

**TTY BIOPHARM COMPANY LIMITED
AND SUBSIDIARIES**

Consolidated Financial Statements

**with Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

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

The independent auditors' 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' report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Company history	9
(2) Approval date and procedures of the consolidated financial statements	9
(3) New standards and interpretations not yet adopted	9~15
(4) Summary of significant accounting policies	15~37
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	37
(6) Explanation of significant accounts	38~70
(7) Related-party transactions	70~72
(8) Pledged assets	72
(9) Commitments and contingencies	72~73
(10) Losses Due to Major Disasters	73
(11) Subsequent Events	73
(12) Other	73~74
(13) Other disclosures	
(a) Information on significant transactions	75~79
(b) Information on investees	80
(c) Information on investment in mainland China	81~82
(14) Segment information	83~84

Representation Letter

The entities that are required to be included in the combined financial statements of TTY Biopharm Company Limited as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, TTY Biopharm Company Limited and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: TTY Biopharm Company Limited
Chairman: Lin-Chuan
Date: March 26, 2019



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' Report

To the Board of Directors of TTY Biopharm Company Limited:

Opinion

We have audited the consolidated financial statements of TTY Biopharm Company Limited and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to the Other Matter section of our report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

1. Revenue recognition

Please refer to Notes 4(q) of the consolidated financial statements for the accounting principles on revenue recognition.

Key audit matters:

The Group's operating revenue is \$4,036,196 thousand, and it has a significant impact on financial statement if operating revenue is not fairly presented. Therefore, the cut-off date of operating revenue is one of the important issue in performing our audit procedures.

Auditing procedures performed

- Testing the effectiveness of the design and implementing the internal control system of sales and collection operation.
- Testing the samples of sales transaction before and after the balance sheet date to ensure the correctness of sales revenue.
- Inspecting the related documents to ensure the adequacy and the reasonableness of revenue recognition.

2. Inventory valuation

Please refer to Notes 4(h), 5 and Note6(g) of the consolidated financial statements for the accounting principles on the inventory valuation, significant accounting assumptions and judgments, and major sources of estimation uncertainty, and explanation of inventory.

Key audit matters:

The Group's primary operating items are manufacturing and processing various kinds of pharmaceuticals. The pharmaceutical industry in Taiwan is susceptible to the constant amendments of its law, resulting in an increase in the cost of pharmaceutical products, which will affect the carrying value of inventories to exceed its net value. Because of these uncertainties, the Group's revenue and income may be effected by the price fluctuations. If the assessment of the net realizable value of the inventory is not appropriate, it will lead to a material misstatement of the financial statements.

Auditing procedures performed:

- Overlooking the stock ageing list, analyzing the movement of stock ageing by period;
- Obtaining the certificate documents to verify the correctness of the stock's expiry date; and
- Sampling the replacement cost and market price of material, and recalculating the net realizable value by marketing expense rate, to ensure the reasonableness of net realizable value adopted by the Company.

Other Matter

We did not audit the financial statements of PharmaEngine, Inc. Those statements were audited by other auditors whose report have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain equity-accounted investees, are based solely on the report of the other auditors. The amount of long-term investment in the investee company represented 6.33% and 7.50% of the related consolidated total assets as of December 31, 2018 and 2017, respectively, and the related investment gains represented 1.23% and 4.30% of the consolidated profit before tax for the years ended December 31, 2018 and 2017, respectively.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)

March 26, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Assets								
Current assets:								
1100 Cash and cash equivalents (note 6(a), (z) and 7)	\$ 2,372,294	27	1,441,374	15	2100	\$ 1,150,000	13	1,650,000
1120 Current financial assets at fair value through other comprehensive income (note 6(c) and (z))	132,560	1	-	-	2130	6,405	-	-
1150 Notes receivable, net (note 6(c), (z) and 7)	40,063	-	73,339	1	2150	3,761	-	37,403
1170 Accounts receivable, net (note 6(e) and (z))	837,003	9	915,846	10	2170	154,621	2	22,464
1180 Accounts receivable due from related parties, net (note 6(e), (z) and 7)	16,156	-	8,973	-	2180	14,382	-	95,055
1200 Other receivables, net (note 6(f), (z) and 7)	76,821	1	73,622	1	2230	132,286	1	131,881
130X Inventories (note 6 (g))	750,888	8	693,713	7	2200	469,037	5	496,623
1410 Prepayments	23,749	-	15,511	-	2300	41,391	-	49,472
1476 Other current financial assets (note 6(a), (m), and (z))	398,271	4	1,771,755	19	2320	-	-	300,000
1470 Other current assets (note 6(m))	6,796	-	2,457	-		1,971,883	21	2,782,898
	<u>4,654,601</u>	<u>50</u>	<u>4,996,590</u>	<u>53</u>		<u>350,000</u>	<u>4</u>	<u>250,000</u>
Non-current assets:								
1510 Non-current financial assets at fair value through profit or loss (note 6(b) and (z))	5,496	-	-	-	2540	278,723	3	298,136
1517 Non-current financial assets at fair value through other comprehensive income (note 6(c) and (z))	322,276	4	-	-	2640	58,459	1	54,310
1523 Non-current available-for-sale financial assets, net (note 6(d) and (z))	-	-	286,586	3	2645	2,445	-	10,086
1550 Investments accounted for using equity method, net (note 6(h))	901,648	11	1,024,020	11		689,627	8	612,532
1600 Property, plant and equipment (note 6(i))	2,474,331	28	2,548,006	27		2,661,510	29	3,395,430
1760 Investment property, net (note 6(k))	88,150	1	89,023	1		2,486,500	28	2,486,500
1780 Intangible assets (note 6(l))	153,188	2	142,203	1	3100	348,819	4	396,113
1840 Deferred tax assets (note 6(r))	38,072	-	30,912	-	3200	857,418	9	722,945
1915 Prepayments for business facilities	188,633	2	169,161	2	3310	110,154	1	110,154
1920 Refundable deposits paid (note 6(z))	26,252	-	28,365	-	3320	1,954,321	22	1,738,633
1981 Cash surrender value of life insurance (note 6(z))	13,357	-	7,275	-	3350	46,821	1	22,431
1984 Other non-current financial assets (note 6(a), (m), (z) and 8)	143,678	2	124,326	1	3400	5,804,033	65	5,496,776
1990 Other non-current assets (note 6(m))	43,453	-	60,600	1	36XX	587,592	6	614,861
	<u>4,398,534</u>	<u>50</u>	<u>4,510,477</u>	<u>47</u>		6,391,625	71	6,111,637
Total assets	<u>\$ 9,053,135</u>	<u>100</u>	<u>9,507,067</u>	<u>100</u>		<u>\$ 9,053,135</u>	<u>100</u>	<u>9,507,067</u>
Liabilities and Equity								
Current liabilities:								
Short-term borrowings (note 6(n) and (z))								
Contract liabilities-current(note 6 (u))								
Notes payable (note 6(z))								
Accounts payable (note 6(z) and 7)								
Accounts payable due to related parties (note 6(z) and 7)								
Current tax liabilities								
Other payables (note 6(z) and 7)								
Other current liabilities								
Long-term liabilities, current portion (note 6(o) and (z))								
Non-Current liabilities:								
Long-term borrowings (note 6(o) and (z))								
Deferred tax liabilities (note 6(r))								
Net defined benefit liability, non-current (note 6(q))								
Guarantee deposits received (note 6(z))								
Total liabilities								
Equity attributable to owners of parent (note 6(s)):								
Capital stock								
Capital surplus								
Legal reserve								
Special reserve								
Unappropriated retained earnings								
Other equity interest								
Equity attributable to the parent company:								
Non-controlling interests (note 6(s))								
Total equity								
Total liabilities and equity								

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

	2018		2017	
	Amount	%	Amount	%
4000 Operating revenue (note 6(u), (v) and 7)	\$ 4,036,196	100	4,078,760	100
5000 Operating costs (note 6(g) and 7)	1,372,317	35	1,407,701	35
Gross profit	2,663,879	65	2,671,059	65
5910 Less: Unrealized profit (loss) from sales	7,046	-	6,346	-
5920 Add: Realized profit (loss) from sales	6,346	-	4,132	-
Gross profit, net	2,663,179	65	2,668,845	65
6000 Operating expenses (note 6(q), and 12):				
6100 Selling expenses	903,799	22	824,571	20
6200 Administrative expenses	344,496	9	291,609	7
6300 Research and development expenses	361,063	9	295,675	7
6450 Reversal of provision for bad debt expense	(5,856)	-	-	-
Total operating expenses	1,603,502	40	1,411,855	34
Net operating income	1,059,677	25	1,256,990	31
Non-operating income and losses (note 6(x) and 7):				
7010 Other income	42,634	1	35,135	1
7020 Other gains and losses, net	530,118	13	214,440	5
7050 Finance costs, net	(17,287)	-	(25,191)	(1)
7070 Share of profit of associates accounted for using equity method, net (note 6(h))	52,926	1	113,693	3
Total non-operating income and losses	608,391	15	338,077	8
Profit before tax	1,668,068	40	1,595,067	39
7950 Less: Income tax expense (note 6(r))	205,769	5	226,753	6
Profit for the year	1,462,299	35	1,368,314	33
8300 Other comprehensive income:				
8310 Components of other comprehensive income that will not be reclassified to profit or loss				
8311 Gains (losses) on remeasurements of defined benefit plans	(4,102)	-	(9,701)	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(1,368)	-	-	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	(5,470)	-	(9,701)	-
8360 Components of other comprehensive income that may be reclassified to profit or loss				
8361 Exchange differences on translation	49,336	1	(117,382)	(3)
8362 Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	(273,278)	(7)
8370 Share of other comprehensive income of associates accounted for using equity method, components of other comprehensive income that may be reclassified to profit or loss	(18,572)	-	(642)	-
8399 Income tax related to components of other comprehensive income that may be reclassified to profit or loss	(6,252)	-	19,943	-
Components of other comprehensive income that may be reclassified to profit or loss	24,512	1	(371,359)	(10)
8300 Other comprehensive income, net	19,042	1	(381,060)	(10)
Total comprehensive income for the year	\$ 1,481,341	36	987,254	23
Profit attributable to:				
Owners of parent	\$ 1,461,381	35	1,344,731	32
Non-controlling interests	918	-	23,583	1
	\$ 1,462,299	35	1,368,314	33
Comprehensive income attributable to:				
Owners of parent	\$ 1,481,687	36	1,072,373	25
Non-controlling interests	(346)	-	(85,119)	(2)
	\$ 1,481,341	36	987,254	23
Earnings per share, net of tax (note 6(t))				
Basic earnings per share	\$ 5.88		5.41	
Diluted earnings per share	\$ 5.87		5.40	

See accompanying notes to financial statements.

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

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent											
	Retained earnings				Total other equity interest							
	Share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance on January 1, 2017	\$ 2,486,500	405,368	603,613	110,154	1,487,805	(2,362)	-	287,450	285,088	5,378,528	631,784	6,010,312
Profit for the year	-	-	-	-	1,344,731	-	-	-	-	1,344,731	23,583	1,368,314
Other comprehensive income	-	-	-	-	(9,701)	(97,372)	(165,285)	(165,285)	(262,657)	(272,358)	(108,702)	(381,060)
Total comprehensive income	-	-	-	-	1,335,030	(97,372)	(165,285)	(165,285)	(262,657)	1,072,373	(85,119)	987,254
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 accounted for using equity method	-	5,070	-	-	-	-	-	-	-	5,070	-	5,070
Disposal of subsidiaries or investments accounted for using equity method	-	(14,325)	-	-	-	-	-	-	-	(14,325)	-	(14,325)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	120,000	120,000
Balance on December 31, 2017	2,486,500	396,113	722,945	110,154	1,758,633	(99,734)	-	122,165	22,431	5,496,776	614,861	6,111,637
Effects of retrospective application	-	-	-	-	(43)	-	122,167	(122,165)	2	(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	-	22,433	5,496,735	614,861	6,111,596
Profit for the year	-	-	-	-	1,461,381	-	-	-	-	1,461,381	918	1,462,299
Other comprehensive income	-	-	-	-	(4,102)	43,040	(18,632)	-	24,408	20,306	(1,264)	19,042
Total comprehensive income	-	-	-	-	1,457,279	43,040	(18,632)	-	24,408	1,481,687	(346)	1,481,341
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	134,473	-	(134,473)	-	-	-	-	-	-	-
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 accounted for using equity method	-	(10,703)	-	-	-	-	-	-	-	(10,703)	-	(10,703)
Disposal of subsidiaries or investments accounted for using equity method	-	(36,591)	-	-	-	-	-	-	-	(36,591)	-	(36,591)
Changes in ownership interests in subsidiaries	-	-	-	-	(8,170)	-	(20)	-	(20)	(8,170)	8,170	-
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	20	-	-	-	-	-	-	-
Balance on December 31, 2018	\$ 2,486,500	348,819	857,418	110,154	1,954,321	(56,694)	103,515	-	46,821	5,804,033	587,592	6,391,625

See accompanying notes to financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 1,668,068	1,595,067
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	127,376	133,246
Amortization expense	18,180	8,143
Reversal of provision for bad debt expense	(5,856)	-
Net loss on financial assets or liabilities at fair value through profit or loss	406	-
Interest expense	17,287	25,191
Interest income	(32,111)	(22,273)
Dividend income	(373)	-
Share of profit of associates accounted for using equity method	(52,926)	(113,693)
Loss on disposal of property, plant and equipment	1,113	1,967
Gain on disposal of investments accounted for using equity method	(495,569)	(222,174)
Unrealized profit (loss) from sales	7,046	6,346
Realized loss (profit) from sales	(6,346)	(4,132)
Allocation of deferred income	(988)	(1,010)
Decrease in provisions	-	(5,327)
Total adjustments to reconcile profit (loss)	<u>(422,761)</u>	<u>(193,716)</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Notes receivable	33,276	(11,061)
Accounts receivable	77,556	(128,037)
Other receivable	(32,506)	3,264
Inventories	(57,214)	(128,256)
Prepayments	(11,369)	13,019
Total changes in operating assets	<u>9,743</u>	<u>(251,071)</u>
Changes in operating liabilities:		
Current contract liabilities	(15,147)	-
Notes payable	(56,106)	43,295
Accounts payable	73,964	11,427
Other payable	(26,978)	14,394
Other current liabilities	13,284	932
Net defined benefit liability	47	(12)
Total changes in operating liabilities	<u>(10,936)</u>	<u>70,036</u>
Total changes in operating assets and liabilities	<u>(1,193)</u>	<u>(181,035)</u>
Total adjustments	<u>(423,954)</u>	<u>(374,751)</u>
Cash inflow generated from operations	1,244,114	1,220,316
Interest received	32,076	20,974
Dividends received	53,272	66,502
Interest paid	(17,427)	(25,074)
Income taxes paid	(238,237)	(286,198)
Net cash flows from operating activities	<u>1,073,798</u>	<u>996,520</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(170,063)	-
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	(5,507)	-
Acquisition of available-for-sale financial assets	-	(20,659)
Proceeds from disposal of investments accounted for using equity method	591,629	213,714
Acquisition of property, plant and equipment	(46,871)	(83,787)
Proceeds from disposal of property, plant and equipment	158	114
Decrease (increase) in refundable deposits paid	2,116	(4,367)
Acquisition of intangible assets	(12,210)	(700)
Decrease (increase) in other financial assets	1,370,220	(771,268)
Increase in prepayments for business facilities	(27,224)	(13,004)
Increase in other non-current assets	(5,899)	(50,110)
Net cash flows from investing activities	<u>1,696,399</u>	<u>(730,067)</u>
Cash flows from (used in) financing activities:		
Increase in short-term loans	6,272,730	8,719,000
Decrease in short-term loans	(6,772,730)	(8,318,010)
Proceeds from long-term debt	300,000	250,000
Repayments of long-term debt	(500,000)	(530,000)
Decrease in guarantee deposits received	(7,640)	101
Cash dividends paid	(1,118,925)	(944,870)
Change in non-controlling interests	(35,093)	(51,804)
Net cash flows used in financing activities	<u>(1,861,658)</u>	<u>(875,583)</u>
Effect of exchange rate changes on cash and cash equivalents	22,381	(58,209)
Net increase (decrease) in cash and cash equivalents	930,920	(667,339)
Cash and cash equivalents at beginning of year	1,441,374	2,108,713
Cash and cash equivalents at end of year	<u>\$ 2,372,294</u>	<u>1,441,374</u>

See accompanying notes to financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 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 March 26, 2019.

(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 impacts of significant 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, 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 are recoverable and (iii) there is no 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 material 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” 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

There are three classification categories for financial assets under IFRS 9: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets is based on the business model and its contractual cash flow characteristics. The standard eliminates the categories of held to maturity, loans and receivables and available for sale under IAS 39. The accounting policies of the Group under IFRS 9, please refer to Note 4(g).

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

2) Impairment of financial assets

Under IAS 39, impairment losses were recognized when they incurred. After the adoption of IFRS 9, impairment losses will be recognized by using expected credit loss (ECLs) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than IAS 39 – please refer to Note 4(g).

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 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 measured at FVOCI, which are not held for trading.

- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, 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 (Including guarantee deposits paid and cash surrender value of life insurance)	Loans and receivables	1,931,721	Amortized cost	1,931,721

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 hold for the long term 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 receivables that were classified as loans and receivables under IAS 39 are classified as amortized cost now.

(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	\$ -	395	-	395	(2)	2
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 FVOCI – required reclassification based on classification criteria	-	286,191	-		-	-
Total	\$ 286,586	(395)	-	286,191	-	-

(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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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:

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, rent expense will be replaced by depreciation and interest expense in the income statement. There are exemptions for short-term leases and leases of low-value items. The accounting stays the same for lessors, which is to classify their leases as either financial leases or operating leases for those two types of leases differently.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

1) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Group can choose to apply either of the following:

- reassessing all its contracts; or
- as a practical expedient, the Group does not need any reassessment.

The Group plans to apply the practical expedient. It means that the Group will apply IFRS 16 to all contracts begin from January 1, 2019.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- full retrospective approach; or
- modified retrospective approach with optional practical expedients.

On January 1, 2019, the Group plans to apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can select, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group chooses practical expedients below:

- Applying a single discount rate to a portfolio of leases with similar characteristics
- Applying the exemption, not to recognize the right-of-use assets and liabilities of leases with lease term that ends within 12 months from the date of initial application.
- Exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- Determining the lease term if the contract contains options to extend or terminate the lease in hindsight.

3) So far, the most significant impact is that the Group will have to recognize the right-of-use assets and lease liabilities for the operating leases of its offices. The Group estimated that both the right-of-use assets and the lease liabilities will be increased by \$9,880. No significant impact is expected for the Group's finance leases. Besides, The Group does not expect the adoption of IFRS 16 will have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

(Continued)

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

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (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
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

Those which may be relevant to the Group are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards.

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicate, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

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

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value;
- 2) Financial instrument measured at fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value;
- 3) The net defined benefit liability is recognized as the fair value of the plan assets less the present value of the defined benefit obligation and the ceiling for the effect on the asset mentioned in Note 4(r).

(ii) Functional and presentation currency

The functional currency of the Group is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency. All financial information presented in New Taiwan Dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise of the Company and subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intragroup balances, transactions, and any unrealized income or expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

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

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2018	December 31, 2017	
The Company	Xudong Haipu International Co., Ltd	Investing activities	100.00 %	100.00 %	
The Company	WorldCo. International Co., Ltd.	Investing activities and selling medicine	100.00 %	100.00 %	
The Company	American Taiwan Biopharma Philippines	Selling medicine	87.00 %	87.00 %	
The Company	TSH Biopharm Co., Ltd.	Selling medicine	56.48 %	56.48 %	

(Continued)

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

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			December 31, 2018	December 31, 2017	
The Company	EnhanX Biopharm, Inc.	Developing medicine	20.83 %	29.41 %	(Note 1)
Worldco International Co., Ltd.	Worldco Biotech (Beijing) Pharmaceutical Ltd.	Market consulting regarding medicine	100.00 %	100.00 %	
Worldco International Co., Ltd.	Worldco Biotech (Chengdu) Pharmaceutical Ltd.	Selling medicine	100.00 %	100.00 %	
Xudong Haipu International	EnhanX Biopharm, Inc	Developing medicine	29.17 %	- %	(Note 1)
Xudong Haipu International	TTY Biopharm Korea Co., Ltd.	Selling medicine	100.00 %	- %	(Note 2)
Xudong Haipu International Co., Ltd.	TTY Biopharm Mexico S.A. de C.V.	Selling medicine	50.00 %	- %	(Note 3)
Worldco International Co., Ltd	TTY Biopharm Mexico S.A. de C.V.	Selling medicine	50.00 %	- %	(Note 3)

(Note 1) In August 2017, the Group and 2-BBB Medicines BV, registered in the Netherlands, established EnhanX Inc. with \$50,000 in cash and \$120,000 in patent, the Group held more than one half of its directors' position; thus, EnhanX Inc. became a subsidiary of the Group. In October 2018, the subsidiary, Xudong Haipu International Co., Ltd. increased the capital of EnhanX Inc. by cash amounted to \$70,000, which increased the shareholding ratio of the Group to 50%. As of December 31, 2018, the paid-in capital of EnhanX Inc. amounted to \$240,000.

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

(Note 3) In September 2018, Xudong Haipu International Co., Ltd. and Worldco International Co., Ltd. established TTY Biopharm Mexico S.A. de C.V; thus, the Group achieves controlling interest and TTY Mexico S.A. de C.V. is listed as a subsidiary of the consolidated financial statement.

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

(d) Foreign currencies

(i) Foreign currencies transactions

Transactions in foreign currencies are translated to the respective functional currencies, according to the exchange rates for the entities of the Group, at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate of the date. The foreign currency gain or loss on monetary items are the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and the payments during the period, as well as the amortized cost in foreign currency translated at the exchange rate at the end of the period.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate of the date that the fair value was determined. Non monetary items in a foreign currency are measured based on historical cost translated using the exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) Fair value through other comprehensive income (Available for sale) equity investment;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Taiwan Dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Taiwan Dollars at the average exchange rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed such as control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to the foreign operation will be reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only parts of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount will be reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount will be reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered as part of the net investment in the foreign operation are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, while all other assets are classified as non-current:

- (i) It is expected to be realized, or is intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or

(Continued)

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

- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, while all other liabilities are classified as non-current. An entity shall classify a liability as current when:

- (i) It is expected to be settled in normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes should be recognized as cash equivalents. If they do not meet the above definition, time deposits should be classified as other current and/or non-current financial assets.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(g) Financial instruments

(i) Financial assets (applicable from January 1, 2018)

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). 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.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

A financial asset measured at amortized cost is initially recognized at fair value, in addition to 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. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

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, in addition to 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 financial assets 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.

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. 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. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

(Continued)

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

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, other receivable, guarantee deposit paid and other financial assets) and contract assets.

The Group calculates the allowances at an amount equal to lifetime expected credit loss (ECL), except for the followings:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The allowances for accounts receivables and contract assets are always measured at an amount equal to lifetime ECL.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if the contract payment is overdue. 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;
- default (i.e. delay or overdue of 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;

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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 Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss

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 debt instrument in its entirety, the Group recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

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

(ii) Financial assets (applicable before January 1, 2018)

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

1) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and included in the non-operating income and expenses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss 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. Such dividend income is included in the non-operating income and expenses.

Interest income from investment in debt instrument is recognized in profit or loss, under other income of non-operating income and expenses.

2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short term receivables are measured at amortized cost using the effective interest method, less any impairment losses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Interest income is recognized in profit or loss, and it is included in other income of non-operating income and expenses.

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TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****3) Impairment of financial assets**

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than the those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment was recognized at the reversal date.

(Continued)

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

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and recoveries of other financial assets are recognized in other income of non-operating income and expenses.

4) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on available-for-sale financial assets" in profit or loss is included in other income 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.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

Interest related to the financial liability is recognized in profit or loss, and included in non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

(Continued)

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

2) Other financial liabilities

Financial liabilities are not classified as held for trading or designated as at fair value through profit or loss are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in financial cost of non-operating income or expenses.

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired.

The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

4) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable rights to offset and intends to settle such financial assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. The Group recognizes any changes, proportionately with the shareholding ratio, under capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual controlling power.

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

Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interests in an associate, the carrying amount of the investment, including any long term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the associate.

(j) Investment property

Investment property is the property which is held either to earn rentals or for capital appreciation (or both), but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently cost less accumulated depreciation and accumulated impairment losses. Depreciation methods, useful lives, and residual value which are the same as those adopted for property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalized borrowing costs.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and depreciation method of that significant part are the as those of another significant part of that same item.

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated at the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Buildings	2-60 years
Machinery equipment	2-24 years
Transportation equipment	5-8 years
Office and other equipment	1-30 years

The significant components of buildings are the main building, mechanical and electrical equipment, engineering system, etc. They're amortized over their useful life of 30~50 years, 10~25 years, and 10 years, respectively.

The depreciation methods, useful lives, and residual values are reviewed at each annual reporting date. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

(iv) Reclassification as investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

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

(l) Lease

(i) Lessor

A finance lease is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease are added to the net investment in the leased asset. Finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable.

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into an operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, and are not recognized in the Group's consolidated balance sheets.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Contingent rent is recognized as expense in the periods in which it is incurred.

The Group shall evaluate an arrangement at inception. If the fulfillment of the arrangement is dependent on the use of specific asset or the shift of use of an asset, such an arrangement is or contains a lease. The Group determines whether the lease is classified as a finance lease or an operating lease according to previous principles at inception or on reassessment of the arrangement.

(Continued)

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

If an arrangement includes the lease and other factors, the Group will divide the amount and other considerations required for the arrangement into a portion of the lease and other components on the basis of the relative fair values. If the Group considers it is unable to distinguish the payment in practice reliably, in the case of a finance lease, the fair value of the underlying asset is recognized as an asset and liability. Subsequently, the liability is reduced at the actual payment, and the current financial cost of the liability is calculated based on the incremental borrowing interest rate of the Group. On the contrary, in the case of operating leases, all payments are treated as lease expenses, and the Group will disclose situations that cannot be reliably distinguished in note.

(m) Intangible assets

(i) Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- 2) The intention to complete the intangible asset and use or sell it.
- 3) The ability to use or sell the intangible asset.
- 4) How the intangible asset will generate probable future economic benefits.
- 5) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.
- 6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(Continued)

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

(iv) Amortization

The amortizable amount is the cost of an asset, less its residual value.

Except for goodwill and intangible assets with indefinite useful lives, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- | | |
|--------------------------|---------------|
| 1) Patents and franchise | 3.25~10 years |
| 2) Computer software | 3~10 years |

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least on the annual reporting date. Any change shall be accounted for as a change in accounting estimate.

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from inventory, deferred tax assets, and assets arising from employee benefits, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (the higher of its fair value less costs of disposal and its value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash generating unit (CGU).

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell and its value in use.

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount; and that reduction will be accounted as an impairment loss, which shall be recognized immediately in profit or loss.

An assessment is made at the end of each reporting period as to whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased.

If there is any change in the estimation of the recoverable amount, the impairment loss is reversed to increase the carrying amount of the individual asset or CGU to its recoverable amount, but not more than the amount of the individual assets or CGU are deducted from the depreciation or amortization without recognizing impairment loss in the previous year.

(o) Cash surrender value of life insurance

The saving portion of a life insurance policy shall be recognized as a contra item of insurance expense, and increases the carrying amount of the cash surrender value of the life insurance.

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

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and an it is probable that outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(q) Recognition of revenue

(i) 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:

1) Sale of goods

The Group recognizes revenue when the 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, since this is the point in time when the Group has a right to unconditional considerations.

2) Authorization revenue

Authorization revenue gains from medicine developing and selling. The Group recognizes authorization revenue by determining whether the intellectual property will be obtained within contract period or it had already existed.

Revenue is recognized with royalty calculated on a sales basis when the performance obligation was fulfilled and the sales actually happened.

3) Financing components

The Group does not expect to have any contracts in the period between the transfer of the promised goods or services to the customer, and when the 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.

(Continued)

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

(ii) Recognition of revenue (applicable before January 1, 2018)

1) Sales of goods

Revenue from the sales of goods is measured at the fair value under the consideration of whether the good is returned, obtained trade discounts, or volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that a discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue, and the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

2) Services

The Group provides consultancy services and management services to its customers. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to services performed to date as a percentage of total services to be performed.

3) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group.

4) Rent revenue

Rental income from investment properties is recognized on a straight-line basis over the lease period. The lease incentives given are considered to be part of the total lease income and are recognized as a decrease in rental income on a straight-line basis over the lease period. Revenue generating from sub-lease of real estate is recognized as "rental income" under non-operating income and expenses.

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

1) 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.

(Continued)

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

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.

2) 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:

- (i) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (ii) 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
- (iii) 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.

(r) Employee benefits

(i) Defined contribution plan

Obligations for contributions to the defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of the defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, based on the discounted present value of the defined benefit obligation. Any unrecognized past service costs and the fair value of any plan assets are deducted for purposes of determining the Group's net defined benefit obligation. The discount rate used in calculating the present value is the market yield at the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

(Continued)

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

The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by employees, is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. Remeasurements of the net defined benefit liability (asset) are listed under Retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost which had not previously been recognized.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date (market yields of high-quality corporate bonds or government bonds) (note 2) on bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(Continued)

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

(s) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income all current and deferred taxes are recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are not recognized for the following:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) arising from the transactions.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) the entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences are also revaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(Continued)

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

(t) Earnings per share

The Group discloses the Group's basic and diluted earnings per share attributable to ordinary shareholders of the Group. Basic earnings per share are calculated as the profit attributable to ordinary shareholders of the Group divided by the weighted-average number of ordinary shares outstanding. Diluted earnings per share are calculated as the profit attributable to ordinary shareholders of the Group divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers 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.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

- Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period, and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to Note 6(g) for further description of the valuation of inventories.

(Continued)

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

(6) Explanation of significant accounts:**(a) Cash and cash equivalents**

	December 31, 2018	December 31, 2017
Cash on hand	\$ 2,864	2,905
Cash in banks	2,309,430	1,241,649
Time deposits	<u>60,000</u>	<u>196,820</u>
	<u>\$ 2,372,294</u>	<u>1,441,374</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.
- (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 measured at fair value through profit or loss

	December 31, 2018	December 31, 2017
Designated as financial assets measured at fair value through profit or loss		
Domestic preferred stock ETFS	<u>\$ 5,496</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.

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

	December 31, 2018
Equity instrument measured at fair value through other comprehensive income:	
Domestic common stock—Lumosa Therapeutics Co., Ltd.	\$ 176,580
Domestic common stock—Handa Pharmaceuticals, Inc.	83,081
Domestic listed common stock—Cathay Financial Holding Co., Ltd.	4,700
Domestic listed common stock—Fubon Financial Holding Co., Ltd.	14,115
Domestic listed preferred stock—Fubon Financial Holding Co., Ltd. Preferred Shares B	155,000
Domestic listed preferred stock—Union Bank of Taiwan Preferred Shares A	<u>21,360</u>
Total	<u>\$ 454,836</u>

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (i) The Group holds these equity instrument as long-term strategic investments, and has designed these investments at the date of initial application as measured at FVOCI. Other than Cathay Financial Holding Co., Ltd. common stock, Fubon Financial Holding Co., Ltd, common and preferred stocks, the remaining investments listed above were recognized as available-for-sale financial assets as of December 31, 2017, please refer to Note 6(d).
- (ii) The subsidiary, TSH Biopharm Co., Ltd sold the domestic common stock, Lumosa Therapeutics Co., Ltd. at fair value of \$50 and recognized disposal gain of \$35; thus, the Group reclassified its disposal gain from other equity to retained earnings of \$20.
- (iii) Refer to Note 6(z) for credit and market risk information.
- (iv) The above financial assets were not pledged as collateral.
- (d) Available-for-sale financial assets

	December 31, 2017
Available for sale financial assets :	
Domestic common stock — Lumosa Therapeutics Co., Ltd	\$ 171,100
Domestic common stock — Handa Pharmaceuticals, Inc.	95,051
Domestic listed preferred stock — Union Bank Taiwan Preferred Shares A	20,040
Domestic preferred stock ETFS	395
Total	\$ 286,586

- (i) Please refer to Note 6(b) for domestic preferred stock ETFS reported on December 31, 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, please refer to Note 6(c).
- (ii) Please refer to Note 6(s) for 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.
- (e) Notes receivable and accounts receivable (including related parties)

	December 31, 2018	December 31, 2017
Notes receivables — operating	\$ 38,468	71,744
Notes receivables -- non-operating	1,595	1,595
Accounts receivables	864,486	949,185
Accounts receivables-related parties	16,156	8,973
Less: Allowance for doubtful debts (expected credit loss)	(27,483)	(33,339)
	\$ 893,222	998,158

(Continued)

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

As of December 31, 2018, the Group estimated the expected credit losses for all notes receivable and accounts receivable using a simplified approach. For these purposes, the customer's notes receivable and accounts receivable are grouped based on credit risk characteristics and the days past due, as well as its forward-looking information. An analysis of expected credit loss on notes and accounts receivable as of December 31, 2018 are as follows:

	Face value of notes and accounts receivable	Weighted average loss rate	Allowance for expected credit losses
Not yet overdue	\$ 896,800	0%~1%	8,585
Past due less than 90 days	5,070	3%~5%	223
Past due 91-180 days	337	50%~54%	177
Past due more than 181 days	<u>18,498</u>	100%	<u>18,498</u>
	<u>\$ 920,705</u>		<u>27,483</u>

As of December 31, 2017, the allowance for doubtful debts of notes receivable and accounts receivable has been made using the incurred loss model. The aging analysis of overdue notes receivable and accounts receivable as of December 31, 2018 and 2017, are as follows:

	December 31, 2017
Past due less than 90 days	\$ 4,691
Past due 91-180 days	<u>30</u>
	<u>\$ 4,721</u>

The movement of allowance for impairment are as follows:

	2018	2017	
		Individually assessed of loss reduction	Collectively assessed impairment
Beginning balance (IAS39)	\$ 33,339	20,394	17,945
IFRS 9 adjustment	<u>-</u>		
Beginning balance(IFRS 9)	33,339		
Reversal of impairment loss	<u>(5,856)</u>	<u>-</u>	<u>(5,000)</u>
Ending Balance	<u>\$ 27,483</u>	<u>20,394</u>	<u>12,945</u>

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

(Continued)

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

(f) Other receivables

	December 31, 2018	December 31, 2017
Other receivable	\$ 64,187	65,316
Other receivable—related parties	<u>12,634</u>	<u>8,306</u>
	<u>\$ 76,821</u>	<u>73,622</u>

(i) As of December 31, 2018 and 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 December 31, 2018 and 2017, other receivables were not pledged as collateral.

(g) Inventories

	December 31, 2018	December 31, 2017
Merchandise	\$ 236,594	223,674
Finished goods	127,517	101,497
Work in process	92,944	108,060
Raw materials	208,287	183,436
Materials	<u>32,666</u>	<u>29,650</u>
Subtotal	698,008	646,317
Goods in transit	<u>90,602</u>	<u>97,919</u>
Total	788,610	744,236
Less: Allowance for inventory market decline and obsolescence	<u>(37,722)</u>	<u>(50,523)</u>
Net amount	<u>\$ 750,888</u>	<u>693,713</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 amounted to \$1,378,966 and \$1,383,635, respectively. The main item was the costs from selling goods. For the years ended December 31, 2018 and 2017, the reversal of allowance amounted to \$12,801 and \$8,304, respectively.

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

(h) Investments accounted for using equity method

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

	December 31, 2018	December 31, 2017
Associates	<u>\$ 901,648</u>	<u>1,024,020</u>

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 1) As of December 31, 2018 and 2017, the carrying value of associates had a quoted market price amounted to \$631,554 and \$771,239 respectively, while fair value amounted to \$2,745,907 and \$4,386,636, respectively.
 - 2) For the years ended December 31, 2018 and 2017, PharmaEngine, Inc. amortized stock compensation cost, exercised employee stock options, and repurchased the treasury stocks, which resulted in a change in the shareholding ratio, and such change was (debit) credit of \$(10,703) and \$5,070, respectively to its capital reserve. For the years ended 2018 and 2017, the Group disposed its investment shares of PharmaEngine, Inc. for a total of \$495,569 and \$222,174, which was included in the "other gains or losses" of the consolidated income statement. For the years ended December 31, 2018 and 2017, the Group's shareholding ratio declined from 18.22% to 15.52% and 19.30% to 18.22%, respectively.
- (ii) Associates that had materiality were as follows:

Associate	Nature of relationship	Country of registration	Equity ownership	
			December 31, 2018	December 31, 2017
PharmaEngine, Inc.	Research for new drugs and drug development especially for Asian diseases	Taiwan	15.52 %	18.22 %

The following is the summary of financial information on the Group'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.

	December 31, 2018	December 31, 2017
Current assets	\$ 3,820,100	4,071,199
Non-current assets	26,685	39,732
Current liabilities	(152,671)	(199,899)
Net assets	<u>\$ 3,694,114</u>	<u>3,911,032</u>
Net assets attributable to non-controlling interests	<u>\$ 573,462</u>	<u>712,642</u>
Net assets attributable to investee owners	<u>\$ 3,120,652</u>	<u>3,198,390</u>

(Continued)

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

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Revenue	\$ <u>293,430</u>	<u>853,677</u>
Profit for the period	\$ 129,362	387,063
Other comprehensive income	(46)	187
Comprehensive income	\$ <u>129,316</u>	<u>387,250</u>
Comprehensive income attributable to non-controlling interests	\$ <u>20,497</u>	<u>68,640</u>
Comprehensive income attributable to investee owners	\$ <u>108,819</u>	<u>318,610</u>
	<u>For the years ended December 31,</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 associates for the period	(10,703)	5,070
Profit and loss attributable to the Group for the period	20,497	68,640
Cash dividends received from associates	(45,734)	(59,086)
Disposal of investments for the period	(103,199)	(35,311)
Net assets attributable to the Group, December 31	<u>573,462</u>	<u>712,642</u>
Carrying amount of interest in associates, December 31	\$ <u>573,462</u>	<u>712,642</u>

(iii) 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>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Carrying amount of interest in individually insignificant associates	\$ <u>328,186</u>	<u>311,378</u>
	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Attributable to the Group:		
Profit for the period	\$ 32,422	45,088
Other comprehensive income	(8,737)	480
Comprehensive income	\$ <u>23,685</u>	<u>45,568</u>

(Continued)

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

(iv) Collateral

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

(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>December 31, 2018</u>	<u>December 31, 2017</u>
TSH Biopharm Co., Ltd.	Taiwan	56.48 %	56.48 %
EnhancX Inc.	Taiwan	50.00 %	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>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets	\$ 895,718	997,419
Non-current assets	324,603	284,284
Current liabilities	(99,417)	(135,082)
Non-current liabilities	(23)	-
Net assets	<u>\$ 1,120,881</u>	<u>1,146,621</u>
Non-controlling interest	<u>\$ 487,724</u>	<u>498,822</u>
	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Revenue	<u>\$ 515,646</u>	<u>486,277</u>
Profit for the period	\$ 57,784	64,971
Other comprehensive (loss) income	(2,888)	(249,678)
Comprehensive (loss) income	<u>\$ 54,896</u>	<u>(184,707)</u>
Profit attributable to non-controlling interest	<u>\$ 25,252</u>	<u>28,097</u>
Comprehensive (loss) income attributable to non-controlling interest	<u>\$ 23,995</u>	<u>(80,563)</u>

(Continued)

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

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities	\$ 62,616	81,132
Cash flows (used in) from investing activities	(160,254)	109,706
Cash flows used in financing activities	<u>(80,636)</u>	<u>(119,034)</u>
Net increase in cash	<u>\$ (178,274)</u>	<u>71,804</u>
Dividends paid to non-controlling interests	<u>\$ 35,093</u>	<u>51,804</u>
 (ii) Summary financial information on EnhanX Inc.		
	<u>December 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
Current assets	\$ 82,282	45,688
Non-current assets	119,999	121,077
Current liabilities	<u>(1,856)</u>	<u>(1,879)</u>
Net assets	<u>\$ 200,425</u>	<u>164,886</u>
Non-controlling interest	<u>\$ 100,212</u>	<u>116,390</u>
	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Revenue	\$ -	-
Loss for the period	\$ (34,462)	(5,113)
Other comprehensive income	-	-
Comprehensive (loss) income	<u>\$ (34,462)</u>	<u>(5,113)</u>
Loss attributable to non-controlling interest	<u>\$ (24,348)</u>	<u>(3,609)</u>
Comprehensive (loss) income attributable to non-controlling interest	<u>\$ (24,348)</u>	<u>(3,609)</u>
	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Cash flows used in operating activities	\$ (34,476)	(4,524)
Cash flows used in investing activities	-	(30)
Cash flows from financing activities	<u>70,000</u>	<u>50,000</u>
Net increase in cash	<u>\$ 35,524</u>	<u>45,446</u>

(Continued)

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

(j) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2018 and 2017, were as follows:

	Land	Building and construction	Machinery and equipment	Transporta tion equipment	Office equipment	Other equipment	Construction in progress	Total
Cost:								
Balance on January 1, 2018	\$ 816,169	1,290,694	665,230	5,755	436,422	7,078	156,434	3,377,782
Additions	-	6,354	9,790	-	21,321	-	9,406	46,871
Disposals	-	(1,194)	(4,945)	-	(1,548)	-	-	(7,687)
Reclassifications	-	17,107	1,920	-	5,654	-	(16,929)	7,752
Effect of changes in foreign exchange rate	-	(310)	-	-	(42)	(2)	-	(354)
Balance on December 31, 2018	<u>\$ 816,169</u>	<u>1,312,651</u>	<u>671,995</u>	<u>5,755</u>	<u>461,807</u>	<u>7,076</u>	<u>148,911</u>	<u>3,424,364</u>
Balance on January 1, 2017	\$ 816,169	1,273,278	664,686	3,171	405,557	6,975	126,957	3,296,793
Additions	-	11,902	2,160	2,584	19,052	118	47,971	83,787
Disposals	-	(4,233)	(1,118)	-	(10,141)	-	-	(15,492)
Reclassifications	-	10,210	(498)	-	22,034	-	(18,494)	13,252
Effect of changes in foreign exchange rate	-	(463)	-	-	(80)	(15)	-	(558)
Balance on December 31, 2017	<u>\$ 816,169</u>	<u>1,290,694</u>	<u>665,230</u>	<u>5,755</u>	<u>436,422</u>	<u>7,078</u>	<u>156,434</u>	<u>3,377,782</u>
Depreciation:								
Balance on January 1, 2018	\$ -	259,709	281,687	1,712	283,278	3,390	-	829,776
Depreciation for the year	-	59,393	37,989	894	27,742	711	-	126,729
Disposals	-	(1,194)	(4,088)	-	(1,134)	-	-	(6,416)
Effect of changes in foreign exchange rate	-	(16)	-	-	(38)	(2)	-	(56)
Balance on December 31, 2018	<u>\$ -</u>	<u>317,892</u>	<u>315,588</u>	<u>2,606</u>	<u>309,848</u>	<u>4,099</u>	<u>-</u>	<u>950,033</u>
Balance on January 1, 2017	\$ -	205,015	240,234	1,234	262,034	2,701	-	711,218
Depreciation for the year	-	58,966	43,040	478	29,464	703	-	132,651
Disposals	-	(4,179)	(1,089)	-	(8,143)	-	-	(13,411)
Reclassifications	-	(96)	(498)	-	-	-	-	(594)
Effect of changes in foreign exchange rate	-	3	-	-	(77)	(14)	-	(88)
Balance on December 31, 2017	<u>\$ -</u>	<u>259,709</u>	<u>281,687</u>	<u>1,712</u>	<u>283,278</u>	<u>3,390</u>	<u>-</u>	<u>829,776</u>
Carrying amounts:								
Balance on December 31, 2018	<u>\$ 816,169</u>	<u>994,759</u>	<u>356,407</u>	<u>3,149</u>	<u>151,959</u>	<u>2,977</u>	<u>148,911</u>	<u>2,474,331</u>
Balance on January 1, 2017	<u>\$ 816,169</u>	<u>1,068,263</u>	<u>424,452</u>	<u>1,937</u>	<u>143,523</u>	<u>4,274</u>	<u>126,957</u>	<u>2,585,575</u>
Balance on December 31, 2017	<u>\$ 816,169</u>	<u>1,030,985</u>	<u>383,543</u>	<u>4,043</u>	<u>153,144</u>	<u>3,688</u>	<u>156,434</u>	<u>2,548,006</u>

(i) Collateral

As of December 31, 2018 and 2017, the Group's property, plant and equipment were not pledged as collateral.

(Continued)

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 \$148,911, and there was no capitalized loan cost for the years ended December 31, 2018 and 2017.

(k) Investment property

	<u>Land</u>	<u>Building and construction</u>	<u>Total</u>
Cost or deemed cost:			
Balance on January 1, 2018	\$ 69,152	27,246	96,398
Effect of changes in foreign exchange rate	-	(238)	(238)
Balance on December 31, 2018	<u>\$ 69,152</u>	<u>27,008</u>	<u>96,160</u>
Balance on January 1, 2017	\$ 69,152	15,526	84,678
Reclassifications	-	11,564	11,564
Effect of changes in foreign exchange rate	-	156	156
Balance on December 31, 2017	<u>\$ 69,152</u>	<u>27,246</u>	<u>96,398</u>
Depreciation and impairment loss:			
Balance on January 1, 2018	\$ -	7,375	7,375
Depreciation	-	647	647
Effect of changes in foreign exchange rate	-	(12)	(12)
Balance on December 31, 2018	<u>\$ -</u>	<u>8,010</u>	<u>8,010</u>
Balance on January 1, 2017	\$ -	6,679	6,679
Depreciation	-	595	595
Reclassifications	-	96	96
Effect of changes in foreign exchange rate	-	5	5
Balance on December 31, 2017	<u>\$ -</u>	<u>7,375</u>	<u>7,375</u>
Carrying amount:			
Balance on December 31, 2018	<u>\$ 69,152</u>	<u>18,998</u>	<u>88,150</u>
Balance on January 1, 2017	<u>\$ 69,152</u>	<u>8,847</u>	<u>77,999</u>
Balance on December 31, 2017	<u>\$ 69,152</u>	<u>19,871</u>	<u>89,023</u>
Fair value:			
Balance on December 31, 2018			<u>\$ 189,446</u>
Balance on December 31, 2017			<u>\$ 114,572</u>

- (i) The fair value of investment property was evaluated based on the recent market transactions on arm's-length term.

(Continued)

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

(ii) As of December 31, 2018 and 2017, the Group's investment property were not pledged as collateral.

(l) Intangible assets

The components of the costs of intangible assets, amortization, and impairment loss thereon for the years ended December 31, 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	1,314	10,896	12,210
Disposals	(2,807)	-	(2,807)
Reclassifications	-	16,956	16,956
Effect of changes in foreign exchange rate	(1)	-	(1)
Balance on December 31, 2018	<u>\$ 31,080</u>	<u>190,238</u>	<u>221,318</u>
Balance on January 1, 2017	\$ 36,489	42,386	78,875
Additions	700	120,000	120,700
Disposals	(4,611)	-	(4,611)
Effect of changes in foreign exchange rate	(4)	-	(4)
Balance on December 31, 2017	<u>\$ 32,574</u>	<u>162,386</u>	<u>194,960</u>
Amortization and impairment loss:			
Balance on January 1, 2018	\$ 23,456	29,301	52,757
Amortization for the period	4,508	13,672	18,180
Disposals	(2,807)	-	(2,807)
Balance on December 31, 2018	<u>\$ 25,157</u>	<u>42,973</u>	<u>68,130</u>
Balance on January 1, 2017	\$ 22,344	26,883	49,227
Amortization for the period	5,725	2,418	8,143
Disposals	(4,611)	-	(4,611)
Effect of changes in foreign exchange rate	(2)	-	(2)
Balance on December 31, 2017	<u>\$ 23,456</u>	<u>29,301</u>	<u>52,757</u>
Carrying amount:			
Balance on December 31, 2018	<u>\$ 5,923</u>	<u>147,265</u>	<u>153,188</u>
Balance on January 1, 2017	<u>\$ 14,145</u>	<u>15,503</u>	<u>29,648</u>
Balance on December 31, 2017	<u>\$ 9,118</u>	<u>133,085</u>	<u>142,203</u>

(Continued)

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

Amortization expenses for intangible assets for the years ended December 31, 2018 and 2017 were recorded as operating expenses and operating costs, respectively, were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Operating costs	\$ 322	347
Operating expenses	<u>17,858</u>	<u>7,796</u>
	<u>\$ 18,180</u>	<u>8,143</u>

In 2017, the Group and 2-BBB Medicines BV established EnhancX Inc, where 2-BBB Medicines BV invested \$120,000 in patent right. The patent has been transferred to EnhancX Inc. on July 12, 2018.

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

(m) Other financial assets and other assets

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

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Other current financial assets	\$ 398,271	1,771,755
Other non-current financial assets	143,678	124,326
Long term prepayments	43,366	60,322
Others	<u>6,883</u>	<u>2,735</u>
	<u>\$ 592,198</u>	<u>1,959,138</u>

(i) Both current and non-current other financial assets were bank deposits that does not qualify as cash and cash equivalents.

(ii) Long-term prepayments are amounts paid for intangible assets before the intangible assets are ready for use.

(n) Short-term loans

The short-term loans were summarized as follows: :

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Secured bank loans	\$ <u>1,150,000</u>	<u>1,650,000</u>
Unused credit line	\$ <u>1,170,321</u>	<u>1,112,811</u>
Range of interests rates	<u>0.92%~0.96%</u>	<u>0.91%~1.02%</u>

Please refer Note 6(z) for the Group's information of interest and credit risk exposure.

(Continued)

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

(o) Long-term loans

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

December 31, 2018			
Currency	Interest rate	Maturity	Amount
Unsecured bank loans	NTD	1.115%~1.180%	109
			<u>\$ 350,000</u>
Unused credit line			<u>\$ 400,000</u>

December 31, 2017			
Currency	Interest rate	Maturity	Amount
Unsecured bank loans	NTD	1.115%~1.298%	109
			\$ 550,000
Less: Current portion			<u>(300,000)</u>
Total			<u>\$ 250,000</u>
Unused credit line			<u>\$ 430,000</u>

(p) Operating leases

(i) Leases as lessee

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

	December 31, 2018	December 31, 2017
Less than one year	\$ 2,987	2,608
Between one and five years	<u>3,825</u>	<u>6,017</u>
	<u>\$ 6,812</u>	<u>8,625</u>

(ii) Leases as lessor

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

	December 31, 2018	December 31, 2017
Less than one year	\$ 9,200	7,629
Between one and five years	<u>11,811</u>	<u>6,607</u>
	<u>\$ 21,011</u>	<u>14,236</u>

(Continued)

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

(q) Employee benefits

(i) Defined benefit plans

Reconciliation of defined benefit obligation at present value and plan asset at fair value are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligation	\$ 122,955	117,605
Fair value of plan assets	<u>(64,496)</u>	<u>(63,295)</u>
Net defined benefit liabilities (assets)	<u>\$ 58,459</u>	<u>54,310</u>

The Group's employee benefit liabilities were as below:

	December 31, 2018	December 31, 2017
Long-term vacation liability	<u>\$ 11,355</u>	<u>11,416</u>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pension benefits for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The balance of labor pension reserve account for the Group is \$64,496 as of December 31, 2018. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movement in the present value of the defined benefit obligations for the Group, were as follows:

	For the years ended December 31	
	2018	2017
Defined benefit obligation, January 1	\$ 117,605	115,353
Current service costs and interest	2,572	2,645
Remeasurement loss (gain):		
— Return on plan assets excluding interest income	6,102	9,436
Benefits paid	<u>(3,324)</u>	<u>(9,829)</u>
Defined benefit obligation, December 31	<u>\$ 122,955</u>	<u>117,605</u>

(Continued)

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

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Group were as follows:

	For the years ended December 31	
	2018	2017
Fair value of plan assets, January 1	\$ 63,295	70,732
Remeasurements loss (gain):		
— Return on plan assets excluding interest income	2,694	667
Contributions paid by the employer	1,831	1,725
Benefits paid	<u>(3,324)</u>	<u>(9,829)</u>
Fair value of plan assets, December 31	<u><u>\$ 64,496</u></u>	<u><u>63,295</u></u>

4) Expenses recognized in profit or loss

The Group's pension expenses recognized in profit or loss for the years ended December 31, 2018 and 2017, were as follows:

	For the years ended December 31	
	2018	2017
Current service cost	\$ 1,264	1,145
Net interest of net liabilities for defined benefit obligation	1,308	1,500
Curtailment or settlement gains	<u>(693)</u>	<u>(933)</u>
	<u><u>\$ 1,879</u></u>	<u><u>1,712</u></u>

	For the years ended December 31	
	2018	2017
Operating costs	\$ 626	655
Selling expenses	572	472
Administrative expenses	291	265
Research and development expenses	<u>390</u>	<u>320</u>
	<u><u>\$ 1,879</u></u>	<u><u>1,712</u></u>

(Continued)

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

- 5) Remeasurement of net defined benefit liability (asset) recognized in other comprehensive income

The Group's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2018 and 2017, were as follows:

	For the years ended December 31	
	2018	2017
Accumulated amount, January 1	\$ 6,637	(3,064)
Recognized during the period	4,102	9,701
Accumulated amount, December 31	<u>\$ 10,739</u>	<u>6,637</u>

- 6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	2018.12.31	2017.12.31
Discount rate	1.03 %	1.15 %
Future salary increases	3.00 %	3.00 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is \$1,855.

The weighted-average duration of the defined benefit plan is 4 years.

- 7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Influence of defined defined benefit obligation	
	Increase by 0.50%	Decrease by 0.50%
December 31, 2018		
Discount rate (Fluctuation of 0.5%)	\$ (5,335)	5,711
Future salary increase (Fluctuation of 0.5%)	4,988	(4,726)
December 31, 2017		
Discount rate (Fluctuation of 0.5%)	\$ (5,364)	5,757
Future salary increase (Fluctuation of 0.5%)	5,063	(4,786)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

(Continued)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

(ii) Defined contribution plans

The Group has made monthly contributions equal to 6% of each employee's monthly salary to employee's pension accounts at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contributions to the Bureau of Labor Insurance amounted to \$26,433 and \$25,694 for the years ended December 31, 2018 and 2017, respectively.

(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 increase from 17% to 20%.

(i) Income tax expense

The components of income tax in the years 2018 and 2017 were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Current tax expense		
Current period incurred	\$ 236,181	233,299
Adjustment for prior periods	2,461	(9,199)
Deferred tax expense		
Origination and reversal of temporary differences	(73,551)	2,653
Adjustment in tax rate	40,678	-
Income tax expense	<u>\$ 205,769</u>	<u>226,753</u>

The amount of income tax recognized in other comprehensive income for 2018 and 2017 was as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Items that will not be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	\$ 6,263	(19,947)
Share of other comprehensive income of associates and joint ventures accounted for under equity method	(11)	4
	<u>\$ 6,252</u>	<u>(19,943)</u>

(Continued)

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

Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2018 and 2017, as follows:

	For the years ended December 31	
	2018	2017
Profit before income tax	\$ <u>1,668,068</u>	<u>1,595,067</u>
Income tax using the company's domestic tax rate	\$ 338,095	277,386
Adjustment in tax rate	40,678	-
Change in unrecognized temporary differences	(78,010)	-
Non-deductible expenses	15,048	8,616
Gains derived from securities transactions	(99,114)	(37,770)
Tax exemption	(10,898)	(7,851)
Change in provision in prior periods	2,461	(9,199)
Undistributed earnings additional tax	8,163	13,489
Basic income tax	-	19
Others	<u>(10,654)</u>	<u>(17,937)</u>
	\$ <u>205,769</u>	<u>226,753</u>

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

The Group is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2018. Also, management considers the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details are as follows:

	December 31, 2018	December 31, 2017
Amount of temporary differences related to investments in subsidiaries	\$ <u>(78,010)</u>	<u>-</u>
Unrecognized deferred tax liabilities	\$ <u>(78,010)</u>	<u>-</u>

(Continued)

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

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

	<u>Gain on foreign investments</u>	<u>Reserve for land revaluation increment tax</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:				
Balance, January 1, 2018	\$ 237,265	60,871	-	298,136
Recognized in profit or loss	(25,688)	-	23	(25,665)
Recognized in other comprehensive income	<u>6,252</u>	<u>-</u>	<u>-</u>	<u>6,252</u>
Balance, December 31, 2018	<u>\$ 217,829</u>	<u>60,871</u>	<u>23</u>	<u>278,723</u>
Balance, January 1, 2017	\$ 253,858	60,871	-	314,729
Recognized in profit or loss	3,350	-	-	3,350
Recognized in other comprehensive income	<u>(19,943)</u>	<u>-</u>	<u>-</u>	<u>(19,943)</u>
Balance, December 31, 2017	<u>\$ 237,265</u>	<u>60,871</u>	<u>-</u>	<u>298,136</u>
Deferred tax assets:				
Balance, January 1, 2018	\$ 5,830	8,589	16,493	30,912
Recognized in profit or loss	1,038	(1,045)	7,216	7,209
Foreign currency translation differences for foreign operations	<u>-</u>	<u>-</u>	<u>(49)</u>	<u>(49)</u>
Balance, December 31, 2018	<u>\$ 6,868</u>	<u>7,544</u>	<u>23,660</u>	<u>38,072</u>
Balance, January 1, 2017	\$ 5,833	10,000	15,927	31,760
Recognized in profit or loss	(3)	(1,411)	2,111	697
Foreign currency translation differences for foreign operations	<u>-</u>	<u>-</u>	<u>(1,545)</u>	<u>(1,545)</u>
Balance, December 31, 2017	<u>\$ 5,830</u>	<u>8,589</u>	<u>16,493</u>	<u>30,912</u>

3) Assessment of tax

The Company's income tax returns through 2014 were assessed by the Taipei National Tax Administration.

(s) Capital and other equity

As of December 31, 2018 and 2017, the number of authorized ordinary shares were 350,000 shares, with par value of \$10 per share and the total value of authorized ordinary shares amounted to \$3,500,000. The paid-in-capital were both \$2,486,500.

(Continued)

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

(i) Capital surplus

The balances of capital surplus as of December 31, 2018 and 2017, were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Share capital	\$ 484	484
Long-term investment	<u>348,335</u>	<u>395,629</u>
	<u>\$ 348,819</u>	<u>396,113</u>

According to the R.O.C. Company Act amended in 2012, capital surplus can be used to offset a deficit, or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no deficit. 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

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 December 31, 2018 and 2017, the special reserve appropriated from the undistributed earnings amounted to \$110,154 and \$110,154, respectively.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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. The subsequent reversals of contra accounts in shareholder equity shall qualify for additional distributions.

3) Earnings distribution

On June 20, 2018 and June 16, 2017, the Company's general meeting of shareholders resolved to appropriate the 2017 and 2016 earnings, respectively. These earnings were distributed as dividends as follows:

	2017		2016	
	Amount per share (dollars)	Amount	Amount per share (dollars)	Amount
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)

	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 financial assets	Total
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	43,080	-	-	43,080
Share of exchange differences of subsidiaries and associates accounted for using equity method	(46)	-	-	(46)
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	-	(111)	-	(111)
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	-	(18,521)	-	(18,521)
Balance on December 31, 2018	<u>\$ (56,694)</u>	<u>103,515</u>	<u>-</u>	<u>46,821</u>

(Continued)

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	(97,392)	-	-	(97,392)
Share of exchange differences of subsidiaries and associates accounted for using equity method	20	-	-	20
Unrealized gains (losses) on available- for-sale financial assets	-	-	(164,618)	(164,618)
Unrealized gains (losses) on available- for-sale financial assets of subsidiaries accounted for using equity method	-	-	(667)	(667)
Balance on December 31, 2017	<u>\$ (99,734)</u>	<u>-</u>	<u>122,165</u>	<u>22,431</u>

(iv) Non-controlling interests

	For the years ended December 31,	
	2018	2017
Balance on January 1	\$ 614,861	631,784
Attributable to non-controlling interests:		
Profit for the period	918	23,583
Foreign currency translation differences-foreign operations	(7)	(42)
Unrealized (loss) gain on financial assets	(1,257)	(108,660)
Cash dividend received	(35,093)	(51,804)
Increase in non-controlling interest	-	120,000
Changes in ownership interest in subsidiaries	8,170	-
Balance on December 31	<u>\$ 587,592</u>	<u>614,861</u>

(t) Earnings per share

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

	For the years ended December 31,	
	2018	2017
Basic earnings per share		
Profit attributable to ordinary shareholders	<u>\$ 1,461,381</u>	<u>1,344,731</u>
Weighted-average number of ordinary shares	<u>248,650</u>	<u>248,650</u>
	<u>\$ 5.88</u>	<u>5.41</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	<u>\$ 1,461,381</u>	<u>1,344,731</u>

(Continued)

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

	For the years ended December 31,	
	2018	2017
Weighted-average number of ordinary shares	248,650	248,650
Employee stock bonus	373	337
Weighted-average number of ordinary shares (diluted)	249,023	248,987
	\$ 5.87	5.40

(u) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the years ended December 31, 2018					
	Oncology Business Unit	Health Care Unit	Anti- Infection Business Unit	Domestic Cardiovascular and Gastrointestinal Drugs Business Unit	Other Segment	Total
Primary geographical markets:						
Taiwan	\$ 1,973,270	207,219	707,112	513,791	-	3,401,392
European countries	450,794	-	-	-	-	450,794
Other countries	133,876	27,674	577	1,855	20,028	184,010
	\$ 2,557,940	234,893	707,689	515,646	20,028	4,036,196
Major Products/services lines						
Medicine and health food	\$ 2,478,152	234,893	707,689	477,374	20,028	3,918,136
Services	66,940	-	-	38,272	-	105,212
Royalty	12,848	-	-	-	-	12,848
	\$ 2,557,940	234,893	707,689	515,646	20,028	4,036,196

For details on revenue for the year ended December 31, 2017, please refer to Note 6(v).

(ii) Contract balances

	December 31, 2018	January 1, 2018
Contract liabilities	\$ 6,405	21,552

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

The beginning balance of contract liability recognized as revenue in 2018 was \$20,292.

(Continued)

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

(v) Revenue

For the year ended December 31, 2017, the revenue of the Group are as follows:

	For the year ended December 31, 2017
Sale of goods	\$ 3,987,090
Rendering of service	18,658
License	<u>73,012</u>
	<u>\$ 4,078,760</u>

For details on revenue for the year ended December 31, 2018, please refer to Note 6(u).

(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 0.5% to 10% 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 years ended December 31, 2018 and 2017, remuneration of employees were \$23,893 and \$24,040, respectively and directors' and supervisors' remuneration amounted to \$14,950 and \$14,950, respectively. The estimated amounts mentioned above were calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period. These remunerations were recognized under operating costs or operating expenses during 2018 and 2017. If there's any difference between the amount resolved at the Board of Directors meeting and the estimated amount the Company will treat the difference as changes in accounting estimates and charged to profit or loss.

The actual distribution situation and related information can be obtained from the market observation post system.

(x) Non-operating income and expenses

(i) Other income

The details of other income for the and the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31,	
	2018	2017
Interest revenue	\$ 32,111	22,273
Rental revenue	<u>10,523</u>	<u>12,862</u>
	<u>\$ 42,634</u>	<u>35,135</u>

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2018 and 2017 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Losses on disposals of property, plant and equipment	\$ (1,113)	(1,967)
Gains on disposals of investments	495,569	222,174
Foreign exchange gains (losses)	12,635	(42,440)
Losses on financial assets measured at fair value through profit or loss	(406)	-
Reversal of impairment loss on financial assets	-	5,000
Other gains and losses	<u>23,433</u>	<u>31,673</u>
	<u>\$ 530,118</u>	<u>214,440</u>

Gains on disposals of investments please refer Note 6(h).

(iii) Finance costs

The details of finance costs were as follows:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Interest expense	\$ <u>17,287</u>	<u>25,191</u>

(y) Reclassification adjustments of components of other comprehensive income

The details of adjustments on components of other comprehensive income for the years ended December 31, 2018 and 2017 were as follows:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
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	\$ (18,578)	(642)
Disposal of share of profit of associates accounted for using equity method	<u>6</u>	<u>-</u>
Net loss recognized in other comprehensive income	<u>\$ (18,572)</u>	<u>(642)</u>

(Continued)

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

(z) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Group's maximum credit exposure. Such maximum credit exposure on December 31, 2018 and 2017, amounted to \$4,384,227 and \$4,731,461, respectively.

2) Concentration of credit risk

To minimize credit risk, the Group continually evaluates the client's financial positions and the possibility of collecting accounts receivables. Bad debt losses are always within the expectations of the administrative personnel. As of December 31, 2018 and 2017, 23% and 38%, respectively, of accounts receivable were ten major customers. Thus, credit risk is significantly centralized.

3) Credit risk of accounts receivable

The information regarding accounts receivable and credit risk exposure, please refer Note 6 (e).

Financial assets measured at amortized cost includes other receivables and time deposit. For further information, please 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. In regards to how the financial instruments are considered to have low credit risk, please refer to Note 4(g).

(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>
December 31, 2018					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 1,500,000	1,507,059	1,155,290	351,769	-
Non-interest-bearing liabilities (including related parties)	641,801	641,801	641,801	-	-
Guarantee deposits received	<u>2,445</u>	<u>2,445</u>	<u>2,445</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,144,246</u>	<u>2,151,305</u>	<u>1,799,536</u>	<u>351,769</u>	<u>-</u>

(Continued)

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</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>

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

(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:

	<u>December 31, 2018</u>			<u>December 31, 2017</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 17,808	30.72	546,973	35,646	29.76	1,060,833
CNY	4,151	4.47	18,563	4,441	4.57	20,271
JPY	67,702	0.28	17,444	59,592	0.26	15,744
EUR	1,067	35.20	37,558	2,621	35.57	93,223
<u>Nonmonetary items</u>						
USD	47,280	30.72	1,452,218	47,304	29.76	1,407,763
CNY	52,386	4.47	234,272	51,156	4.57	233,526
THB	240,499	0.95	229,244	240,536	0.92	221,293
KRW	1,498,607	0.03	41,587	-	-	-
MXN	16,011	1.60	25,618	-	-	-

2) Sensitivity analysis

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.

(Continued)

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

A 1% of appreciation of each major foreign currency against the Group's functional currency as of December 31, 2018 and 2017, would have increased or decreased the after tax net income by \$4,964 and \$9,878, respectively. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange are summarized as a single amount. For the years ended December 31, 2018 and 2017, the foreign exchange gains (loss), including both realized and unrealized, amounted to \$12,635 and \$(42,440), 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.

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 \$1,322 and \$2,142 for the years ended December 31, 2018 and 2017, respectively, assuming all other variable factors remained constant.

(v) Fair value of financial instruments

1) Categories 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):

	December 31, 2018				
	Book Value	Fair Value			Total
	Level 1	Level 2	Level 3		
Non-current financial assets at fair value through profit or loss	\$ 5,496	5,496	-	-	5,496
Equity instrument measured at fair value through other comprehensive income					
Domestic stock- listed company at Stock Exchange	\$ 195,175	195,175	-	-	195,175
Domestic stock- listed company at Taipei Exchange	176,580	176,580	-	-	176,580
Domestic stock- listed company at emerging stock market	83,081	83,081	-	-	83,081
subtotal	454,836	454,836	-	-	454,836

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 2,372,294	-	-	-	-
Notes receivable and accounts receivable (including related party)	893,222	-	-	-	-
Other receivables (including related party)	76,821	-	-	-	-
Other financial asset	541,949	-	-	-	-
Cash surrender value of life insurance	13,357	-	-	-	-
Refundable deposits paid	26,252	-	-	-	-
Subtotal	<u>3,923,895</u>	-	-	-	-
Total	<u>\$ 4,384,227</u>	<u>460,332</u>	-	-	<u>460,332</u>
Financial liabilities measured at amortized cost					
Bank loans	\$ 1,500,000	-	-	-	-
Notes payable and accounts payable (including related party)	172,764	-	-	-	-
Other payables (including related party)	469,037	-	-	-	-
Guarantee deposit received	2,445	-	-	-	-
Total	<u>\$ 2,144,246</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	28,365	-	-	-	-
Total	<u>\$ 4,731,461</u>	<u>286,586</u>	-	-	<u>286,586</u>

(Continued)

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

	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	\$ 2,861,631	-	-	-	-

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 financial instrument mentioned above is either close to its expiry date, or their future receivable or payable is close to its carrying value; thus, its fair value is estimated from the face value of the balance sheet date.

4) Valuation techniques for financial instruments measured at fair value

Non-derivative financial instruments

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 on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

(Continued)

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

Measurements of fair value of financial instruments without an active market are based on a valuation technique or quoted price from a competitor. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the reporting date.

5) Transfer between levels

There was no change in valuation techniques for financial instruments measured at fair value for the years ended December 31, 2018 and 2017, so there was no transfer between levels.

(aa) Financial risk management

(i) Overview

The Group have exposures to the following risks from its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

For more disclosures about the quantitative effects of risks mentioned above, please refer to the respective notes in the consolidated financial statements.

(ii) Structure of risk management

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

(Continued)

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

1) Accounts and other receivables

The Group established a credit policy to obtain the necessary collateral to mitigate risks arising from financial loss due to default risk. The Group will transact with corporations having credit ratings equivalent to investment grade, and such ratings are provided by independent rating agencies. Where it is not possible to obtain such information, the Group will assess the ratings based on other publicly available financial information and records of transactions with its major customers. The Group continuously monitors the exposure to credit risk and counterparty credit ratings, and establish sales limits based on credit rating for each of its approved customer. The credit limits for each counterparty are approved and reviewed annually by the Finance department.

The Group did not have any collateral or other credit enhancements to avoid credit risk of financial assets.

2) Investment

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Group's finance department. The Group only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Group does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

3) Guarantees

The Group did not provide any endorsement or guarantee as of December 31, 2018 and 2017.

(iv) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as much as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(ab) Capital management

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

(Continued)

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, and issue new shares or sell assets to reduce debts.

The Group manages capital by the debt-to-equity ratio. Such ratio is calculated as net liabilities divided by total capital. Net liabilities represent the total amount of liabilities on the balance sheet minus cash and cash equivalents. The total amount of capital represents all the equity components (share capital, capital surplus, retained earnings, and other equity) plus net liabilities.

The Group monitors capital by regularly reviewing the asset-to-liability ratio. "Total equity" on the balance sheet represents the Group's capital, which also represents total assets less total liabilities.

The Group's debt-to-equity ratios at the balance sheet date were as follows:

	December 31, 2018	December 31, 2017
Total liabilities	\$ 2,661,510	3,395,430
Less: Cash and cash equivalents	<u>(2,372,294)</u>	<u>(1,441,374)</u>
Net debt	289,216	1,954,056
Total equity	<u>6,391,625</u>	<u>6,111,637</u>
Adjusted capital	<u>\$ 6,680,841</u>	<u>8,065,693</u>
Debt-to-equity ratio	<u>4.33 %</u>	<u>24.23 %</u>

(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

(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 years ended December 31,	
	2018	2017
Associates	<u>\$ 64,547</u>	<u>67,913</u>

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

(Continued)

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

(ii) Purchases

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

	For the years ended December 31,	
	2018	2017
Associates	\$ 20,807	21,394

The payment terms for purchases from related parties were Open Accounts 30~90days. The pricing and payment terms with related parties were not materially different from those with third parties.

(iii) Rent revenue

The Group's rent revenue for related party are as follows:

Recognized item	Category	For the years ended December 31,	
		2018	2017
Rental revenue	Associate—Chuang Yi Biotech Co., Ltd.	\$ 3,137	3,137

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

(iv) Other income

The Group's other income for related party are as followed:

Recognized item	Category	For the years ended December 31,	
		2018	2017
Other income	Associate-American Taiwan Biopharm (Thailand)	\$ 11,765	13,242
	Associate	101	329
		\$ 11,866	13,571

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	December 31,	December 31,
		2018	2017
Notes receivable	Associates	\$ 34	26
Accounts receivable	Associates	\$ 16,156	8,973
Other receivables	Associate-American Taiwan Biopharm (Thailand)	\$ 12,241	7,929
	Associates	393	377
		\$ 12,634	8,306

(Continued)

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

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Note payable	Associate-Chuang Yi Biotech Co., Ltd.	\$ <u>-</u>	<u>22,464</u>
Accounts payable	Associate-Chuang Yi Biotech Co., Ltd.	\$ <u>14,382</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

Key management personnel compensation include:

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 105,439	90,144
Post-employment benefits	1,196	1,218
	<u>\$ 106,635</u>	<u>91,362</u>

(8) Pledged assets:

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

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Other financial asset-non-current	Guarantee for provision attachment	\$ <u>139,380</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 \$43,293 and \$41,352 for the years ended December 31, 2018 and 2017, respectively.
- (b) Due to the purchase of equipment, construction engineering, and entrusted research, the total price of unfinished contracts amounted to \$619,601, and \$617,623, and the unpaid amount was \$188,431, and \$261,250 as of December 31, 2018 and 2017, respectively.
- (c) As of December 31, 2018 and 2017, the financial institutions provide guarantee for the sale of medicine amounted to \$49,679, and \$57,189, 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

(Continued)

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

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 Exchange Act because of the dispute of contract relevant with Risperidone entered into by and between the Group 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 Group, Center Laboratories, Inc. initiated an action for a declaratory judgment confirming the contractual relation against the Group in Taipei District Court on July 1, 2016. Taipei District Court rendered the judgment on March 1, 2018, confirming the contractual relation valid. The Group is not satisfied with the judgment which did not consider the facts and evidence comprehensively and the Group 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 years ended December 31,					
	2018			2017		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 206,134	568,502	774,636	211,569	513,536	725,105
Health and labor insurance	16,362	35,626	51,988	16,607	33,322	49,929
Pension	8,666	19,646	28,312	8,688	18,718	27,406
Others	14,239	69,331	83,570	12,203	67,060	79,263
Depreciation expense	100,343	27,033	127,376	103,482	29,764	133,246
Amortization expense	322	17,858	18,180	347	7,796	8,143

(Continued)

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

(b) Others

- (i) The Group donated \$52,354 and \$48,406 to related medical foundations and associations to support non-profit organizations developing drugs and promoting disease prevention and correct dosage for the years ended December 31, 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 January 31, 2017.

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(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	52,216 USD 1,700	52,216 USD 1,700	0.5%	2		-	-	-	234,270 CNY 52,386	234,270 CNY 52,386	
1	Worldco International Co., Ltd.	The Company	Receivables from related parties	Yes	76,788 USD 2,500	76,788 2,500	-	2	Operating capital	-	-	-	93,706 CNY 20,954	93,706 CNY 20,954	
2	Xudong Haiyu International Co., Ltd.	The Company	Receivables from related parties	Yes	522,155 USD 17,000	522,155 USD 17,000	-	2	Operating capital	-	-	-	569,088 USD 18,528	569,088 USD 18,528	

The exchange rate of USD to NTD as of the reporting date is 1:30.715, and the average exchange rate of USD to NTD as of the reporting period is 1:30.109.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The exchange rate of CNY to NTD as of the reporting date is 1:4.472, and the average exchange rate of CNY to NTD as of the reporting period is 1:4.553.

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 December 31, 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

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Securities held as of December 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance			Highest Percentage of ownership (%)	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	48,720	1.37 %	48,720	1.68 %
TSH Biopharm Co., Ltd.	Lumosa Therapeutics Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income—current	4,199	127,860	3.61 %	127,860	4.40 %
"	Cathay Financial Holding Co., Ltd.	-	"	100	4,700	- %	4,700	- %
"	Handa Pharmaceuticals Inc.	-	Financial assets measured at fair value through other comprehensive income—non current	2,625	83,081	2.51 %	83,081	2.51 %
"	Fubon Financial Holding Co., Ltd.	-	"	300	14,115	- %	14,115	- %
"	Fubon Financial Holding Co., Ltd. Preferred Shares B	-	"	2,500	155,000	0.38 %	155,000	0.38 %
"	Union Bank of Taiwan Preferred Shares A	-	"	400	21,360	0.20 %	21,360	0.20 %
"	Fubon S&P US Preferred Stock ETFS	-	Financial assets measured at fair value through profit and loss non current	300	5,496	- %	5,496	- %

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

- (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	Price (Note 1)	Cost	Gain (loss) on disposal	Shares	Amount (Note 2)
The Company	PharmaEngine, Inc.	Investments at equity	-	-	26,809	712,642	-	-	562,183	103,199	495,569	22,867	573,462

Note 1): Disposal price related was deducted by trading tax and commission fees.

Note 2): Including the adjustment of investment income and other equity

- (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:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details		Transactions with terms different from others		Notes/Accounts receivable (payable)				
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	Note
The Company	TSH Biopharm Co., Ltd.	Subsidiary	Sale	107,589	3.03 %	30 days	-	-	13,663	1.73%	

- (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

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(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.(HK)		Royalty revenue	74,786	By contract	1.85%
0	"	TSH Biopharm Co., Ltd.		Sale revenue	107,589	"	2.67%
0	"	"		Other receivable	1,780	"	0.02%
0	"	"		Rent revenue	4,167	"	0.10%
0	"	"		Other revenue	5,393	"	0.15%
0	"	"		Account receivable	13,663	"	0.15%
0	"	American Taiwan Biopharma Philippines		Account receivable	2,284	"	0.03%
0	"	"		Other receivable	9,758	"	0.11%
0	"	"		Sales Revenue	6,500	"	0.16%
1	Worldco International Co., Ltd.(HK)	Worldco Biotech Pharmaceutical Ltd. (Beijing)		Other receivable	52,216	"	0.58%
1	"	"		Other receivable	9,061	"	0.10%
1	"	"		Other receivables	56,935	"	0.63%

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.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Information on investees:

The following is the information on investees for the year ended December 31, 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 December 31, 2018		Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership				
The Company	Xudong Haijiao International Co., Ltd.	Cayman Is.	Investing activities	303,998	303,998	25,000	100.00 %	1,411,196	2,504	2,504	Subsidiary
"	Worldco International Co., Ltd.(HK)	Hong Kong	Selling chemical medicine	158,254	158,254	39,600	100.00 %	234,272	5,585	5,585	Subsidiary
"	American Taiwan Biopharma Pfls Inc.	Philippines	Selling chemical medicine	32,904	32,904	481	87.00 %	(4,148)	107	93	Subsidiary
"	TSH Biopharm Co., Ltd.	Taiwan	Selling chemical medicine	227,449	227,449	21,687	56.48 %	631,435	57,784	32,772	Subsidiary
"	Enhance Biopharm Inc.	Taiwan	Developing chemical medicine	50,000	50,000	5,000	20.83 %	41,748	(34,462)	(10,144)	Subsidiary
"	PharmaEngine, Inc.	Taiwan	Developing chemical medicine	299,098	350,659	22,867	15.52 %	573,462	129,362	20,504	Investments accounted for using equity method
"	American Taiwan Biopharm(Thailand)	Thailand	Selling chemical medicine	2,966	2,966	380	40.00 %	229,244	45,077	18,031	Investments accounted for using equity method
"	Gigigo International Limited(HK)	Hong Kong	Selling chemical medicine	2,685	2,685	620	40.00 %	41,022	37,964	15,186	Investments accounted for using equity method
"	Chuang Yi Biotech Co., Ltd.	Taiwan	Selling functional food	82,059	82,059	6,326	27.54 %	58,091	(2,885)	(795)	Investments accounted for using equity method
Xudong Haijiao International Co., Ltd	Enhance Biopharm, Inc	Taiwan	Developing chemical medicine	70,000	-	7,000	29.17 %	58,464	(34,462)	36	Subsidiary
"	TTY Biopharm Korea Co., Ltd.	Korea	Selling chemical medicine	43,834	-	318	100.00 %	41,587	(2,081)	(2,081)	Subsidiary
"	TTY Biopharm Mexico S.A. de C.V.	Mexico	Selling chemical medicine	13,822	-	8,750	50.00 %	12,809	(2,418)	(1,209)	Subsidiary
Worldco International Co., Ltd.(HK)	TTY Biopharm Mexico S.A. de C.V.	Mexico	Selling chemical medicine	13,822	-	8,750	50.00 %	12,809	(2,418)	(1,209)	Subsidiary

(Continued)

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
NTD 423,982	NTD 1,435,251 (USD 46,728)	NTD 3,482,420

(iii) Significant transactions: None

TTY BIOPHARM COMPANY LIMITED AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(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 December 31, 2018	Net income (losses) of the investee	Percentage of ownership	of ownership	Investment income (losses) (Note 2)	Book value	Accumulated remittances of earnings in current period
					Outflow	Inflow							
Worldco Biotech Pharmaceutical Ltd. (Beijing)	Marketing consulting regarding chemical medicine	USD 313,293	(2)	323,433	-	-	323,433	CNY (3,397) (746)	100 %	100 %	CNY (3,397) (746)	(69,557) (15,554)	-
Worldco Biotech Pharmaceutical Ltd. (Chengde)	Selling chemical medicine	CNY 53,217	(2)	90,021	-	-	90,021	CNY (319) (70)	100 %	100 %	CNY (319) (70)	48,852 10,924	-

The exchange rate of USD to NTD as of the reporting date is 1:30.715, and the average exchange rate of USD to NTD as of the reporting period is 1:30.109.

The exchange rate of CNY to NTD as of the reporting date is 1:4.472, and the average exchange rate of CNY to NTD as of the reporting period is 1:4.554.

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) was audited by the parent company's auditors in Taiwan.

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.

(Continued)

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

(14) Segment information:

(a) General information

The Group's operating segments required to be disclosed are categorized as Oncology Business Unit, Health Care Unit, Anti-Infection Business Unit, Domestic Cardiovascular and Gastrointestinal Drugs Business Unit, China Medicine Business Unit, etc. The Group has other operating segments that are below the quantitative criteria located in the Philippines.

The segments' profit is measured at profit before tax. The Group assesses performance of the segments based on the segments' profit. The operating segments' accounting policies are similar to those described in Note 4 "significant accounting policies".

(b) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

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

<u>For the year ended December 31, 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	\$ 2,557,940	234,893	707,689	515,646	-	20,028	-	4,036,196
Intersegment revenues	188,977	-	-	-	-	-	(188,977)	-
Interest revenue	2,406	-	-	3,190	808	25,707	-	32,111
Total revenue	\$ 2,749,323	234,893	707,689	518,836	808	45,735	(188,977)	4,068,307
Interest expense	\$ 17,202	-	-	-	-	85	-	17,287
Depreciation and amortization	128,853	125	300	5,627	752	9,899	-	145,556
Share of profit of associates and joint ventures accounted for using equity method	19,709	33,217	-	-	-	-	-	52,926
Reportable segment profit or loss	\$ 1,369,856	60,628	235,259	65,907	7,654	(41,845)	(29,391)	1,668,068
Assets:								
Investments accounted for using equity method	\$ 631,382	270,266	-	-	-	-	-	901,648
Reportable segment assets	\$ 7,823,178	230,600	310,827	1,220,321	240,783	1,657,841	(2,430,415)	9,053,135
For the year ended December 31, 2017								
Revenue:								
Revenue from external customers	\$ 2,552,343	223,796	803,702	486,277	-	12,642	-	4,078,760
Intersegment revenues	159,790	-	-	-	-	-	(159,790)	-
Interest revenue	3,328	80	-	3,913	14,944	8	-	22,273
Total revenue	\$ 2,715,461	223,876	803,702	490,190	14,944	12,650	(159,790)	4,101,033
Interest expense	\$ 25,191	-	-	-	-	-	-	25,191
Depreciation and amortization	134,109	237	362	5,922	734	25	-	141,389
Share of profit of associates and joint ventures accounted for using equity method	68,883	44,810	-	-	-	-	-	113,693
Reportable segment profit or loss	\$ 1,230,316	59,064	264,346	74,142	(1,653)	(13,459)	(17,689)	1,595,067
Assets:								
Investments accounted for using equity method	\$ 771,239	252,781	-	-	-	-	-	1,024,020
Reportable segment assets	\$ 8,269,994	235,597	256,752	1,281,703	1,648,403	177,621	(2,363,003)	9,507,067

(Continued)

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

(c) Information of product and service

The Group's information about revenue from external customers was as follows:

<u>Product and Service</u>	<u>2017</u>
Medical and functional food	\$ 3,987,090
Service revenue	<u>91,670</u>
Total	<u>\$ 4,078,760</u>

The Group's revenue for the year 2018, please refer to Note 6 (u).

(d) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

<u>Region</u>	<u>2017</u>	
External sales :		
Taiwan	\$	3,172,350
Others country		<u>906,410</u>
Total	\$	<u>4,078,760</u>
	<u>2018</u>	<u>2017</u>
Non current asset		
Taiwan	\$ 2,716,738	2,781,209
Mainland of China	25,044	26,319
Other Country	<u>139</u>	<u>69</u>
	<u>\$ 2,741,921</u>	<u>2,807,597</u>

The Group's revenue for the year 2018, please refer to Note 6 (u).

(e) Major customer

The Group's information about the major customer for the years ended December 31, 2018 and 2017 are as follows:

<u>Customer</u>	<u>2018</u>	<u>2017</u>
Company A	<u>\$ 377,517</u>	<u>639,576</u>