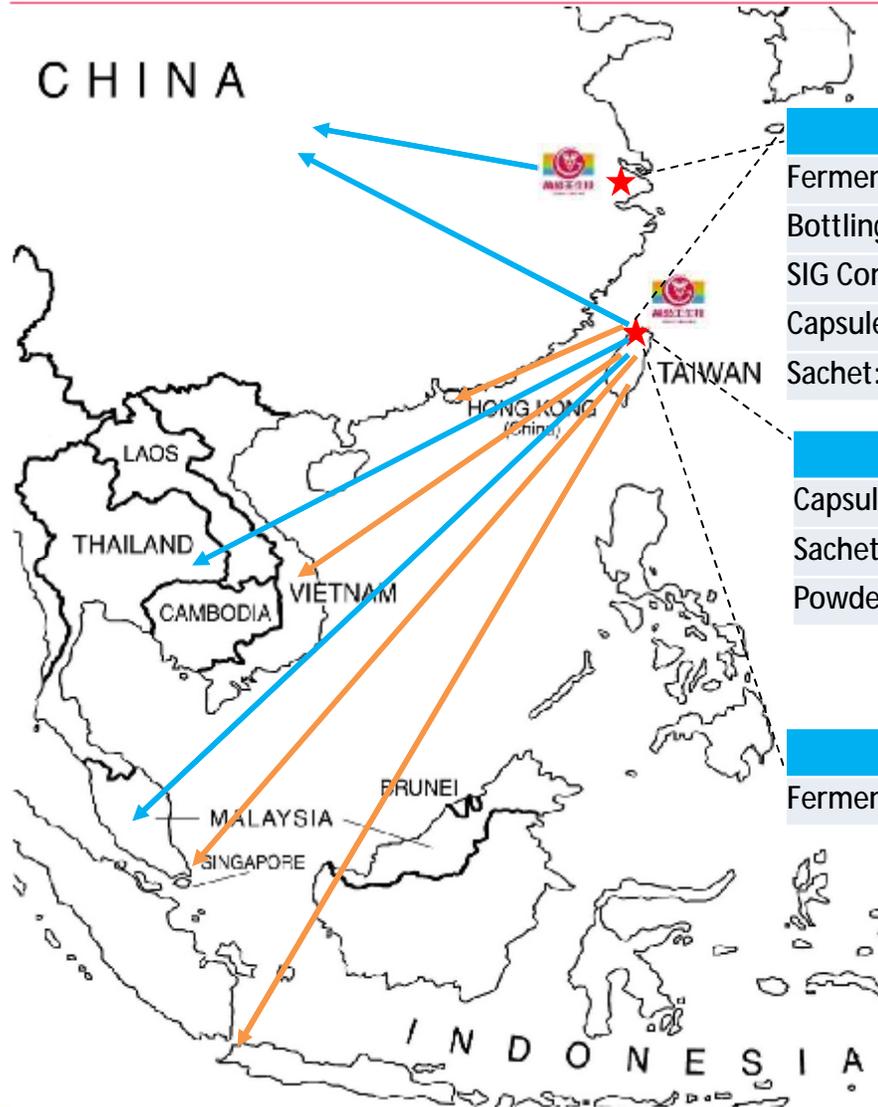


Grape King's micro film commercial series  
Who do you want to deliver health to? Health is a 3 bedroom house. (Health is Responsibility)

# New Products Roadmap



# Capacity and Overseas Strategy



## Grape King Shanghai Plant

Products: Probiotics, collagen drinks  
 Customers: Direct-selling companies, health food companies.

## 2018 Capacity

Liquids: 140,880k bottles/year  
 Powders: 98,366k pack/year  
 Troches: 639,006k capsules/year

## China Strategies

- Growing the wallet share of existing customers
- Acquire more OEM/ODM customers
- Establish retail channels for Grape King's 5 Blue Hat Products

## Overseas Strategies

- Continue to grow our OEM/ODM business in by trade shows/events.
- We are waiting for product registrations in Singapore, Indonesia, HK, Vietnam, Malaysia, and Thailand.

## Grape King Zhongli Plant

Fermentation: 285 tons (100% utilized)  
 Bottling: 63k bottles/hr.  
 SIG Combibloc: 11k packs/hr.  
 Capsules: 21k capsules/hr.  
 Sachet: 18k packs/hr.

## Grape King Pingzhen Plant

Capsules: 21k capsules/hr.  
 Sachet: 30k packs/hr.  
 Powder: 16.2k pack/hr.

## Grape King Longtan Plant

Fermentation: 285 tons

# Our CSR Commitments



We regularly provide free training courses and internship opportunities to more than 16 universities in Taiwan.



Employees are one of the most valuable assets of our business. We continue to look after our employees by supporting issues and causes that matter to them.



Employees



Industry and Academia Cooperation



Social Contribution



Grape King undertakes all operations with high consideration for the environment. Our factories use waste water and air recycling systems to prevent air and water pollution.



The Environment



We offer financial scholarships for students from the local community and financial support for low-income families in Taoyuan. In 2013 we formed our CSR team to take part in various public activities.



# Financial Performance



# Impact from IFRS 15 starting 2018

	After adopting IFRS 15	Before adopting IFRS 15
	2017	2017
Revenue	7,704	9,388
COGS	(1,523)	(1,523)
Gross Profit	6,181	7,865
Operating Expenses	(3,926)	(5,610)
Operating Profit	2,254	2,254
Non Operating Income	151	151
Pretax Income	2,405	2,405
Tax Expenses	(471)	(471)
Minorities	(583)	(583)
Net Profit	1,352	1,352

## Key Financial Ratios (%)

Gross Margin	80.2%	83.8%
Operating Expense Ratio	51.0%	59.8%
Operating Margin	29.3%	24.0%
Effect Tax Rate	19.6%	19.6%
Net Margin	17.5%	15.4%

### Notes:

1. Effective on 1 January 2018, all companies in Taiwan need to adopt IFRS 15 (revenue from contract with customers).
2. By adopting IFRS 15, the major impact will be on Pro-Partner, as its revenue will need to deduct products discount to members.
3. As a result, the reported revenue will be smaller. The reported gross profit figure will also be smaller as cost of goods sold remain the same.
4. However, operating and net margin will be higher as revenue base and operating expenses are now smaller.

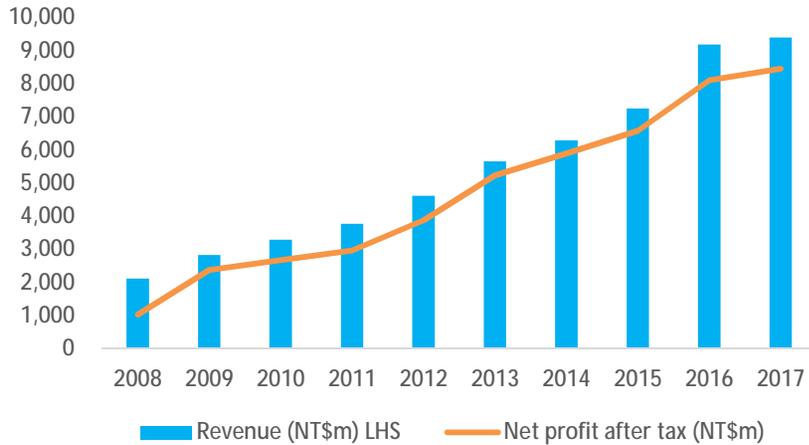
(NT\$m)	After adopting IFRS 15			Before adopting IFRS 15		
	Jan-18	Jan-17	YoY	Jan-18	Jan-17	YoY
Revenue breakdown						
Grape King Taiwan	27	22	25.4%	34	27	24.0%
Pro-Partner	494	588	-16.1%	547	651	-15.9%
Grape King Shanghai	147	19	695.8%	147	19	695.8%
Consolidated Revenue	668	629	6.3%	728	696	4.6%
Revenue mix by Business						
Grape King Taiwan	4%	3%		5%	4%	
Pro-Partner	74%	94%		75%	93%	
Grape King Shanghai	22%	3%		20%	3%	
Consolidated Revenue	100%	100%		100%	100%	

### Notes:

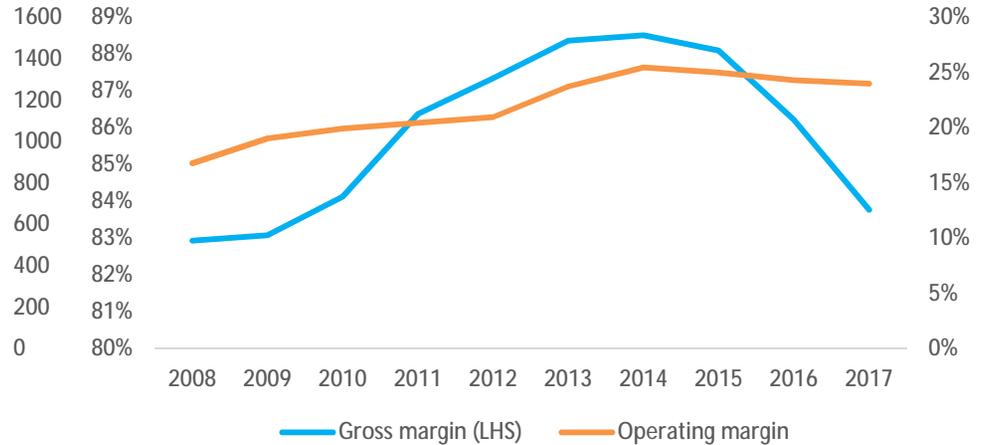
1. With IFRS 15, Grape King Shanghai's revenue contribution has grown from 3% in Jan 2017 to 22% in Jan 2018, now accounting a larger share of consolidated revenue.

# Financial Highlights

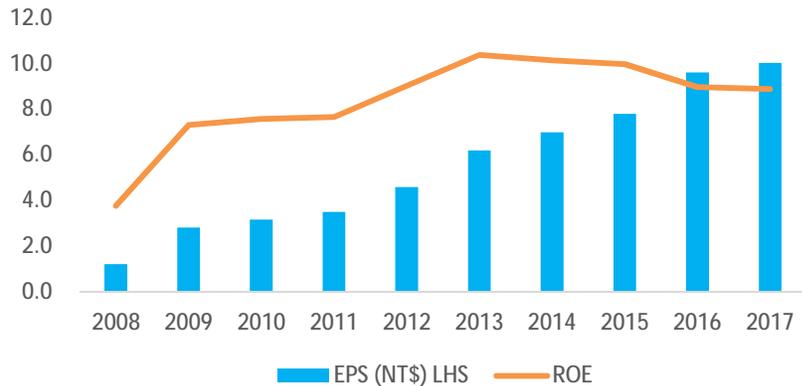
Historical revenue vs. net profit after tax



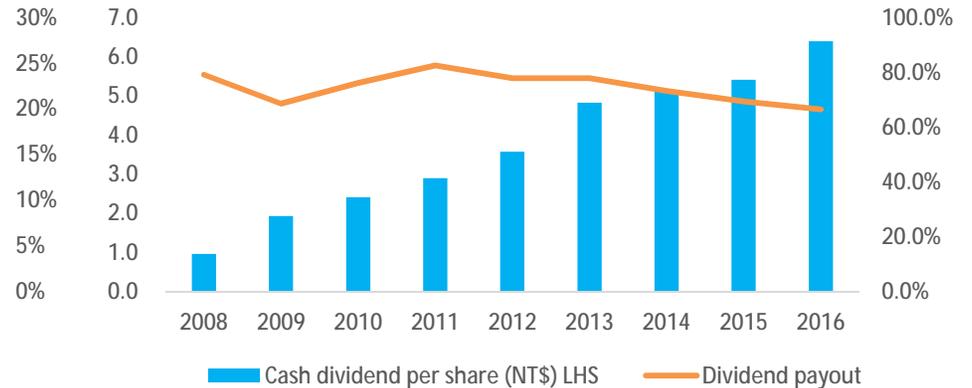
Historical gross margin vs. operating margin



Historical EPS vs. ROE



Historical cash dividend payout



# Five-Year Income Statement

NT\$m	2012	2013	2014	2015	2016	2017	YoY (%)					
							2012	2013	2014	2015	2016	2017
Revenue	4,612	5,652	6,283	7,248	9,185	9,388	22.3	22.6	11.2	15.4	26.7	2.2
Gross Profit	4,028	4,995	5,561	6,385	7,919	7,865	23.7	24.0	11.3	14.8	24.0	-0.7
Operating Expenses	-3,062	-3,653	-3,961	-4,573	-5,685	-5,610	23.1	19.3	8.4	15.4	24.3	-1.3
Operating Profit	966	1,342	1,600	1,812	2,234	2,254	25.4	38.9	19.2	13.3	23.3	0.9
Non Operating Income/(Loss)	64	85	89	70	78	151	43.0	32.4	4.8	-21.5	11.8	92.6
Pretax Income	1,031	1,427	1,689	1,883	2,312	2,405	26.4	38.5	18.4	11.4	22.8	4.0
Tax Expenses	-184	-246	-303	-336	-426	-471	17.5	33.3	23.1	10.9	26.8	10.6
Minority interest	-228	-346	-444	-495	-590	-583	22.6	51.9	28.5	11.5	19.2	-1.2
Net Income to Parent	619	836	942	1,052	1,297	1,352	30.8	35.0	12.8	11.6	23.3	4.3
Basic EPS (NT\$)	4.67	6.42	7.24	8.07	9.82	10.03						
Key Financial Ratios (%)												
Gross Margin	87.3	88.4	88.5	88.1	86.2	83.8						
Operating Expense Ratio	66.4	64.6	63.1	63.1	61.9	59.8						
Operating Margin	21.0	23.7	25.5	25.0	24.3	24.0						
Effect Tax Rate	17.9	17.2	17.9	17.8	18.4	19.6						
Net Margin	13.4	14.8	15.0	14.5	14.1	14.4						

# Five-Year Balance Sheet

NT\$m	2012	2013	2014	2015	2016	2017	YoY (%)						
							2012	2013	2014	2015	2016	2017	
Total Assets	3,868	4,629	5,369	8,612	9,550	9,892	11.9	19.7	16.0	60.4	10.9	3.6	
Cash	1,085	1,069	1,374	1,433	1,899	1,920	27.1	(1.5)	28.6	4.3	32.6	1.1	
AR & NR	140	87	100	98	208	160	(0.4)	(38.1)	15.3	(1.9)	112.1	(23.2)	
Inventories	211	235	268	359	435	492	12.9	11.3	14.1	34.0	21.0	13.1	
Fixed Assets	1,697	1,820	2,068	5,597	6,084	6,355	3.5	7.3	13.6	170.6	8.7	4.4	
Total Liabilities	1,126	1,408	1,652	4,393	3,767	3,564	14.4	25.0	17.3	165.9	(14.3)	(5.4)	
AP & NP	88	88	128	153	198	323	21.1	(0.4)	45.9	19.2	29.6	63.1	
Total Borrowing	31	32	17	2,439	1,206	722	(64.3)	4.1	(47.4)	143	81.2	(50.6)	(40.1)
Total Equity	2,742	3,221	3,717	4,220	5,783	6,328	10.9	17.5	15.4	13.5	37.1	9.4	
Key Financial Ratios (%)													
A/R Turnover Days	11.1	5.6	5.8	4.9	8.3	5.5							
Inventory Turnover Days	132.1	130.6	135.7	152.1	125.4	109.6							
A/P Turnover Days	55.2	48.8	64.8	64.7	57.1	60.3							
Cash Conversion Days	88.1	87.4	76.7	92.4	76.6	54.9							
ROE (%)	22.6	25.9	25.4	24.9	22.4	21.4							
ROA (%)	16.0	18.1	17.6	12.2	13.6	13.7							
Net debt (cash)/Equity %	-38.4	-32.2	-36.5	23.9	-12.0	-18.9							

# Dividend Payout and Capex

(NT\$m)	2012	2013	2014	2015	2016	2017	2018F
Net profit	619	836	942	1,052	1,297	1,352	
Cash dividend	482	651	690	730	862		
DPS (NT\$)	3.7	5.0	5.3	5.59	6.4		
Payout ratio	77.9%	77.9%	73.2%	69.4%	66.5%	>60%	
Cash yield	3.1%	3.4%	2.4%	2.6%	3.2%		
Capex	159	355	187	2,635	736	772	1,890

## Notes:

1. Cash yield is calculated based on Grape King's closing share price before the ex-dividend day of the following year.
2. The big spike in capex in 2015-2017 is largely due to the investment of 1) Grape King and Pro-Partner's new headquarter building, 2) the new factory and tourist factory in Pingzhen, 3) the new factory in Longtan, and 4) additional production lines for Grape King Shanghai.
3. The estimated capex for 2018 will be used for 1) the new factory in Longtan, and 2) various upgrade and new production lines projects.

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# 2018-2019 Priorities

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## Taiwan Domestic Market

- Continue to work on our Brand, Products, and Business refresh through realignment of our organization structure and distribution channels
- Solidify our leadership position in Taiwan health food market
- Continue to identify and innovate quality products that meet consumers' needs
- Finding new channels (e.g. Restaurants, new distributors, Grape King visitors center)

## Overseas Market

- Continue to maximize or wallet share in our existing clients in China and explore new OEM/ODM opportunities in Asia
- Looking for Global partners and OEM/ODM clients
- Complete product certifications in major Southeast Asian countries
- Establish retail channels for our own brand products in China

## Financial Performance

- Positive revenue growth in 2018 with stable net profit margin
- Sustainable ROE of over 20%
- Maintain cash dividend payout of over 60%

# Thank you!

For more information, please visit our company website at  
[www.grapeking.com.tw](http://www.grapeking.com.tw)