

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**TTY BIOPHARM COMPANY LIMITED
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2018 and 2017**

Address: 3F., No. 3-1, Park St., Nangang Dist., Taipei City 115, Taiwan
Telephone: 886-2-26525999

The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

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安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Review Report

To the Board of Directors
TTY Biopharm Company Limited:

Introduction

We have reviewed the accompanying consolidated balance sheets of the TTY Biopharm Company Limited (the "Company") and its subsidiaries (together referred to as the "Group") as of September 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2018 and 2017, as well as the changes in equity and cash flows for the nine months ended September 30, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard ("IAS") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 6(h), the investments accounted for using the equity method of the Group in its investee companies amounted to \$312,990 thousand and \$278,375 thousand as of September 30, 2018 and 2017, respectively, and the shares of profit on associates accounted for using the equity method on these investee companies amounted to \$6,008 thousand, \$5,486 thousand, \$14,467 thousand and \$20,772 thousand for the three months and nine months ended September 30, 2018 and 2017, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Other Matter

We did not review the financial statements of PharmaEngine, Inc., which represented investment in accounted for using the equity method of the Company. Those financial statements were reviewed by another auditor, whose review report has been furnished to us, and our conclusion, insofar as it relates to the amounts included for PharmaEngine, Inc., is based solely on the review report of another auditor. The investment in PharmaEngine, Inc. accounted for using the equity method amounted to \$578,778 thousand and \$646,626 thousand, constituting 6.47% and 6.83% of the consolidated total assets at September 30, 2018 and 2017, respectively, and the share of profit (loss) of associates and joint ventures accounted for using the equity method amounted to \$11,534 thousand, \$(687) thousand, \$15,197 thousand and \$(31,735) thousand, constituting 2.86%, (0.19)%, 1.16% and (3.38)% of total profit before tax for the three months and nine months ended September 30, 2018 and 2017, respectively.

The engagement partners on the reviews resulting in this independent auditors’ review report are Kuo-Yang Tseng and Shin-Chin Chih.

KPMG

Taipei, Taiwan (Republic of China)
November 14, 2018

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors’ review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors’ review report and consolidated financial statements, the Chinese version shall prevail.

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**REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING
STANDARDS**

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and nine months ended September 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

	For the three months ended September 30				For the nine months ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
4000	Operating revenue (note 6(u), (v) and 7)							
5000	Operating costs (note 6(g) and (q))							
	Gross profit							
5910	Less: Unrealized profit (loss) from sales							
5920	Add: Realized profit (loss) from sales							
	Gross profit, net							
6000	Operating expenses (note 6(q), 7 and 12):							
6100	Selling expenses							
6200	Administrative expenses							
6300	Research and development expenses							
6450	Reversal of provision for bad debt expense							
	Net operating income							
	Non-operating income and expenses (note 6(x) and 7):							
7010	Other income							
7020	Other gains and losses, net							
7050	Finance costs, net							
7070	Share of profit (loss) of associates and joint ventures accounted for using equity method, net (note 6(h))							
	Profit before tax							
7950	Less: Income tax expense (note 6(r))							
	Profit for the period							
	Other comprehensive income:							
8310	Components of other comprehensive income that will not be reclassified to profit or loss							
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income							
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss							
8360	Components of other comprehensive income that may be reclassified to profit or loss							
8361	Exchange differences on translation							
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets							
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that may be reclassified to profit or loss							
8399	Income tax related to components of other comprehensive income that may be reclassified to profit or loss							
	Components of other comprehensive income that may be reclassified to profit or loss							
8300	Other comprehensive income, net							
	Total comprehensive income for the period							
	Profit attributable to:							
	Owners of parent							
	Non-controlling interests							
	Comprehensive income attributable to:							
	Owners of parent							
	Non-controlling interests							
	Earnings per share, net of tax (note 6(t))							
	Basic earnings per share							
	Diluted earnings per share							

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent						Total other equity interest		Total equity	
	Share capital	Capital surplus	Legal reserve	Special reserve	Retained earnings	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total equity attributable to owners of parent		Non-controlling interests
Balance at January 1, 2017	\$ 2,486,500	405,368	603,613	110,154	1,487,805	-	287,450	5,378,528	631,784	6,010,312
Profit for the period	-	-	-	-	742,823	-	-	742,823	20,456	763,279
Other comprehensive income	-	-	-	-	-	(95,678)	(143,212)	(238,890)	(88,654)	(327,544)
Total comprehensive income	-	-	-	-	-	(95,678)	(143,212)	(238,890)	(68,198)	435,735
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	119,332	-	(119,332)	-	-	-	-	-
Cash dividends of ordinary share distributed	-	-	-	-	(944,870)	-	-	(944,870)	(51,804)	(996,674)
Other changes in capital surplus:										
Changes in equity of associates and joint ventures accounted for using equity method	-	4,071	-	-	-	-	-	4,071	-	4,071
Changes in non-controlling interests	-	-	-	-	-	-	-	-	120,000	120,000
Balance at September 30, 2017	\$ 2,486,500	409,439	722,945	110,154	1,166,426	(98,040)	144,238	4,941,662	631,782	5,573,444
Balance at January 1, 2018	\$ 2,486,500	396,113	722,945	110,154	1,758,633	(99,734)	122,165	5,496,776	614,861	6,111,637
Effects of retrospective application	-	-	-	-	(43)	-	(122,165)	(41)	-	(41)
Equity at beginning of period after adjustments	2,486,500	396,113	722,945	110,154	1,758,590	(99,734)	122,167	5,496,735	614,861	6,111,596
Profit for the period	-	-	-	-	1,094,253	-	-	1,094,253	4,459	1,098,712
Other comprehensive income	-	-	-	-	-	36,811	-	49,859	7,893	57,752
Total comprehensive income	-	-	-	-	-	36,811	-	1,144,112	12,352	1,156,464
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	134,474	-	(134,474)	-	-	-	-	-
Cash dividends of ordinary share distributed	-	-	-	-	(1,118,925)	-	-	(1,118,925)	(35,093)	(1,154,018)
Other changes in capital surplus:										
Changes in equity of associates and joint ventures accounted for using equity method	-	(85)	-	-	-	-	-	(85)	-	(85)
Disposal of subsidiaries or investments accounted for using equity method	-	(36,591)	-	-	-	-	-	(36,591)	-	(36,591)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	20	-	(20)	-	-	-
Balance at September 30, 2018	\$ 2,486,500	359,437	857,419	110,154	1,599,464	(62,923)	135,195	5,485,246	592,120	6,077,366

See accompanying notes to financial statements.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2018	2017
Cash flows from operating activities:		
Profit before tax	\$ 1,315,698	939,988
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	95,614	100,628
Amortization expense	13,313	6,209
Reversal of provision for bad debt expense	(5,731)	-
Net loss on financial assets or liabilities at fair value through profit or loss	14	-
Interest expense	13,249	18,090
Interest income	(20,772)	(15,407)
Dividend income	(308)	-
Share of (profit) loss of associates and joint ventures accounted for using equity method	(29,664)	10,963
Loss on disposal of property, plant and equipment	806	2,006
Gain on disposal of investments accounted for using equity method	(495,569)	-
Unrealized profit (loss) from sales	8,749	6,394
Realized loss (profit) from sales	(6,346)	(4,132)
Allocation of deferred income	(757)	(757)
Total adjustments to reconcile profit (loss)	(427,402)	123,994
Changes in operating assets and liabilities:		
Decrease in notes receivable	31,138	201
Decrease (increase) in accounts receivable	49,078	(31,871)
(Increase) decrease in other receivable	(321)	9,420
Increase in inventories	(37,149)	(153,990)
Increase in prepayments	(17,337)	(63,132)
Decrease in contract liabilities	3,293	-
(Decrease) increase in notes payable	(44,849)	24,235
(Decrease) increase in accounts payable	(7,697)	38,676
Decrease in other payable	(48,272)	(34,732)
Increase (decrease) in other current liabilities	2,785	(5,657)
Increase (decrease) in net defined benefit liability	41	(19)
Total adjustments	(496,692)	(92,875)
Cash inflow generated from operations	819,006	847,113
Interest received	21,351	14,455
Dividends received	53,206	66,502
Interest paid	(13,241)	(17,687)
Income taxes paid	(237,898)	(284,084)
Net cash flows from operating activities	642,424	626,299
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(156,617)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	50	-
Acquisition of financial assets at fair value through profit or loss	(3,169)	-
Proceeds from disposal of investments accounted for using equity method	591,629	-
Acquisition of property, plant and equipment	(26,673)	(46,165)
Proceeds from disposal of property, plant and equipment	115	2
Decrease (increase) in refundable deposits paid	5,681	(6,752)
Acquisition of intangible assets	(12,117)	(700)
Decrease in other financial assets	1,379,167	531,386
Increase in prepayments for business facilities	(30,049)	(6,022)
Increase in other non-current assets	182	(46,384)
Net cash flows from investing activities	1,748,199	425,365
Cash flows used in financing activities:		
Increase in short-term loans	3,922,692	6,269,000
Decrease in short-term loans	(4,122,730)	(5,568,010)
Proceeds from long-term debt	300,000	200,000
Repayments of long-term debt	(500,000)	(200,000)
(Decrease) increase in guarantee deposits received	(4,042)	100
Cash dividends paid	(1,118,925)	(944,870)
Change in non-controlling interests	(35,093)	(51,804)
Net cash flows used in financing activities	(1,558,098)	(295,584)
Effect of exchange rate changes on cash and cash equivalents	23,317	(68,497)
Net increase in cash and cash equivalents	855,842	687,583
Cash and cash equivalents at beginning of period	1,441,374	2,108,713
Cash and cash equivalents at end of period	\$ 2,297,216	2,796,296

See accompanying notes to financial statements.

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Reviewed only, not audited in accordance with generally accepted auditing standards

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

TTY Biopharm Company Limited (the “Company”) was established on July 22, 1960. The Company’s registered office address is 3F., No. 3-1, Park St., Nangang Dist., Taipei City 115, Taiwan. The main activities of the Company and its subsidiaries (the “Group”) are producing a variety of pharmaceuticals and chemical drugs. Please refer to Note (14).

(2) Approval date and procedures of the consolidated financial statements:

The consolidated financial statements were authorized for issuance by the Board of Directors on November 14, 2018.

(3) New standards and interpretations not yet adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of 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
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts". The Group applies this standard retrospectively with the cumulative effect, it doesn't need to restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it doesn't need to restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sales of products, revenue was recognized based on the individual terms of each sales agreement when (i) the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership were transferred, (ii) sales and costs can be measured reliably and their recoverability is probable and (iii) there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) The impacts of the consolidated financial statements

The adoption of IFRS 15 did not have any significant impact on the Group's consolidated financial statements.

(ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Additionally, the Group adopted the consequential amendments to IFRS 7 "Financial Instruments: Disclosures" that are applied to disclose the information from 2018 but generally have not been applied to comparative information.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The following are the nature and impacts on changing of accounting policies:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous categories of held to maturity, loans and receivables and available for sale under IAS 39. For an explanation of how the Group classifies and measures financial assets and recognizes related gains and losses under IFRS 9, please see Note 4(c).

The adoption of IFRS 9 did not have any significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see Note 4(c).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

· Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

· The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

– The determination of the business model within which a financial asset is held.

– The designation of certain investments in equity instruments not held for trading as at FVOCI.

· If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Classification of financial assets on the date of initial application of IFRS 9

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

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and equivalents	Loans and receivables	\$ 1,441,374	Amortized cost	1,441,374
Investment in debts securities	Available-for-sale (Note 1)	395	Designated as fair value through profit or loss	395
Equity instruments	Available-for-sale (Note 2)	286,191	Measured by fair value through other comprehensive income	286,191
Account receivable	Loans and receivables (Note 3)	1,071,780	Amortized cost	1,071,780
Other financial assets (Guarantee deposits paid)	Loans and receivables	1,924,446	Amortized cost	1,924,446

Note1: The corporate debt securities categorized as available-for-sale under IAS 39. The Group assesses that these securities are held within a business model whose objective is achieved by collecting the contractual cash flows. These financial assets give rise on specified dates to cash flows but that are not solely payments of principal and interest on the principal amount outstanding. Consequently, the Group has designated these investments at the date of initial application as measured at FVTPL, resulting in an increase of \$2 thousand in other equity and a decrease of \$2 thousand in retained earnings on January 1, 2018.

Note2: These equity securities represent investments that the Group intends to held for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI.

Note3: Notes and accounts receivable, leases receivable and other receivable were classified as loans and receivables when applied IAS 39. But now it is classified as financial assets measured at amortized cost.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on January 1, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings adjustments	2018.1.1 Other equity adjustments
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ -	-	-		-	-
Additions – debt instruments:						
From available for sale	-	395	-		(2)	2
Total	<u>\$ -</u>	<u>395</u>	<u>-</u>	<u>395</u>	<u>(2)</u>	<u>2</u>
Fair value through other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 286,586	(286,586)	-		-	-
Subtractions – debt instruments:						
To FVTPL – required reclassification based on classification criteria	-	286,191	-		-	-
Total	<u>\$ 286,586</u>	<u>(395)</u>	<u>-</u>	<u>286,191</u>	<u>-</u>	<u>-</u>

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	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
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

- IFRIC 23 "Uncertainty over Income Tax Treatments"

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, an entity shall assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have a full knowledge on all related information when doing so.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the most significant impact identified is that the Group will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments.

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs have been issued by the IASB, but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

The Group assessed that the above IFRSs may not be relevant to the Group.

(4) Summary of significant accounting policies:

- (a) Statement of compliance

The consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC and do not include all of the information required by the Regulations and IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for full annual consolidated financial statements.

Except the following accounting policies mentioned below, the significant policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2017. For the related information, please refer to Note 4 of the consolidated financial statements for the year ended December 31, 2017.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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(b) Basis of consolidation

(i) List of subsidiaries included in the consolidated financial statements:

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2018	December 31, 2017	September 30, 2017	
The Company	Xudong Haipu International Co., Ltd.	Investing activities	100.00 %	100.00 %	100.00 %	
The Company	American Taiwan Biopharma Phils Inc.	Selling medicine	87.00 %	87.00 %	87.00 %	
The Company	TSH Biopharm Co., Ltd.	Selling medicine	56.48 %	56.48 %	56.48 %	
The Company	Worldco International Co., Ltd.	Investing activities and selling medicine	100.00 %	100.00 %	100.00 %	
The Company	EnhanX Biopharm, Inc.	Developing medicine	29.41 %	29.41 %	29.41 %	(Note 1)
Worldco International Co., Ltd.	Worldco Biotech (Beijing) Pharmaceutical Ltd.	Market consulting regarding medicine	100.00 %	100.00 %	100.00 %	
Worldco International Co., Ltd.	Worldco Biotech (Chengdu) Pharmaceutical Ltd.	Selling medicine	100.00 %	100.00 %	100.00 %	
Xudong Haipu International Co., Ltd.	TTY Biopharm Korea Co., Ltd.	Selling medicine	100.00 %	- %	- %	(Note 2)

(Note 1) In August 2017, the Group and 2-BBB Medicines BV, registered in the Netherlands, established EnhanX Biopharm, Inc., the Group hold more than one half of its directors' position, so EnhanX Biopharm Inc. became a subsidiary of the Group. According to the investment agreement, the unpaid share capital amounted to \$70,000 as of September 30, 2018.

(Note 2) In September 2018, Xudong Haipu International Co., Ltd. established TTY Biopharm Korea Co., Ltd. as its subsidiary; thus, the Group achieve controlling interest. TTY Biopharm Korea Co., Ltd. is listed as a subsidiary of the consolidated financial statement.

(ii) List of subsidiaries which are not included in the consolidated financial statements: None.

(c) Financial instruments (applicable before January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL :

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

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL :

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

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of debt investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized costs, notes and accounts receivable, leases receivable, guarantee deposit paid and other financial assets) and contract assets.

The maximum period considered when estimating expected credit loss (ECL) is the maximum contractual period over which the Group is exposed to credit risk.

The Group assumes that the credit risk on a financial asset has increased significantly if it is overdue for more than payment terms. And the Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than payment terms;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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·it is probable that the borrower will enter bankruptcy or other financial reorganization;
or

·the disappearance of an active market for a security due to financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in OCI instead of reducing the carrying amount of the asset.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a part of debt instrument in which the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss, and presented it in the line item of non-operating income and expenses.

On derecognition of a part of debt instrument in which the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below:

(i) Sale of goods

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

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Intellectual property rights revenue

The Group grant the patent right to customer by signing contract with them. If the authorization could be distinguished, base on the nature of authorization, the grant revenue could be recognized over the grant period or the time of the patent right's control has transferred to customer.

The Group recognizes revenue after that the performance obligation is fulfilled and the customer usage or sales actually happen.

(iii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(e) Contract costs (applicable from January 1, 2018)

(i) Incremental costs of obtaining a contract

The Group recognizes as an asset the incremental costs of obtaining a contract with a customer if the Group expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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The Group applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

(ii) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 "Inventories", IAS 16 "Property, Plant and Equipment" or IAS 38 "Intangible Assets"), the Group recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- 1) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- 2) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- 3) the costs are expected to be recovered.

General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which the Group cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Group recognizes these costs as expenses when incurred.

(f) Employee benefits

The pension cost in the interim period was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year.

(g) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of IAS 34 "Interim Financial Reporting".

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In the preparation of the consolidated financial statement, the estimates and underlying assumptions applied by the management which obey the Group's accounting policies is the same as Note 5 of the 2017 consolidated financial statement.

(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to Note 6 of the consolidated financial statements for the year ended December 31, 2017.

(a) Cash and cash equivalents

	September 30, 2018	December 31, 2017	September 30, 2017
Cash on hand	\$ 3,080	2,905	2,785
Cash in banks	982,574	1,241,649	1,764,634
Time deposits	<u>1,311,562</u>	<u>196,820</u>	<u>1,028,877</u>
	<u>\$ 2,297,216</u>	<u>1,441,374</u>	<u>2,796,296</u>

- (i) The above cash and cash equivalents were not pledged as collateral.
- (ii) Time deposits which do not meet the definition of cash equivalents are accounted for under other financial assets—current and noncurrent, please see Note 6(m).
- (iii) Refer to Note 6(z) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

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

	September 30, 2018	December 31, 2017	September 30, 2017
Designated as financial assets at fair value through profit or loss			
Domestic preferred stock ETFS	<u>\$ 3,550</u>	<u>-</u>	<u>-</u>

- (i) Please refer to Note 6(x) for the amount of profit or loss recognized based on fair value.
- (ii) The above financial assets were not pledged as collateral.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (c) Financial asset measured at fair value through other comprehensive income

	September 30, 2018
Equity instrument measured at fair value through other comprehensive income:	
Domestic common stock—Lumosa Therapeutics Co., Ltd.	\$ 226,161
Domestic common stock—Handa Pharmaceuticals, Inc.	69,851
Domestic listed common stock—Fubon Financial Holding Co., Ltd.	6,734
Domestic listed preferred stock—Fubon Financial Holding Co., Ltd. Preferred Shares A	152,500
Domestic listed preferred stock—Union Bank of Taiwan Preferred Shares A	20,800
Total	\$ 476,046

- (i) The Group hold these equity instrument as long-term strategic investments, which are measured at fair value through other comprehensive income. Other than Fubon Financial Holding Co., Ltd, the remaining investments listed above were recognized as available-for-sale financial assets as of December 31, 2017 and September 30, 2017, please refer to Note 6(d).
- (ii) Refer to Note 6(z) for credit and market risk information.
- (iii) The above financial assets were not pledged as collateral.

- (d) Available-for-sale financial assets

	December 31, 2017	September 30, 2017
Investment:		
Domestic common stock—Lumosa Therapeutics Co., Ltd.	\$ 171,100	184,440
Domestic common stock—Handa Pharmaceuticals, Inc.	95,051	131,250
Domestic listed preferred stock—Fubon Financial Holding Co., Ltd. Preferred Shares A	20,040	-
Domestic preferred stock ETFs	395	-
Total	\$ 286,586	315,690

- (i) Please refer to Note 6(b) and 6(c) for domestic preferred stock ETFs reported on September 30, 2018 is accounted for as financial assets measured at fair value through profit or loss. The remaining investment targets are reported as financial assets measured at fair value through other comprehensive income or loss.
- (ii) Please refer to Note 6(s) for situations where the amount of other comprehensive income or loss is recognized due to changes in fair value.
- (iii) Please refer to Note 6(z) for credit and market risk information.
- (iv) The above financial assets were not pledged as collateral.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Notes receivable, accounts receivable, and other receivables (including related parties)

	September 30, 2018	December 31, 2017	September 30, 2017
Notes receivables — operating	\$ 40,074	71,744	62,077
Notes receivables — non-operating	2,127	1,595	-
Accounts receivables	892,899	949,185	842,509
Accounts receivables-related parties	16,052	8,973	19,820
Less: Allowance for impairment	<u>(27,608)</u>	<u>(33,339)</u>	<u>(33,339)</u>
	<u>\$ 923,544</u>	<u>998,158</u>	<u>891,067</u>

As of September 30, 2018, the Group estimated the expected credit losses for all notes receivable and accounts receivable using a simple approach. For these purposes, the notes receivable and accounts receivable customers are grouped according to the ability to pay for the amount listed on each contract, as well as its forward-looking information. An analysis of expected credit loss on notes and accounts receivable as of September 30, 2018 are as follows:

	Face value of notes receivable and accounts receivable	Weighted average loss rate	Allowance for expected credit losses
Not yet overdue	\$ 925,576	0%~1%	8,499
Past due less than 90 days	6,734	4%~6%	330
Past due 91-180 days	125	48%~52%	62
Past due more than 181 days	<u>18,717</u>	100%	<u>18,717</u>
	<u>\$ 951,152</u>		<u>27,608</u>

As of December 31, 2017 and September 30, 2017, the allowance for doubtful debts of notes receivable and accounts receivable has been made using the credit losses occurred. The account aging analysis of overdue notes receivable and accounts receivable as of December 31, 2017 and September 30, 2017, are as follows:

	December 31, 2017	September 30, 2017
Past due less than 90 days	\$ 4,691	5,519
Past due 91-180 days	30	55
Past due more than 181 days	<u>-</u>	<u>34</u>
	<u>\$ 4,721</u>	<u>5,608</u>

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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The movement of allowance for debt of accounts receivable and notes receivable are as follows:

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017	
		Individually assessed of loss reduction	Collectively assessed impairment
Beginning balance (IAS39)	\$ 33,339	20,394	17,945
IFRS 9 adjustment	-		
Beginning balance(IFRS 9)	33,339		
Reversal of impairment loss	(5,731)	-	(5,000)
Ending Balance	<u>\$ 27,608</u>	<u>20,394</u>	<u>12,945</u>

As of September 30, 2018, December 31, 2017 and September 30, 2017, the accounts receivable and notes receivable were not pledged as collateral.

(f) Other receivables

	September 30, 2018	December 31, 2017	September 30, 2017
Other receivable	\$ 33,302	65,316	32,705
Other receivable—related parties	10,639	8,306	5,156
	<u>\$ 43,941</u>	<u>73,622</u>	<u>37,861</u>

- (i) As of September 30, 2018, December 31, 2017 and September 30, 2017, other receivables are not overdue, and there are no expected credit loss.
- (ii) Refer to Note 6(z) for other credit risk information.
- (iii) As of September 30, 2018, December 31, 2017 and September 30, 2017, other receivables were not pledged as collateral.

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(g) Inventories

	September 30, 2018	December 31, 2017	September 30, 2017
Merchandise	\$ 254,800	223,674	288,166
Finished goods	128,542	101,497	105,215
Work in process	96,832	108,060	137,513
Raw materials	221,317	183,436	164,805
Materials	<u>34,316</u>	<u>29,650</u>	<u>34,190</u>
Subtotal	735,807	646,317	729,889
Goods in transit	<u>44,221</u>	<u>97,919</u>	<u>91,173</u>
Total	780,028	744,236	821,062
Less: Allowance for inventory market decline and obsolescence	<u>(49,266)</u>	<u>(50,523)</u>	<u>(36,291)</u>
Net amount	<u><u>\$ 730,762</u></u>	<u><u>693,713</u></u>	<u><u>784,771</u></u>

The cost of inventories recognized as cost of goods sold and expense for the three months and nine months ended September 30, 2018 and 2017 amounted to \$311,156, \$354,520, \$1,001,804 and \$955,372, respectively. The main item was the costs from selling goods. For the three months and nine months ended September 30, 2018 and 2017, the reversal of allowance amounted to \$3,465, \$29,988, \$1,257 and \$22,536 were recognized as increase in cost of goods sold.

As of September 30, 2018, December 31, 2017 and September 30, 2017, the aforesaid inventories were not pledged as collateral.

(h) Investments accounted for using equity method

The Group's financial information for equity-accounted investees at the reporting date was as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Associates	<u><u>\$ 891,768</u></u>	<u><u>1,024,020</u></u>	<u><u>925,001</u></u>

(i) As of September 30, 2018, December 31, 2017 and September 30, 2017, the carrying value of associates had a quoted market price amounted to \$631,914, \$771,239 and \$693,072 respectively, while fair value amounted to \$3,180,481, \$4,386,636 and \$5,032,040, respectively.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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- (ii) For the nine months ended September 30, 2018 and 2017, PharmaEngine, Inc. had a change in shareholding due to the amortization of the cost of employee's share options, employee's execution of stock options and buy the treasury stocks, which resulted in (debit) credit of \$(85) and 4,071, respectively, to its capital reserve. For the nine months ended September 2018, the Group disposed its investment shares of PharmaEngine, Inc. for a total of \$495,569, which was included in the "other gains or losses" of the consolidated income statement. For the nine months ended September 30, 2018 and 2017, the Group's shareholding ration declined from 18.22% to 15.54% and 19.30% to 19.28%, respectively.

- 1) Associates that had materiality were as follows:

Associate	Nature of relationship	Country of registration	Equity ownership		
			September 30, 2018	December 31, 2017	September 30, 2017
PharmaEngine, Inc.	Research for new drugs and drug development especially for Asian diseases	Taiwan	15.54 %	18.22 %	19.28 %

The following is the summary of financial information on the Company's significant associates. In order to reflect the adjustments for fair value in acquisition of shares and differences in accounting policies, adjustment for the amounts presented on the financial statements of associates in accordance with IFRSs has been made to such financial information:

- Summary financial information on PharmaEngine, Inc.

	September 30, 2018	December 31, 2017	September 30, 2017
Current assets	\$ 3,742,058	4,071,199	3,357,571
Non-current assets	29,552	39,732	42,605
Current liabilities	(47,021)	(199,899)	(46,352)
Net assets	<u>\$ 3,724,589</u>	<u>3,911,032</u>	<u>3,353,824</u>
Net assets attributable to non-controlling interests	<u>\$ 578,778</u>	<u>712,642</u>	<u>646,626</u>
Net assets attributable to investee owners	<u>\$ 3,145,811</u>	<u>3,198,390</u>	<u>2,707,198</u>

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenue	\$ <u>139,081</u>	<u>28,992</u>	<u>215,131</u>	<u>69,086</u>
Profit (loss) for the period	\$ 74,226	(3,561)	95,231	(164,571)
Other comprehensive income	11	134	(13)	240
Comprehensive income	<u>\$ 74,237</u>	<u>(3,427)</u>	<u>95,218</u>	<u>(164,331)</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 11,536</u>	<u>(660)</u>	<u>15,195</u>	<u>(31,688)</u>
Comprehensive income (loss) attributable to investee owners	<u>\$ 62,701</u>	<u>(2,767)</u>	<u>80,023</u>	<u>(132,643)</u>

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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	<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Net assets attributable to the Group, January 1	\$ 712,642	733,329
Retained earnings impacted by applying new standard for the period	(41)	-
Changes in capital surplus of affiliated companies for the period	(85)	4,071
Profit and loss attributable to the Group for the period	15,195	(31,688)
Cash dividends received from associates	(45,734)	(59,086)
Disposal of investments toward affiliated company for the period	<u>(103,199)</u>	<u>-</u>
Net assets attributable to the Group, September 30	<u>578,778</u>	<u>646,626</u>
Carrying amount of interest in associates, September 30	<u>\$ 578,778</u>	<u>646,626</u>

2) Summary financial information on individually insignificant associates

The following is the summary financial information on individually insignificant associates that were accounted for under the equity method:

	<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>
	<u>2018</u>	<u>2017</u>	<u>2017</u>
Carrying amount of interest in individually insignificant associates	<u>\$ 312,990</u>	<u>311,378</u>	<u>278,375</u>

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>September 30,</u>	<u>2017</u>	<u>September 30,</u>	<u>2017</u>
Attributable to the Group:				
Profit for the period	\$ 6,008	5,486	14,467	20,772
Other comprehensive income	<u>(2,592)</u>	<u>(5,128)</u>	<u>(4,044)</u>	<u>(7,904)</u>
Comprehensive income	<u>\$ 3,416</u>	<u>358</u>	<u>10,423</u>	<u>12,868</u>

3) Collateral

As of September 30, 2018, December 31, 2017 and September 30, 2017, the investments in the aforesaid equity-accounted investees were not pledged as collateral.

4) The unreviewed financial statements of investments accounted for using equity method

Except for PharmaEngine's financial statements have been reviewed by other accountant, the rest investments were accounted for by the equity method, and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Subsidiary with significant non-controlling interest

Subsidiary with significant non-controlling interest were as follows:

<u>Subsidiary</u>	<u>Country of registration</u>	<u>Ownership and voting rights ratio</u>		
		<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
TSH Biopharm Co., Ltd.	Taiwan	56.48 %	56.48 %	56.48 %
EnhancX Biopharm, Inc.	Taiwan	29.41 %	29.41 %	29.41 %

The financial information below is prepared in accordance with IFRSs and reflects the adjustments for fair value on the acquisition date and difference in accounting policies. The amounts have not yet been eliminated from intra-group transactions. Information on the aforementioned subsidiary is as follows:

(i) Summary financial information on TSH Biopharm Co., Ltd.

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Current assets	\$ 928,567	997,419	975,724
Non-current assets	298,460	284,284	307,110
Current liabilities	(94,404)	(135,082)	(105,052)
Net assets	<u>\$ 1,132,623</u>	<u>1,146,621</u>	<u>1,177,782</u>
Net assets attributable to non-controlling interest	<u>\$ 492,759</u>	<u>498,822</u>	<u>512,463</u>

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue	\$ <u>111,443</u>	<u>125,620</u>	<u>401,958</u>	<u>366,780</u>
Profit for the period	\$ 9,235	18,427	48,550	50,049
Other comprehensive (loss) income	(10,009)	(90,720)	18,088	(203,595)
Comprehensive (loss) income	<u>\$ (774)</u>	<u>(72,293)</u>	<u>66,638</u>	<u>(153,546)</u>
Profit attributable to non-controlling interest	<u>\$ 4,019</u>	<u>7,920</u>	<u>21,129</u>	<u>21,682</u>
Comprehensive (loss) income attributable to non-controlling interest	<u>\$ (337)</u>	<u>(31,561)</u>	<u>29,001</u>	<u>(66,922)</u>

	<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities	\$ 47,698	80,581
Cash flows (used in) from investing activities	(144,141)	34,462
Cash flows used in financing activities	(80,636)	(119,034)
Net increase in cash	<u>\$ (177,079)</u>	<u>(3,991)</u>

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Summary financial information on EnhanX Biopharm, Inc.

	September 30, 2018	December 31, 2017	September 30, 2017
Current assets	\$ 29,634	45,688	50,213
Non-current assets	113,680	121,077	120,000
Current liabilities	(1,985)	(1,879)	(1,128)
Net assets	<u>\$ 141,329</u>	<u>164,886</u>	<u>169,085</u>
Net assets attributable to non-controlling interests	<u>\$ 99,762</u>	<u>116,390</u>	<u>119,354</u>

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenue	\$ -	-	-	-
Loss for the period	\$ (7,281)	(915)	(23,557)	(915)
Other comprehensive income	-	-	-	-
Comprehensive loss	<u>\$ (7,281)</u>	<u>(915)</u>	<u>(23,557)</u>	<u>(915)</u>
Loss attributable to non-controlling interest	<u>\$ (5,140)</u>	<u>(646)</u>	<u>(16,629)</u>	<u>(646)</u>
Comprehensive loss attributable to investee owners	<u>\$ (5,140)</u>	<u>(646)</u>	<u>(16,629)</u>	<u>(646)</u>

	For the nine months ended September 30,	
	2018	2017
Cash flows used in operating activities	\$ (17,304)	(107)
Cash flows from investing activities	-	50,000
Net increase in cash	<u>\$ (17,304)</u>	<u>49,893</u>

(j) Property, plant and equipment

	Land	Building and construction	Machinery and equipment	Transportation equipment	Office equipment	Other equipment	Construction in progress	Total
Carrying amounts:								
Balance on January 1, 2018	\$ 816,169	1,030,985	383,543	4,043	153,144	3,688	156,434	2,548,006
Balance on September 30, 2018	\$ 816,169	999,377	358,589	3,372	144,254	3,155	159,377	2,484,293
Balance on January 1, 2017	\$ 816,169	1,068,263	424,452	1,937	143,523	4,274	126,957	2,585,575
Balance on September 30, 2017	\$ 816,169	1,042,477	393,823	1,686	151,455	3,867	132,983	2,542,460

- (i) There were no significant additions, disposal, or recognition and reversal of impairment losses of property, plant and equipment for the nine months ended September 30, 2018 and 2017.

Information on depreciation for the periods, please refer to Note 12. Please refer to Note 6(h) of the consolidated financial statements for the year ended December 31, 2017, for other related information.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Property, plant and equipment under construction

New plant is already under construction. As of the reporting date, expenditures incurred amounted to \$159,377, including capitalized loan cost.

(k) Investment property

	<u>Land</u>	<u>Building and construction</u>	<u>Total</u>
Carrying amounts:			
Balance on January 1, 2018	\$ <u>69,152</u>	<u>19,871</u>	<u>89,023</u>
Balance on September 30, 2018	\$ <u>69,152</u>	<u>19,070</u>	<u>88,222</u>
Balance on January 1, 2017	\$ <u>69,152</u>	<u>8,847</u>	<u>77,999</u>
Balance on September 30, 2017	\$ <u>69,152</u>	<u>19,998</u>	<u>89,150</u>

(i) There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the nine months ended September 30, 2018 and 2017. Information on depreciation for the periods, please refer to Note 12. Please refer to Note 6(i) of the consolidated financial statements for other related information.

(ii) There is no major differences between the fair value of the investment property as of September 30, 2018 and the fair value disclosed in Note 6(i) of the 2017 consolidated financial statement.

(l) Intangible assets

The components of the costs of intangible assets, amortization, and impairment loss thereon for the nine months ended September 30, 2018 and 2017, were as follows:

	<u>Computer software</u>	<u>Patent and franchise</u>	<u>Total</u>
Cost:			
Balance on January 1, 2018	\$ 32,574	162,386	194,960
Additions	1,221	10,896	12,117
Disposals	(2,914)	-	(2,914)
Reclassifications	-	16,956	16,956
Effect of changes in foreign exchange rate	(1)	-	(1)
Balance on September 30, 2018	\$ <u>30,880</u>	<u>190,238</u>	<u>221,118</u>
Balance on January 1, 2017	\$ 36,489	42,386	78,875
Additions	700	120,000	120,700
Disposals	(1,275)	-	(1,275)
Effect of changes in foreign exchange rate	(2)	-	(2)
Balance on September 30, 2017	\$ <u>35,912</u>	<u>162,386</u>	<u>198,298</u>

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Computer software</u>	<u>Patent and franchise</u>	<u>Total</u>
Amortization and impairment loss:			
Balance on January 1, 2018	\$ 23,456	29,301	52,757
Amortization for the period	3,407	9,906	13,313
Disposals	(2,914)	-	(2,914)
Effect of changes in foreign exchange rate	(1)	-	(1)
Balance on September 30, 2018	<u>\$ 23,948</u>	<u>39,207</u>	<u>63,155</u>
Balance on January 1, 2017	\$ 22,344	26,883	49,227
Amortization for the period	4,396	1,813	6,209
Disposals	(1,275)	-	(1,275)
Effect of changes in foreign exchange rate	(1)	-	(1)
Balance on September 30, 2017	<u>\$ 25,464</u>	<u>28,696</u>	<u>54,160</u>
Carrying amount:			
Balance on January 1, 2018	<u>\$ 9,118</u>	<u>133,085</u>	<u>142,203</u>
Balance on September 30, 2018	<u>\$ 6,932</u>	<u>151,031</u>	<u>157,963</u>
Balance on January 1, 2017	<u>\$ 14,145</u>	<u>15,503</u>	<u>29,648</u>
Balance on September 30, 2017	<u>\$ 10,448</u>	<u>133,690</u>	<u>144,138</u>

As of September 30, 2018, December 31, 2017 and September 30, 2017, the aforementioned intangible asset were not pledged as collateral.

(m) Other financial assets and other assets

Details of other financial assets and other assets are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Other current financial assets	\$ 398,032	1,771,755	500,155
Other non-current financial assets	124,349	124,326	124,746
Long-term prepayments	43,366	60,322	58,726
Others	10,724	2,735	7,789
	<u>\$ 576,471</u>	<u>1,959,138</u>	<u>691,416</u>

- (i) Both current and non-current other financial assets were bank deposits that did not qualify as cash and cash equivalents.
- (ii) Long-term prepayments were the amount paid for intangible assets before the intangible assets are ready for use.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Short-term loans

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Secured bank loans	\$ <u>1,450,000</u>	<u>1,650,000</u>	<u>1,950,000</u>
Unused credit line	\$ <u>1,349,354</u>	<u>1,112,811</u>	<u>835,727</u>
Range of interests rates	<u>0.86%~0.96%</u>	<u>0.91%~1.02%</u>	<u>0.91%~1.15%</u>

For the nine months ended September 30, 2018 and 2017, the Group increased its capital by \$3,922,730, with an interest of 0.86%~3.70% and \$6,269,000 with an interest of 0.91%~1.15%, respectively. The amount paid back were \$4,122,730 and \$5,568,010, respectively. Refer to Note 6(x) for interest expense and Note 6(k) of the consolidated financial statements for the year ended December 31, 2017, for other related information.

(o) Long-term loans

Term and condition for the details of long term borrowings are follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Unsecured bank loans	\$ 350,000	550,000	830,000
Less: Current portion	-	(300,000)	-
Total	\$ <u>350,000</u>	<u>250,000</u>	<u>830,000</u>
Unused credit line	\$ <u>400,000</u>	<u>430,000</u>	-
Range of interest rate	<u>1.115%~1.180%</u>	<u>1.115%~1.298%</u>	<u>1.115%~1.298%</u>

There were no significant issues, repurchases and repayments of long-term borrowings for the nine months ended September 30, 2018 and 2017. Information on interest expense for the periods, please refer to Note 6(x). Please refer to Note 6(l) of the consolidated financial statements for the year ended December 31, 2017, for other related information.

(p) Operating leases

(i) Leases as lessee

Non-cancellable rentals payable of operating lease were as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Less than one year	\$ 3,001	2,608	2,759
Between one and five years	<u>4,563</u>	<u>6,017</u>	<u>6,566</u>
	\$ <u>7,564</u>	<u>8,625</u>	<u>9,325</u>

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Leases as lessor

The Group leases out its investment properties (see Note 6(k)). The future minimum leases payments under non-cancellable leases are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Less than one year	\$ 6,739	7,629	11,049
Between one and five years	<u>10,003</u>	<u>6,607</u>	<u>16,810</u>
	<u><u>\$ 16,742</u></u>	<u><u>14,236</u></u>	<u><u>27,859</u></u>

(q) Employee benefits

(i) Defined benefit plans

The management believes that there was no material market volatility, material reimbursement and settlement, or other material one-time events. As a result, the pension cost in the accompanying consolidated financial statements was measured and disclosed according to the actuarial report as of December 2017 and 2016.

The Group's pension expenses recognized in profit or loss for the three months and nine months ended September 30, 2018 and 2017, were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Operating cost	\$ 157	163	470	491
Selling expenses	143	118	429	354
Administration expenses	72	66	218	198
Research and development expenses	<u>97</u>	<u>81</u>	<u>292</u>	<u>241</u>
Total	<u><u>\$ 469</u></u>	<u><u>428</u></u>	<u><u>1,409</u></u>	<u><u>1,284</u></u>

(ii) Defined contributions plans

The contributions of the Group to the Bureau of Labor Insurance for the employee pension benefits were as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Operating cost	\$ 2,029	2,009	6,003	6,005
Selling expenses	2,028	1,962	6,067	5,844
Administration expenses	1,151	1,188	3,618	3,408
Research and development expenses	<u>1,409</u>	<u>1,326</u>	<u>4,091</u>	<u>3,827</u>
Total	<u><u>\$ 6,617</u></u>	<u><u>6,485</u></u>	<u><u>19,779</u></u>	<u><u>19,084</u></u>

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Income Tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, the corporate income tax rate increases from 17% to 20%. It is applicable upon filing the corporate income tax return commencing in 2018. The Group spreads the effect of the change in the tax rate on the deferred income tax by \$48,000, which is an adjustment to the estimated annual effective income tax rate.

(i) Income tax expense

The components of income tax expense for the three months and nine months ended September 30, 2018 and 2017, were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Current tax expense				
Current period incurred	\$ 61,828	61,085	215,453	164,297
Adjustment for prior periods	-	-	(7,600)	(1,305)
Additional 10% Surtax on Undistributed Retained Earnings	-	12,912	9,133	13,717
Income tax expense	<u>\$ 61,828</u>	<u>73,997</u>	<u>216,986</u>	<u>176,709</u>

(ii) Status of approval on income tax

The Company's income tax returns through 2014 have been examined and approved by the Tax Authority.

(s) Capital and other equity

There were no significant changes in capital and reserves for the nine months ended September 30, 2018 and 2017. Please refer to Note 6(p) of the consolidated financial statements for the year ended December 31, 2017, for other related information.

(i) Capital surplus

The ending balance of additional-paid in capital are as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Share capital	\$ 484	484	484
Long term investment	358,953	395,629	408,955
	<u>\$ 359,437</u>	<u>396,113</u>	<u>409,439</u>

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

According to the R.O.C. Company Act amended in 2012, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total common stock outstanding.

(ii) Retained earnings

Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of legal reserve equals the total authorized capital. Special reserve may be appropriated for operations or to meet regulations. The remaining earnings, if any, may be appropriated according to the proposal presented in the annual shareholders' meeting by the board of directors.

To enhance the Company's financial structure and maintain investors' equity, the Company adopts a stable dividends policy in which earnings distribution cannot be less than 50% of distributable earnings, and cash dividends payment has to be 70% of the distribution.

1) Legal reserve

In accordance with the Company Act amended in 2012, 10% of net income is set aside as legal reserve until it is equal to share capital. If the Company earned a profit for the year, the meeting of shareholders decides on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, and the distribution is limited to the portion of legal reserve which exceeds 25% of the actual share capital.

2) Special reserve

The Company has elected to apply the optional exemptions according to IFRS 1 "First-time Adoption of International Financial Reporting Standards".

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a special reserve was appropriated from the undistributed earnings equivalent to the debit balance of cumulative translation differences of \$82,429 and unrealized revaluation increments of \$27,725. The special reserve appropriated can be reversed to the extent that the net debit balance reverses. As of September 30, 2018 and 2017, the special reserve appropriated from the undistributed earnings amounted to \$110,154 and \$110,154, respectively.

In accordance with the aforesaid Ruling, a special reserve is set aside from the current year's net income after tax and prior year's undistributed earnings at an amount equal to the debit balance of contra accounts in shareholders' equity. When the debit balance of any of these contra accounts in shareholders' equity is reversed, the related special reserve can be reversed.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Earnings distribution

The Company's appropriations of earnings for 2017 and 2016 had been resolved during the shareholder's meeting held on June 20, 2018 and June 16, 2017, respectively. The appropriation and dividends per share were as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Amount per share (dollars)</u>	<u>Amount</u>	<u>Amount per share (dollars)</u>	<u>Amount</u>
Dividends distributed to ordinary shareholders:				
Cash	\$ 4.50	<u>1,118,925</u>	3.80	<u>944,870</u>

(iii) Other equity accounts (net value after tax)

	<u>Exchange differences on translation of foreign financial statements</u>	<u>Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income</u>	<u>Available for-sale investments</u>	<u>Total</u>
Balance on January 1, 2018	\$ (99,734)	-	122,165	22,431
Effects of retrospective application	-	122,167	(122,165)	2
Balance on January 1, 2018 after adjustments	(99,734)	122,167	-	22,433
Exchange differences on foreign operations	36,884	-	-	36,884
Share of exchange differences of subsidiaries and associates accounted for using equity method	(79)	-	-	(79)
Disposal of affiliated companies using the equity method reclassified to profit or loss	6	-	-	6
Unrealized gains and losses on financial assets measured at fair value through other comprehensive income	-	25,416	-	25,416
Disposal of equity instrument measured at fair value through consolidated profit or loss to retained earnings	-	(20)	-	(20)
The share of unrealized profit or loss of financial assets measured at fair value through other comprehensive	-	(12,368)	-	(12,368)
Balance on September 30, 2018	<u>\$ (62,923)</u>	<u>135,195</u>	<u>-</u>	<u>72,272</u>

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Available for-sale investments	Total
Balance on January 1, 2017	\$ (2,362)	-	287,450	285,088
Exchange differences on translation of foreign financial statements	(95,714)	-	-	(95,714)
Share of exchange differences of subsidiaries and associates accounted for using equity method	36	-	-	36
Unrealized gains (losses) on available- for-sale financial assets	-	-	(134,910)	(134,910)
Unrealized gains (losses) on available- for-sale financial assets of subsidiaries accounted for using equity method	-	-	(8,302)	(8,302)
Balance on September 30, 2017	<u>\$ (98,040)</u>	<u>-</u>	<u>144,238</u>	<u>46,198</u>

(iv) Non-controlling interests

	For the nine months ended September 30,	
	2018	2017
Balance on January 1	\$ 614,861	631,784
Attributable to non-controlling interests:		
Profit for the period	4,459	20,456
Foreign currency translation differences-foreign operations	21	(50)
Unrealized gain (loss) on financial assets	7,872	(88,604)
Cash dividends received	(35,093)	(51,804)
Increase in non-controlling interest	-	120,000
Balance on September 30	<u>\$ 592,120</u>	<u>631,782</u>

(t) Earnings per share

The basic earnings per share and diluted earnings per share were calculated as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Basic earnings per share				
Profit attributable to ordinary shareholders	<u>\$ 343,192</u>	<u>277,936</u>	<u>1,094,253</u>	<u>742,823</u>
Weighted-average number of ordinary shares	<u>248,650</u>	<u>248,650</u>	<u>248,650</u>	<u>248,650</u>
	<u>\$ 1.38</u>	<u>1.12</u>	<u>4.40</u>	<u>2.99</u>

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Diluted earnings per share				
Profit attributable to ordinary shareholders (diluted)	\$ <u>343,192</u>	<u>277,936</u>	<u>1,094,253</u>	<u>742,823</u>
Weighted-average number of ordinary shares	248,650	248,650	248,650	248,650
Employee stock bonus	<u>73</u>	<u>59</u>	<u>317</u>	<u>294</u>
Weighted-average number of ordinary shares (diluted)	<u>248,723</u>	<u>248,709</u>	<u>248,967</u>	<u>248,944</u>
	\$ <u>1.38</u>	<u>1.12</u>	<u>4.40</u>	<u>2.98</u>

(u) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>For the three months ended September 30, 2018</u>					
	<u>Oncology Business Unit</u>	<u>Health Care Unit</u>	<u>Anti-Infection Business Unit</u>	<u>Domestic Cardiovascular and Gastrointestinal Drugs Business Unit</u>	<u>Other Segment</u>	<u>Total</u>
Primary geographical markets:						
Taiwan	\$ 458,762	52,098	176,997	109,588	-	797,445
European countries	77,628	-	-	-	-	77,628
Other countries	<u>19,363</u>	<u>6,148</u>	<u>192</u>	<u>1,855</u>	<u>4,162</u>	<u>31,720</u>
	<u>\$ 555,753</u>	<u>58,246</u>	<u>177,189</u>	<u>111,443</u>	<u>4,162</u>	<u>906,793</u>
Major products/services lines:						
Medicine and health food	\$ 549,739	58,246	177,189	108,654	4,162	897,990
Services	<u>6,014</u>	<u>-</u>	<u>-</u>	<u>2,789</u>	<u>-</u>	<u>8,803</u>
	<u>\$ 555,753</u>	<u>58,246</u>	<u>177,189</u>	<u>111,443</u>	<u>4,162</u>	<u>906,793</u>
	<u>For the nine months ended September 30, 2018</u>					
	<u>Oncology Business Unit</u>	<u>Health Care Unit</u>	<u>Anti-Infection Business Unit</u>	<u>Domestic Cardiovascular and Gastrointestinal Drugs Business Unit</u>	<u>Other Segment</u>	<u>Total</u>
Primary geographical markets:						
Taiwan	\$ 1,429,874	150,496	535,853	400,103	-	2,516,326
European countries	294,787	-	-	-	-	294,787
Other countries	<u>93,324</u>	<u>24,144</u>	<u>192</u>	<u>1,855</u>	<u>13,982</u>	<u>133,497</u>
	<u>\$ 1,817,985</u>	<u>174,640</u>	<u>536,045</u>	<u>401,958</u>	<u>13,982</u>	<u>2,944,610</u>
Major products/services lines						
Medicine and health food	\$ 1,784,898	174,640	536,045	364,301	13,982	2,873,866
Services	20,239	-	-	37,657	-	57,896
Royalty	<u>12,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,848</u>
	<u>\$ 1,817,985</u>	<u>174,640</u>	<u>536,045</u>	<u>401,958</u>	<u>13,982</u>	<u>2,944,610</u>

For details on revenue for the nine month ended September 30, 2017, please refer to Note 6(v).

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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(ii) Contract liability balances

	September 30, 2018	January 1, 2018
Accounts receivable and notes receivable	\$ 949,025	1,029,902
Less: allowance for impairment	<u>(27,608)</u>	<u>(33,339)</u>
	\$ 921,417	996,563
Contract liability balances	\$ 24,845	21,552

For details on accounts receivable and allowance for impairment, please refer to Note 6(e).

The amount of revenue recognized for the nine months ended September 30, 2018 that was included in the contract liability balances at the beginning of the period was \$20,292.

(v) Revenue

For the three months and nine months ended September 30, 2017, the revenue of the Group are as follows:

	For the three months ended September 30, 2017	For the nine months ended September 30, 2017
Sale of goods	\$ 1,026,515	2,882,387
Rendering of service	<u>18,452</u>	<u>39,148</u>
	\$ 1,044,967	2,921,535

Refer to Note 6(u) for revenue for the three months and the nine months ended September 30, 2018.

(w) Remuneration of employees and of directors and supervisors

Based on the Company's articles of incorporation, remuneration of employees and of directors and supervisors is appropriated at the rate of 1% to 8% and no more than 2%, respectively, of profit before tax. The Company should offset prior years' accumulated deficit before any appropriation of profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock.

For the nine months ended September 30, 2018 and 2017, remuneration of employees of \$20,048 and \$13,915, respectively, and of directors' and supervisors' of \$13,365 and \$9,277, respectively, was estimated and recognized as current expense. These amounts were calculated using the Company's profit before tax before remuneration of employees and of directors and supervisors for the nine months ended September 30, 2018 and 2017. These benefits were charged to profit or loss under operating expenses for the nine months ended September 30, 2018 and 2017. The differences, if any, between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements will be treated as changes in accounting estimates and charged to profit or loss.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended 2017 and 2016, the remunerations of employees amounted to \$24,040 and \$22,048 respectively, while and of directors and supervisors amounted to \$14,950 and \$15,786 respectively. The proposed amounts did not differ from those accrued in the financial statements for the year ended December 31, 2017 and 2016. Related information on remuneration of employees and of directors and supervisors can be accessed from the Market Observation Post System web site.

(x) Non-operating income and expenses

(i) Other income

The details of other income for the three months and the nine months ended September 30, 2018 and 2017 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Interest revenue	\$ 7,104	5,170	20,772	15,407
Rental revenue	2,486	3,437	7,754	9,674
	\$ 9,590	8,607	28,526	25,081

(ii) Other gains and losses

The details of other gains and losses for the three months and the nine months ended September 30, 2018 and 2017 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Foreign exchange gains (losses)	\$ 5,733	(1,644)	10,768	(26,660)
Losses on disposal of property, plant and equipment	-	(2)	(806)	(2,006)
Losses on fair value through profit or loss	(21)	-	(14)	-
Gain on disposal of investment	149,530	-	495,569	-
Reversal on impairment loss	-	-	-	5,000
Others	7,690	605	12,007	24,774
	\$ 162,932	(1,041)	517,524	1,108

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Finance costs

The details of finance costs for the three months and the nine months ended September 30, 2018 and 2017 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Interest expenses	\$ 4,140	6,697	13,249	18,090

(y) Reclassification adjustments of components of other comprehensive income

The details of adjustments on components of other comprehensive income for the nine months ended September 30, 2018 and 2017 were as follows:

	For the nine months ended September 30,	
	2018	2017
Equity method used to recognize the shares of other comprehensive profit or loss of related companies- Items that may be reclassified to profit or loss:		
Loss for the period	\$ (12,447)	(8,265)
Disposal of share of profit of associates accounted for using equity method	6	-
Recognition of profit or loss for other comprehensive income	\$ (12,441)	(8,265)

(z) Financial instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to Note 6(v) of the consolidated financial statements for the year ended December 31, 2017.

(i) Credit risk

Refer to Note 6(e) and (f) for the information about the credit risk exposure of accounts and notes receivables.

Financial assets measured at amortized cost include other receivables and deposit orders. For further information, refer to Note 6(m). All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to Note 4(c).

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>
September 30, 2018					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 1,800,000	1,807,916	1,455,157	352,759	-
Non-interest-bearing liabilities (including related parties)	550,053	550,053	550,053	-	-
Guarantee deposits received	<u>6,044</u>	<u>6,044</u>	<u>6,044</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,356,097</u>	<u>2,364,013</u>	<u>2,011,254</u>	<u>352,759</u>	<u>-</u>
December 31, 2017					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 2,200,000	2,211,658	1,959,046	252,612	-
Non-interest-bearing liabilities (including related parties)	651,545	651,545	651,545	-	-
Guarantee deposits received	<u>10,086</u>	<u>10,086</u>	<u>10,086</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,861,631</u>	<u>2,873,289</u>	<u>2,620,677</u>	<u>252,612</u>	<u>-</u>
September 30, 2017					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 2,780,000	2,808,497	1,971,594	836,903	-
Non-interest-bearing liabilities (including related parties)	617,298	617,298	617,298	-	-
Guarantee deposits received	<u>10,085</u>	<u>10,085</u>	<u>10,085</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,407,383</u>	<u>3,435,880</u>	<u>2,598,977</u>	<u>836,903</u>	<u>-</u>

The Group does not expect the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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(iii) Currency risk

1) Exposure to foreign currency risk

The Group's exposure to significant currency risk was from its foreign currency-denominated financial assets and liabilities as follows:

	September 30, 2018			December 31, 2017			September 30, 2017			
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD	
<u>Financial assets</u>										
<u>Monetary items</u>										
USD	\$	15,986	30.53	487,973	35,651	29.76	1,060,961	32,968	30.26	997,609
CNY		4,171	4.44	18,503	4,441	4.57	20,271	4,506	4.55	20,508
JPY		4,407	0.27	1,186	59,592	0.26	15,744	83,647	0.27	22,342
EUR		1,885	35.48	66,800	2,621	35.57	93,223	2,572	35.75	91,954
<u>Nonmonetary items</u>										
USD		47,311	30.53	1,444,163	47,304	29.76	1,407,763	47,221	30.26	1,427,633
CNY		52,490	4.44	232,844	51,156	4.57	233,526	52,040	4.55	236,784
THB		244,779	0.92	226,102	240,536	0.92	221,293	230,557	0.91	204,285
KRW		1,520,478	0.03	41,832	-	-	-	-	-	-

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, and loans and accounts payable that are denominated in foreign currency. Net investments in a foreign operation are strategic investments, so the Group does not treat them as a hedge.

A 1% of appreciation of each major foreign currency against the Group's functional currency as of September 30, 2018 and 2017, would have increased or decreased the after-tax net income by \$4,596 and \$9,399, respectively. The analysis is performed on the same basis for both periods.

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange are summarized as a single amount. For the nine months ended September 30, 2018 and 2017, the foreign exchange gains (loss), including both realized and unrealized, amounted to \$10,768 and \$(26,660), respectively.

(iv) Interest rate analysis

The exposure to interest rate risk on financial assets and liabilities is disclosed in the note on liquidity risk management.

The Group mainly borrows capital at floating interest rates, so the cash flow risk arises from changes in interest rates. The Group's main source of borrowed capital is bank loans.

The following sensitivity analysis is based on the exposure to interest rate risk on derivative and non-derivative financial instruments on the reporting date.

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For variable-rate instruments, the sensitivity analysis assumes the variable-rate liabilities are outstanding for the whole year on the reporting date. The Group's internal management reported that increases/decreases in interest rates of 0.25% are considered by management to be a reasonably possible change in interest rate.

If the interest rate had increased/decreased by 0.25%, the Group's after-tax net income would have decreased/increased by \$1,473 and \$5,302 for the nine months ended September 30, 2018 and 2017, respectively, assuming all other variable factors remained constant.

(v) Other market value risk

For the nine months ended September 30, 2018 and 2017, the sensitivity analyses for the changes in the securities price at the reporting date were performed using the same basis for the profit and loss as illustrated below:

	For the nine months ended September 30,			
	2018		2017	
	Other Comprehensive income after tax	Profit or loss after tax	Other Comprehensive income after tax	Profit or loss after tax
Security Price				
Increase by 10%	\$ <u>47,605</u>	<u>355</u>	<u>31,569</u>	<u>-</u>
Decrease by 10%	\$ <u>(47,605)</u>	<u>(355)</u>	<u>(31,569)</u>	<u>-</u>

(vi) Fair value of financial instruments

The fair value of financial assets and liabilities was as follows (including information on fair value hierarchy, but excluding measurements that have similarities to fair value but are not fair value, financial instruments whose fair value cannot be reliably measured, and financial instruments whose inputs are unobservable in active markets):

1) Categories of financial instruments

	September 30, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Non-current financial assets at fair value through profit or loss	\$ <u>3,550</u>	<u>3,550</u>	<u>-</u>	<u>-</u>	<u>3,550</u>
Equity instrument measured at fair value through other comprehensive income					
Domestic stock- listed company at Stock Exchange	\$ 180,034	180,034	-	-	180,034
Domestic stock- listed company at Taipei Exchange	226,161	226,161	-	-	226,161
Domestic stock- listed company at emerging stock market	<u>69,851</u>	<u>69,851</u>	<u>-</u>	<u>-</u>	<u>69,851</u>
subtotal	<u>476,046</u>	<u>476,046</u>	<u>-</u>	<u>-</u>	<u>476,046</u>

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	September 30, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 2,297,216	-	-	-	-
Notes receivable and accounts receivable (including related party)	923,544	-	-	-	-
Other receivables (including related party)	43,941	-	-	-	-
Other financial asset	522,381	-	-	-	-
Cash surrender value of life insurance	7,275	-	-	-	-
Refundable deposits paid	<u>22,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,817,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,296,639</u>	<u>479,596</u>	<u>-</u>	<u>-</u>	<u>479,596</u>
Financial liabilities measured at amortized cost					
Bank loans	\$ 1,800,000	-	-	-	-
Notes payable and accounts payable (including related party)	102,125	-	-	-	-
Other payables (including related party)	447,928	-	-	-	-
Guarantee deposit received	<u>6,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,356,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Available-for-sale financial assets-non-current	\$ 286,586	286,586	-	-	286,586
Loans and receivables					
Cash and cash equivalents	\$ 1,441,374	-	-	-	-
Notes receivable and accounts receivable (including related party)	998,158	-	-	-	-
Other receivables (including related party)	73,622	-	-	-	-
Other financial assets	1,896,081	-	-	-	-
Cash surrender value of life insurance	7,275	-	-	-	-
Refundable deposits paid	<u>28,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>4,444,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,731,461</u>	<u>286,586</u>	<u>-</u>	<u>-</u>	<u>286,586</u>

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
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	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at amortized cost					
Bank loans	\$ 2,200,000	-	-	-	-
Notes payable and accounts payable (including related party)	154,922	-	-	-	-
Other payables (including related party)	496,623	-	-	-	-
Guarantee deposit received	10,086	-	-	-	-
Total	<u>\$ 2,861,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	September 30, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Available-for-sale financial assets-non-current	\$ 315,690	315,690	-	-	315,690
Loans and receivables					
Cash and cash equivalents	\$ 2,796,296	-	-	-	-
Notes receivable and accounts receivable (including related party)	891,067	-	-	-	-
Other receivables (including related party)	37,861	-	-	-	-
Other financial assets	624,901	-	-	-	-
Cash surrender value of life insurance	5,198	-	-	-	-
Refundable deposits paid	30,750	-	-	-	-
Total	<u>\$ 4,701,763</u>	<u>315,690</u>	<u>-</u>	<u>-</u>	<u>315,690</u>
Financial liabilities measured at amortized cost					
Bank loans	\$ 2,780,000	-	-	-	-
Notes payable and accounts payable (including related party)	163,243	-	-	-	-
Other payables (including related party)	454,055	-	-	-	-
Guarantee deposit received	10,085	-	-	-	-
Total	<u>\$ 3,407,383</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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2) Fair value hierarchy

The table below analyzes financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3) Valuation techniques for financial instruments which are not measured at fair value

The assumptions and methods used in valuing financial instruments that are not measured at fair value are as follows:

The expiry date of financial instruments, such as cash and cash equivalents, receivables, other financial assets, cash surrender value of life insurance, refundable deposits, bank loans, payables, and guarantee deposit received, is very close or their future price is close to carrying value. Financial instruments' fair value is estimated on the basis of their carrying value.

4) Valuation techniques for financial instruments measured at fair value

Non-derivative financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices.

The market prices from the main exchanges and government bond exchanges are the basis of the fair value of Taipei Exchange equity instruments and debt instruments which have a quoted market price in an active market.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions. Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, only small volumes are traded, or bid-ask spreads are very wide.

If financial instruments the Group obtained are traded in active markets and meet the criteria, their fair value is determined on the basis of market quotation.

5) Transfer between levels

There was no change in valuation techniques for financial instruments measured at fair value for the nine months ended in September 30, 2018 and 2017, so there was no transfer between levels.

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(aa) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note 6(w) to the consolidated financial statements for the year ended December 31, 2017.

(ab) Capital management

The management believes that the objectives, policies and processes of capital management of the Group have been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2017. Also, the management believes that there were no significant changes in the Group's capital management information as disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to Note 6(x) to the consolidated financial statements for the year ended December 31, 2017, for other related information.

(7) Related-party transactions:

(a) List of subsidiaries

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Group</u>
American Taiwan Biopharm (Thailand)	An associate
Chuang Yi Biotech Co., Ltd.	An associate
PharmaEngine, Inc.	An associate

(b) Significant transactions with related parties

(i) Operating revenue

The amounts of significant sales transactions between the Group and related parties were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Associates	\$ 16,169	19,820	54,444	56,590

Prices charged for sales transactions with offshore subsidiaries and associates were calculated at 100% of the annual cost. If the collection was past due three months, then 5% interest was charged.

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(ii) Purchases

The amounts of significant purchases by the Group from related parties were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Associates	\$ -	-	7,110	-

The payment terms for purchases from related parties were Open Accounts 30 days . The pricing and payment terms with related parties were not materially different from those with third parties.

(iii) Rent revenue

Recognized item	Category	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
Rental revenue	Associate—Chuang Yi Biotech Co., Ltd.	\$ 783	783	2,349	2,349

Rent was based on recent market transactions on arm's-length terms.

(iv) Other income

Recognized item	Category	For the three months ended September 30,		For the nine months ended September 30,	
		2018	2017	2018	2017
Other income	Associate-American Taiwan Biopharm (Thailand)	\$ 2,956	2,893	8,855	10,366

- 1) Based on management services agreements, the associates should pay the Group for development in the pharmaceutical industry or registration of pharmaceutical products.
- 2) The credit term for revenue from development in the pharmaceutical industry or registration of pharmaceutical products is three months.

(c) Assets and liabilities with related parties

Recognized item	Category	September 30,	December 31,	September 30,
		2018	2017	2017
Notes receivable	Associates	\$ -	26	-
Accounts receivable	Associates	16,052	8,973	19,820
Other receivables	Associate-American Taiwan Biopharm (Thailand)	10,211	7,929	4,834
	Associates	428	377	322
		\$ 10,639	8,306	5,156

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<u>Recognized item</u>	<u>Category</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Note payable	Associate-Chuang Yi Biotech Co., Ltd.	\$ <u>87</u>	<u>22,464</u>	<u>-</u>
Other payables	Associates	\$ <u>-</u>	<u>48</u>	<u>-</u>

The information about the expected credit losses for note receivable and account receivable, please refer Note 6(e).

(d) Key management personnel compensation

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 29,070	22,153	76,673	57,916
Post-employment benefits	305	327	909	889
	\$ <u>29,375</u>	<u>22,480</u>	<u>77,582</u>	<u>58,805</u>

(8) Pledged assets:

As of September 30, 2018, December 31, 2017 and September 30, 2017, pledged assets were as follows:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Other financial asset-non-current	Provisional guarantee	\$ <u>120,010</u>	<u>120,010</u>	<u>120,010</u>

(9) Commitments and contingencies:

- (a) The Group signed an agreement with Taiwan Liposome Company, Ltd. for Liposome research in October 1997. The Group obtained an exclusive license to produce and sell in 2001, and paid the royalty by a certain proportion of pre-tax net sales. The payment based on such agreement amounted to \$32,404 and \$30,244 for the nine months ended September 30, 2018 and 2017, respectively.
- (b) Due to the purchase of equipment, construction engineering, and entrusted research, the total price of unfinished contracts amounted to \$647,516, \$617,623 and \$643,181, and the unpaid amount was \$230,396, \$261,250 and \$261,122 as of September 30, 2018, December 31 and September 30, 2017, respectively.
- (c) As of September 30, 2018, December 31 and September 30, 2017, the financial institutions provide guarantee for the sale of medicine amounted to \$50,646, \$57,189 and \$34,273, respectively.
- (d) In June 2015, the Taipei District Prosecutors Office filed a charge against the ex-chairman of the Company, Rong Jin Lin, for the offense of aggravated breach of trust under the Securities and Exchange Act. According to the verdict rendered by the Taipei District Court on September 1, 2017, the ex-chairman was found guilty for violating the Securities and Exchange Act. Currently, the case has been appealed and moved to the second instance at the Taiwan High Court. The relevant incidental civil action was later transferred to the civil court for further trial as a different case in September 6, 2017. Further on April 23, 2018, the Taipei District Prosecutors Office requested the Taiwan High Court to hear the case of ex-chairman Rong-Jin Lin's offense of the Securities and

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Exchange Act because of the dispute of contract relevant with Risperidone entered into by and between the Company and Center Laboratories, Inc. together with the aforementioned case in a consolidated procedure. As of June 29, 2018, the Group supplemented and raised the amount of its damage claim against the ex-chairman in the incidental civil action of the second appeal.

- (e) On May 31, 2016, the Company filed a request with the Swiss Cantonal Court of Zug to nullify all 13 licensing agreements it had entered into with Inopha AG (Inopha), and demanded that Inopha return all the benefits it had gained from the agreements. The case is still in progress.
- (f) On May 30, 2016, Janssen Pharmaceutical NV (Janssen) filed a request for arbitration with the WIPO Arbitration and Mediation Center, at the Company's request, to confirm whether the royalties belong to the Company or Inopha. The case was suspended.
- (g) With regard to the dispute of Risperidone Contract it entered into with the Company, Center Laboratories, Inc. initiated an action for a declaratory judgment confirming the contractual relation against the Company in Taipei District Court on July 1, 2016. Taipei District Court rendered the judgment on March 1, 2018, confirming the contractual relation valid. The Company is not satisfied with the judgment which did not consider the facts and evidence comprehensively and the Company has appealed the case to the second instance to fight for its rights and the case has been moved to the Taiwan High Court.

(10) Losses Due to Major Disasters: None

(11) Subsequent Events: None

(12) Other:

- (a) The nature of employee benefits, depreciation and amortization expenses, categorized by function, was as follows:

By item	For the three months ended September 30,					
	2018			2017		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 52,906	149,852	202,758	54,202	129,840	184,042
Health and labor insurance	3,896	8,803	12,699	3,871	7,848	11,719
Pension	2,186	4,900	7,086	2,172	4,741	6,913
Others	3,790	16,605	20,395	3,502	15,718	19,220
Depreciation expense	25,150	6,651	31,801	26,108	7,250	33,358
Amortization expense	92	4,792	4,884	86	1,969	2,055

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By item	For the nine months ended September 30,					
	2018			2017		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 161,029	444,463	605,492	159,868	391,241	551,109
Health and labor insurance	12,316	26,493	38,809	12,612	24,493	37,105
Pension	6,473	14,715	21,188	6,496	13,872	20,368
Others	9,894	57,344	67,238	7,190	46,284	53,474
Depreciation expense	75,116	20,498	95,614	77,909	22,719	100,628
Amortization expense	228	13,085	13,313	260	5,949	6,209

(b) Seasonality of operations:

The operations are not affected by seasonal factors or cyclical factors.

(c) Others

- (i) The Group donated \$30,013 and \$41,625 to related medical foundations and associations to support non-profit organizations developing drugs and promoting disease prevention and correct dosage for the nine months ended September 30, 2018 and 2017, respectively.
- (ii) TSH Biopharm Co., Ltd. signed a grant agreement, “TRIA11 Osteoporosis Treatment Biopharmaceutical Program”, with the Institute for Information Industry in October 2014. The total budget for the program amounted to \$90,000, and the period was from May 1, 2014 to January 31, 2017. Grant funds of \$22,498 had been received, and the actual expenditure amounted to \$22,498, as of September 30, 2017.

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(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period (Note 4)	Ending balance (Note 5)	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 1)	Transaction amount for business between two parties	Reasons for short-term financing for bad debt	Collateral		Individual funding loan limits (Note 2)	Maximum limit of fund financing (Note 3)
												Item	Value		
1	Worldco International Co., Ltd.	Worldco Biotech Pharmaceutical Ltd. (Beijing)	Receivables from related parties	Yes	51,893 USD 1,700	51,893 USD 1,700	51,893 USD 1,700	0.5%	2	-	-	-	233,527 CNY 51,156	233,527 CNY 51,156	
1	Worldco International Co., Ltd.	The Company	Receivables from related parties	Yes	76,313 USD 2,500	76,313 USD 2,500	-	0.9%	2	-	-	-	93,409 CNY 20,462	93,409 CNY 20,462	
2	Xudong Haipu International Co., Ltd.	The Company	Receivables from related parties	Yes	518,925 USD 17,000	518,925 USD 17,000	-	0.9%	2	-	-	-	550,352 USD 18,493	550,352 USD 18,493	

The exchange rate of USD to NTD as of the reporting date is 1:30.525, and the average exchange rate of USD to NTD as of the reporting period is 1:29.879.

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The exchange rate of CNY to NTD as of the reporting date is 1:4.436, and the average exchange rate of CNY to NTD as of the reporting period is 1:4.591.

Note 1): Nature of financing activities is as follows:

1. Trading partner, the number is "1".
2. Short-term financing, the number is "2".

Note 2): The total amount for lending to a company shall not exceed 40% of the lending company's net worth in the latest financial statements. 100% directly and indirectly owned foreign subsidiaries are not subject to such limitation.

Note 3): The total amount available for lending purposes shall not exceed 40% of the lending company's net worth in the latest financial statements. 100% directly and indirectly owned foreign subsidiaries are not subject to such limitation.

Note 4): The highest balance of financing to other parties as of September 30, 2018.

Note 5): The amounts were approved by the Board of Directors.

Note 6): The amounts in foreign currencies were translated based on the spot exchange rate at the reporting date.

(ii) Guarantees and endorsements for other parties: None

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(iii) Securities held as of September 30, 2018 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance			Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	
The Company	Lumosa Therapeutics Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income-non-current	1,600	62,400	1.67 %	62,400
TSH Biopharm Co., Ltd.	Lumosa Therapeutics Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income-current	4,199	163,761	4.38 %	163,761
"	Handa Pharmaceuticals Inc.	-	Financial assets measured at fair value through other comprehensive income-non-current	2,625	69,851	2.51 %	69,851
"	Fubon Financial Holding Co., Ltd.	-	"	130	6,734	- %	6,734
"	Fubon Financial Holding Co., Ltd. Preferred Shares B	-	"	2,500	152,500	0.38 %	152,500
"	Union Bank of Taiwan Preferred Shares A	-	"	400	20,800	0.20 %	20,800
"	Fubon S&P US Preferred Stock ETFS	-	Financial assets measured at fair value through profit and loss-non-current	180	3,550	- %	3,550

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- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales			Ending Balance		
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
The Company	PharmaEngine, Inc.	Investments at equity	-	-	26,809	712,642	-	-	3,942	562,183	103,199	495,569	22,867	578,778

- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (ix) Trading in derivative instruments: None
- (x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	Worldco International Co., Ltd.	I	Royalty revenue	46,088	By contract	1.57%
0	"	TSH Biopharm Co., Ltd.	I	Sale revenue	75,733	"	2.57%
0	"	"	I	Other receivables	2,058	"	0.02%
0	"	"	I	Rental revenue	3,120	"	0.11%
0	"	"	I	Other income	5,464	"	0.19%

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No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms	
0	The Company	TSH Biopharm Co., Ltd.	1	Accounts receivable	6,659	By contract	0.07%
0	"	American Taiwan Biopharma Philis Inc.	1	Accounts receivable	2,953	"	0.03%
0	"	"	1	Other receivables	9,665	"	0.11%
0	"	"	1	Sale revenue	4,216	"	0.14%
1	Worldco International Co., Ltd.	Worldco Biotech Pharmaceutical Ltd. (Beijing)	1	Other receivables	51,893	"	0.58%
1	"	"	1	Other payables	8,988	"	0.10%
1	"	"	1	Other receivables	12,717	"	0.14%

Note 1): The numbering is as follows:

1. "0" represents the parent company.
 2. Subsidiaries are sequentially numbered from 1 by company.
- Note 2): The types of transaction between the parent company and subsidiaries are as follows:
1. Transactions from parent company to subsidiary.
 2. Transactions from subsidiary to parent company.
 3. Transactions between subsidiaries.

Note 3): The transactions have been eliminated in the consolidated financial statements.

Note 4): The above table only discloses the related-party transactions, with each amounting to at least NT\$1,000 thousand; transactions which were more than NT\$1,000 were not disclosed.

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(b) Information on investees:

The following is the information on investees for the nine months ended September 30, 2018 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of September 30, 2018		Net income (losses) of investee	Share of profits/losses of investee	Note
				September 30, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership			
Xudong Hapu International Co., Ltd.	Xudong Hapu International Co., Ltd.	Cayman Is.	Investing activities	303,998	303,998	25,000	100.00 %	1,410,065	(983)	(983) Subsidary
"	Worldco International Co., Ltd.	Hong Kong	Selling chemical medicine	158,254	158,254	39,600	100.00 %	232,844	6,160	6,160 Subsidary
"	American Taiwan Biopharma Philis Inc.	Philippines	Selling chemical medicine	32,904	32,904	481	87.00 %	(3,340)	(547)	(476) Subsidary
"	TSH Biopharm Co., Ltd.	Taiwan	Selling chemical medicine	227,449	227,449	21,687	56.48 %	638,222	48,550	27,458 Subsidary
"	EnhanX Biopharm Inc.	Taiwan	Developing chemical medicine	50,000	50,000	5,000	29.41 %	41,567	(23,557)	(6,928) Subsidary
Xudong Hapu International Co., Ltd.	TTY Biopharm Korea Co., Ltd.	Korea	Selling chemical medicine	43,834	-	318	100.00 %	41,832	(1,804)	(1,804) Subsidary
"	PharmaEngine, Inc.	Taiwan	Developing chemical medicine	299,098	350,659	22,867	15.54 %	578,778	95,231	15,197 Investments accounted for using equity method
"	American Taiwan Biopharm	Thailand	Selling chemical medicine	2,966	2,966	380	40.00 %	226,102	30,681	12,273 Investments accounted for using equity method
"	Gligio International Limited	Hong Kong	Selling chemical medicine	2,685	2,685	620	40.00 %	34,098	21,371	8,548 Investments accounted for using equity method
"	Chuang Yi Biotech Co., Ltd.	Taiwan	Selling functional food	82,059	82,059	6,326	27.54 %	53,136	(23,074)	(6,354) Investments accounted for using equity method

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2018	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) (Note 2)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
Worldco Biotech Pharmaceutical Ltd. (Beijing)	Marketing consulting regarding chemical medicine	311,355	(2)	323,433	-	-	323,433	(3,374)	100 %	(3,374)	(68,949)	-
Worldco Biotech Pharmaceutical Ltd. (Chengdu)	Selling chemical medicine	10,200	(2)	89,297	-	-	89,297	(735)	100 %	(735)	(15,543)	-
		52,788		20,130			20,130	(340)		(340)	48,441	
		CNY 11,900		CNY			CNY	CNY		CNY	(74) CNY	10,920

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The exchange rate of USD to NTD as of the reporting date is 1:30.525, and the average exchange rate of USD to NTD as of the reporting period is 1:29.879.

The exchange rate of CNY to NTD as of the reporting date is 1:4.436, and the average exchange rate of CNY to NTD as of the reporting period is 1:4.591.

Note 1): There are four ways to invest in Mainland China, and only the categories are identified.

1. Remittance from third-region companies to invest in Mainland China.
2. Through the establishment of third-region companies, then investing in Mainland China.
3. Through transfer of investment to third-region existing companies, then investing in Mainland China.
4. Other method.

Note 2): The investment income (loss) is recognized on the following basis of a financial report not reviewed by a CPA.

Note 3): The amounts are presented in New Taiwan Dollars. Recognized investment gain (loss) and the carrying value of investment as of the reporting date in foreign currencies were translated based on the average exchange rate during the reporting period and the exchange rate at the reporting date, respectively.

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of September 30, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
423,982	1,426,372 (USD 46,728)	3,646,420

(iii) Significant transactions:

Please refer to Note 7.

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(14) Segment information:

The Group's operating segment information and reconciliation were as follows:

The Group's operating segment information and reconciliation were as follows:

<u>For the three months ended September 30, 2018</u>	<u>Oncology Business Unit</u>	<u>Health Care Unit</u>	<u>Anti- Infection Business Unit</u>	<u>Domestic Cardiovascular and Gastrointestinal Drugs Business Unit</u>	<u>China Medicine Business Unit</u>	<u>Other Segment</u>	<u>Adjustment and elimination</u>	<u>Total</u>
Revenue:								
Revenue from external customers	\$ 555,753	58,246	177,189	111,443	-	4,162	-	906,793
Intersegment revenues	<u>25,147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,147)</u>	<u>-</u>
Total revenue	<u>\$ 580,900</u>	<u>58,246</u>	<u>177,189</u>	<u>111,443</u>	<u>-</u>	<u>4,162</u>	<u>(25,147)</u>	<u>906,793</u>
Reportable segment profit or loss	<u>\$ 332,598</u>	<u>15,879</u>	<u>53,559</u>	<u>11,688</u>	<u>4,544</u>	<u>(6,993)</u>	<u>(7,517)</u>	<u>403,758</u>
<u>For the three months ended September 30, 2017</u>								
Revenue:								
Revenue from external customers	\$ 681,288	57,529	176,370	125,620	-	4,160	-	1,044,967
Intersegment revenues	<u>49,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,106)</u>	<u>-</u>
Total revenue	<u>\$ 730,394</u>	<u>57,529</u>	<u>176,370</u>	<u>125,620</u>	<u>-</u>	<u>4,160</u>	<u>(49,106)</u>	<u>1,044,967</u>
Reportable segment profit or loss	<u>\$ 288,601</u>	<u>12,786</u>	<u>70,185</u>	<u>21,683</u>	<u>(26,386)</u>	<u>(3,533)</u>	<u>(4,334)</u>	<u>359,002</u>
<u>For the nine months ended September 30, 2018</u>								
Revenue:								
Revenue from external customers	\$ 1,817,985	174,640	536,045	401,958	-	13,982	-	2,944,610
Intersegment revenues	<u>126,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(126,072)</u>	<u>-</u>
Total revenue	<u>\$ 1,944,057</u>	<u>174,640</u>	<u>536,045</u>	<u>401,958</u>	<u>-</u>	<u>13,982</u>	<u>(126,072)</u>	<u>2,944,610</u>
Reportable segment profit or loss	<u>\$ 1,116,984</u>	<u>43,088</u>	<u>188,006</u>	<u>60,682</u>	<u>(42,810)</u>	<u>(25,644)</u>	<u>(24,608)</u>	<u>1,315,698</u>
<u>For the nine months ended September 30, 2017</u>								
Revenue:								
Revenue from external customers	\$ 1,886,523	164,240	493,056	366,780	-	10,936	-	2,921,535
Intersegment revenues	<u>118,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(118,341)</u>	<u>-</u>
Total revenue	<u>\$ 2,004,864</u>	<u>164,240</u>	<u>493,056</u>	<u>366,780</u>	<u>-</u>	<u>10,936</u>	<u>(118,341)</u>	<u>2,921,535</u>
Reportable segment profit or loss	<u>\$ 709,853</u>	<u>41,856</u>	<u>194,785</u>	<u>60,294</u>	<u>(38,013)</u>	<u>(11,509)</u>	<u>(17,278)</u>	<u>939,988</u>
Reportable segment assets								
Balance on September 30, 2018	<u>\$ 7,684,403</u>	<u>234,312</u>	<u>340,826</u>	<u>1,227,027</u>	<u>239,387</u>	<u>1,571,771</u>	<u>(2,345,375)</u>	<u>8,952,351</u>
Balance on December 31, 2017	<u>\$ 8,269,994</u>	<u>235,597</u>	<u>256,752</u>	<u>1,281,703</u>	<u>272,039</u>	<u>1,553,985</u>	<u>(2,363,003)</u>	<u>9,507,067</u>
Balance on September 30, 2017	<u>\$ 8,258,244</u>	<u>286,348</u>	<u>194,394</u>	<u>1,282,834</u>	<u>295,629</u>	<u>1,583,241</u>	<u>(2,432,560)</u>	<u>9,468,130</u>