

**TTY BIOPHARM COMPANY LIMITED****Financial Statements**

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

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

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## Independent Auditors' Report

To the Board of Directors of TTY Biopharm Company Limited:

### Opinion

We have audited the accompanying financial statements of TTY Biopharm Company Limited (“the Company”), which comprise the balance sheets as of December 31, 2018 and 2017, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the 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 financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its 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”.

### 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 Financial Statements section of our report. We are independent of the Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 financial statements are stated as follows:

#### 1. Revenue recognition

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

Key audit matters:

The Company's operating revenue was \$3,555,620 thousand in 2018, 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(g), 5 and 6(e) of the 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 Company'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 Company'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 the 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 6.85% and 8.13% of the related total assets as of December 31, 2018 and 2017, respectively, and the related investment gains represented 1.23% and 4.39% of the profit before tax for the years ended December 31, 2018 and 2017, respectively.



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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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 financial statements are intended only to present the 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 financial statements are those generally accepted and applied in the Republic of China.

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(English Translation of Financial Statements Originally Issued in Chinese)  
**TTY BIOPHARM COMPANY LIMITED**

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	%	
<b>Assets</b>									
<b>Current assets:</b>									
1100 Cash and cash equivalents (note 6(a) and (v))	\$ 505,615	6	759,043	9	2100	Short-term borrowings (note 6(i) and (u))	\$ 1,150,000	14	
1150 Notes receivable, net (note 6(d) and (u))	20,174	-	47,640	1	2130	Contract liabilities-current (note 6(q) and 7)	5,337	-	
1170 Accounts receivable, net (note 6(d) and (u))	736,126	9	802,985	9	2150	Notes payable (note 6(u))	2,397	-	
1180 Accounts receivable due from related parties, net (note 6(d), (u) and 7)	32,103	-	52,641	1	2170	Accounts payable (note 6(u))	139,940	2	
1200 Other receivables, net (note 6(u) and 7)	81,401	1	82,383	1	2230	Current tax liabilities	129,544	2	
130X Inventories (note 6 (e))	703,133	8	625,503	7	2200	Other payables (note 6(u))	412,992	5	
1410 Prepayments	22,758	-	14,412	-	2300	Other current liabilities	30,082	1	
1476 Other current financial assets (note 6(a) and (v))	17,888	-	-	-	2320	Long-term liabilities, current portion (note 6(u))	-	-	
1470 Other current assets	<u>3,521</u>	-	<u>1,461</u>	-			<u>1,870,292</u>	<u>23</u>	
	<u>2,122,789</u>	<u>24</u>	<u>2,386,068</u>	<u>28</u>				<u>2,652,362</u>	<u>30</u>
<b>Non-current assets:</b>									
1517 Non-current financial assets at fair value through other comprehensive income (note 6(t) and (u))	48,720	1	-	-	2540	Long-term borrowings (note 6(t) and (u))	350,000	4	
1523 Non-current available-for-sale financial assets, net (note 6(c) and (u))	-	-	47,200	1	2570	Deferred tax liabilities (note 6(t))	278,700	3	
1550 Investments accounted for using equity method, net (note 6(f))	3,220,470	39	3,327,751	37	2640	Net defined benefit liability, non-current (note 6(m))	58,459	1	
1600 Property, plant and equipment (note 6(g))	2,438,554	30	2,513,641	29	2645	Guarantee deposits received (note 6(u) and 7)	3,119	-	
1760 Investment property, net (note (h))	77,289	1	77,644	1	2650	Credit balance of investments accounted for using equity method (note 6(f))	4,148	-	
1780 Intangible assets (note 6(f))	32,472	-	9,189	-			<u>694,426</u>	<u>8</u>	
1840 Deferred tax assets (note 6(n))	22,083	-	25,324	-			<u>2,564,718</u>	<u>31</u>	
1915 Prepayments for business facilities	184,243	2	165,320	2				<u>3,269,903</u>	<u>36</u>
1920 Refundable deposits paid (note 6(u))	22,322	-	22,939	-					
1981 Cash surrender value of life insurance (note 6(u))	13,357	-	7,275	-					
1984 Other non-current financial assets (note 6(a), (u) and 8)	143,086	2	124,007	1					
1990 Other non-current assets	<u>43,366</u>	<u>1</u>	<u>60,321</u>	<u>1</u>					
	<u>6,245,962</u>	<u>76</u>	<u>6,380,611</u>	<u>72</u>					
<b>Total assets</b>	<u>\$ 8,368,751</u>	<u>100</u>	<u>\$ 8,766,679</u>	<u>100</u>					
<b>Liabilities and Equity</b>									
<b>Current liabilities:</b>									
2540 Long-term borrowings (note 6(t) and (u))					2540	Long-term borrowings (note 6(t) and (u))	350,000	4	
2570 Deferred tax liabilities (note 6(t))					2570	Deferred tax liabilities (note 6(t))	278,700	3	
2640 Net defined benefit liability, non-current (note 6(m))					2640	Net defined benefit liability, non-current (note 6(m))	58,459	1	
2645 Guarantee deposits received (note 6(u) and 7)					2645	Guarantee deposits received (note 6(u) and 7)	3,119	-	
2650 Credit balance of investments accounted for using equity method (note 6(f))					2650	Credit balance of investments accounted for using equity method (note 6(f))	4,148	-	
							<u>694,426</u>	<u>8</u>	
<b>Equity (note 6(o)):</b>							<u>2,564,718</u>	<u>31</u>	
Capital stock					3100	Capital stock	2,486,500	30	
Capital surplus					3200	Capital surplus	348,819	4	
Legal reserve					3310	Legal reserve	857,418	10	
Special reserve					3320	Special reserve	110,154	1	
Unappropriated retained earnings					3350	Unappropriated retained earnings	1,954,321	23	
Other equity interest					3400	Other equity interest	46,821	1	
							<u>5,804,033</u>	<u>69</u>	
<b>Total equity</b>							<u>8,368,751</u>	<u>100</u>	
<b>Total liabilities and equity</b>							<u>\$ 8,368,751</u>	<u>100</u>	



(English Translation of Financial Statements Originally Issued in Chinese)  
**TTY BIOPHARM COMPANY LIMITED**

**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 <b>Operating revenue (note 6(q), (r) and 7)</b>	\$ 3,555,620	100	3,672,040	100
5000 <b>Operating costs (note 6(e) and 7)</b>	<u>1,246,982</u>	<u>35</u>	<u>1,321,777</u>	<u>36</u>
<b>Gross profit</b>	2,308,638	65	2,350,263	64
5910 Less: Unrealized profit (loss) from sales	10,400	-	10,004	-
5920 Add: Realized profit (loss) from sales	<u>10,004</u>	<u>-</u>	<u>7,550</u>	<u>-</u>
<b>Gross profit, net</b>	<u>2,308,242</u>	<u>65</u>	<u>2,347,809</u>	<u>64</u>
6000 <b>Operating expenses (note 6(m) and 12):</b>				
6100 Selling expenses	760,967	21	689,514	19
6200 Administrative expenses	260,029	7	226,955	6
6300 Research and development expenses	<u>230,595</u>	<u>6</u>	<u>219,126</u>	<u>6</u>
	<u>1,251,591</u>	<u>34</u>	<u>1,135,595</u>	<u>31</u>
<b>Net operating income</b>	<u>1,056,651</u>	<u>31</u>	<u>1,212,214</u>	<u>33</u>
<b>Non-operating income and losses (note 6(t) and 7):</b>				
7010 Other income	16,645	-	20,058	1
7020 Other gains and losses, net	527,982	15	225,646	6
7050 Finance costs, net	(17,202)	-	(25,191)	(1)
7070 Share of profit of subsidiaries and associates accounted for using equity method (note 6(f))	<u>83,736</u>	<u>2</u>	<u>130,971</u>	<u>4</u>
	<u>611,161</u>	<u>17</u>	<u>351,484</u>	<u>10</u>
<b>Profit before tax</b>	<u>1,667,812</u>	<u>48</u>	<u>1,563,698</u>	<u>43</u>
7950 Less: Income tax expense (note 6(n))	<u>206,431</u>	<u>6</u>	<u>218,967</u>	<u>6</u>
<b>Profit for the year</b>	<u>1,461,381</u>	<u>42</u>	<u>1,344,731</u>	<u>37</u>
8300 <b>Other comprehensive income:</b>				
8310 <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>				
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	1,520	-	-	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(2,582)</u>	<u>-</u>	<u>(9,701)</u>	<u>-</u>
8360 <b>Components of other comprehensive income that may be reclassified to profit or loss</b>				
8361 Exchange differences on translation	49,343	1	(117,339)	(3)
8362 Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	(23,600)	(1)
8380 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	<u>(20,203)</u>	<u>(1)</u>	<u>(141,661)</u>	<u>(4)</u>
8399 Income tax related to components of other comprehensive income that may be reclassified to profit or loss	<u>(6,252)</u>	<u>-</u>	<u>19,943</u>	<u>1</u>
Components of other comprehensive income that may be reclassified to profit or loss	<u>22,888</u>	<u>-</u>	<u>(262,657)</u>	<u>(7)</u>
8300 <b>Other comprehensive income for the year, net of tax</b>	<u>20,306</u>	<u>-</u>	<u>(272,358)</u>	<u>(7)</u>
<b>Total comprehensive income for the year</b>	<u>\$ 1,481,687</u>	<u>42</u>	<u>1,072,373</u>	<u>30</u>
<b>Earnings per share, net of tax (note 6(p))</b>				
Basic earnings per share	<u>\$ 5.88</u>		<u>5.41</u>	
Diluted earnings per share	<u>\$ 5.87</u>		<u>5.40</u>	

See accompanying notes to financial statements.



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

Statements of Changes in Equity

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

Share capital	Retained earnings					Total other equity interest			Total equity
	Ordinary shares	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	
\$ 2,486,500	405,368	603,613	110,154	1,487,805	(2,362)	287,450	285,088	5,378,528	
-	-	-	1,344,731	(9,701)	(97,372)	(165,285)	(262,657)	1,344,731	
-	-	-	1,335,030	(97,372)	(165,285)	(262,657)	(262,657)	(272,358)	
-	-	119,332	(119,332)	(944,870)	-	-	-	(944,870)	
-	5,070	-	-	-	-	-	-	5,070	
-	(14,325)	-	-	-	-	-	-	(14,325)	
2,486,500	396,113	722,945	110,154	1,758,633	(99,734)	122,165	22,431	5,496,776	
-	-	-	-	(43)	(99,734)	(122,167)	2	(41)	
2,486,500	396,113	722,945	110,154	1,758,590	(99,734)	122,167	22,433	5,496,735	
-	-	-	-	1,461,381	-	-	-	1,461,381	
-	-	-	-	(4,102)	43,040	(18,632)	24,408	20,306	
-	-	-	-	1,457,279	43,040	(18,632)	24,408	1,481,687	
-	-	134,473	-	(134,473)	-	-	-	-	
-	-	-	-	(1,118,925)	-	-	-	(1,118,925)	
-	(10,703)	-	-	-	-	-	-	(10,703)	
-	(36,591)	-	-	-	-	-	-	(36,591)	
-	-	-	-	(8,170)	-	-	-	(8,170)	
-	-	-	-	20	-	(20)	-	-	
\$ 2,486,500	348,819	857,418	110,154	1,954,321	(56,694)	103,515	46,821	5,804,033	

Balance on January 1, 2017

Profit for the year ended December 31, 2017

Other comprehensive income for the year ended December 31, 2017

Comprehensive income for the year ended December 31, 2017

Appropriation and distribution of retained earnings:

Legal reserve

Cash dividends of ordinary share

Other changes in capital surplus:

Changes in equity of associates accounted for using equity method

Disposal of subsidiaries or investments accounted for using equity method

Balance on December 31, 2017

Effects of retrospective application

Equity at beginning of period after adjustments

Profit for the year ended December 31, 2018

Other comprehensive income for the year ended December 31, 2018

Comprehensive income for the year ended December 31, 2018

Appropriation and distribution of retained earnings:

Legal reserve

Cash dividends of ordinary share

Other changes in capital surplus:

Changes in equity of associates accounted for using equity method

Disposal of subsidiaries or investments accounted for using equity method

Changes in ownership interests in subsidiaries

Disposal of investments in equity instruments designated at fair value through other comprehensive income

Balance on December 31, 2018

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)  
**TTY BIOPHARM COMPANY LIMITED**

**Statements of Cash Flows**

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 1,667,812	1,563,698
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	123,488	129,261
Amortization expense	5,790	5,447
Interest expense	17,202	25,191
Interest income	(2,406)	(3,408)
Share of profit of subsidiaries and associates accounted for using equity method	(83,736)	(130,971)
Loss on disposal of property, plant and equipment	1,100	1,938
Allocation of deferred income	(988)	(1,010)
Gain on disposal of investments accounted for using equity method	(495,569)	(222,174)
Decrease in current provisions	-	(3,805)
Unrealized profit (loss) from sales	10,400	10,004
Realized loss (profit) from sales	(10,004)	(7,550)
<b>Total adjustments to reconcile profit (loss)</b>	<u>(434,723)</u>	<u>(197,077)</u>
<b>Changes in operating assets and liabilities:</b>		
Notes receivable	27,466	(15,352)
Accounts receivable	87,397	(140,627)
Other receivable	(28,464)	(8,834)
Inventories	(77,630)	(100,497)
Other current assets	(10,476)	13,543
<b>Total changes in operating assets</b>	<u>(1,707)</u>	<u>(251,767)</u>
Current contract liabilities	(16,215)	-
Notes payable	(34,485)	20,783
Accounts payable	81,385	646
Other payable	(19,577)	18,395
Other current liabilities	3,585	2,027
Net defined benefit liability	47	(12)
<b>Total changes in operating liabilities</b>	<u>14,740</u>	<u>41,839</u>
<b>Total changes in operating assets and liabilities</b>	<u>13,033</u>	<u>(209,928)</u>
<b>Total adjustments</b>	<u>(421,690)</u>	<u>(407,005)</u>
Cash inflow generated from operations	1,246,122	1,156,693
Interest received	2,406	3,408
Dividends received	98,442	133,732
Interest paid	(17,342)	(25,074)
Income taxes paid	(225,965)	(271,775)
<b>Net cash flows from operating activities</b>	<u>1,103,663</u>	<u>996,984</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of investments accounted for using equity method	-	(50,000)
Proceeds from disposal of investments accounted for using equity method	591,629	213,714
Acquisition of property, plant and equipment	(41,512)	(83,027)
Proceeds from disposal of property, plant and equipment	118	114
Decrease (increase) in refundable deposits	617	(2,994)
Acquisition of intangible assets	(12,117)	(700)
Decrease (increase) in other financial assets	(36,967)	7,390
Increase in prepayments for business facilities	(26,211)	(10,922)
Increase in other non-current assets	(6,083)	(49,962)
<b>Net cash flows from investing activities</b>	<u>469,474</u>	<u>23,613</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	6,257,500	8,719,000
Decrease in short-term loans	(6,757,500)	(8,318,010)
Proceeds from long-term loans	300,000	250,000
Repayments of long-term loans	(500,000)	(530,000)
(Decrease) increase in guarantee deposits received	(7,640)	152
Cash dividends paid	(1,118,925)	(944,870)
<b>Net cash flows used in financing activities</b>	<u>(1,826,565)</u>	<u>(823,728)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(253,428)</u>	<u>196,869</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>759,043</u>	<u>562,174</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 505,615</u>	<u>759,043</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)  
**TTY BIOPHARM COMPANY LIMITED**

**Notes to the 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 activity of the Company is producing a variety of pharmaceuticals and chemical drugs. Please refer to Note 14.

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

The 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**  
**Notes to the Financial Statements**

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

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Company applies this standard retrospectively with the cumulative effect, it doesn't need to restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related interpretations for comparative reporting period. The Company 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 Company 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 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 financial statements

No significant adjustments were made for the above accounting policies.

(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 Company 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 Company 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**  
**Notes to the Financial Statements**

The detail of new significant accounting policies and the effects of adopting IFRS 9 are outlined below:

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 Company under IFRS 9, please see note 4(f).

The adoption of IFRS 9 did not have any a 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 fair value through other comprehensive income, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see Note 4(f).

3) Transition

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

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on its asset will not increase significantly since its initial recognition.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the 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 Company's financial assets as of January 1, 2018.

	IAS39		IFRS9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
<b>Financial Assets</b>				
Cash and equivalents	Loans and receivables	\$ 759,043	Amortized cost	759,043
Equity instruments	Available-for-sale (Note 1)	47,200	FVOCI	47,200
Account receivable	Loans and receivables (Note 2)	985,649	Amortized cost	985,649
Other financial assets (including guarantee deposits paid and cash surrender value of life insurance)	Loans and receivables	154,221	Amortized cost	154,221

Note1: These equity securities represent investments that the Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI.

Note2: Notes and accounts receivable and other receivables that were classified as loans and receivables under IAS 39 are classified as amortized cost now.

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 other comprehensive income						
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 47,200	(47,200)	-		-	-
Subtractions -- equity instruments:						
To FVOCI -- required reclassification based on classification criteria	-	47,200	-		-	-
Total	\$ 47,200	-	-	47,200	-	-

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its 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.

1) Determining whether an arrangement contains a lease

The Company 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 Company can choose to apply either of the following:

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

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

2) Transition

As a lessee, the Company 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 Company 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 Company 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 Company will have to recognize the right-of-use assets and liabilities for the operating leases of its offices. The Company estimated that both the right-of-use assets and the lease liabilities will be increased by \$7,737 on January 1, 2019. No significant impact is expected for the Company's finance leases. Besides, The Company 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.

(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

(Continued)



**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

Those which may be relevant to the Company 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 Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

**(4) Summary of significant accounting policies:**

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

(a) Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial assets measured at fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value;
- 2) The net defined benefit liability is recognized as the fair value of plan assets less the present value of the defined benefit obligation with reference to Note 4(r).

(Continued)

**TTY BIOPHARM COMPANY LIMITED****Notes to the Financial Statements****(ii) Functional and presentation currency**

The functional currency of the Company is determined based on the primary economic environment in which the entities operates. The 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) Foreign currencies****(i) Foreign currencies transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Company at the exchange rates at the dates of the 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 payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

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 that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated New Taiwan Dollars at exchange rates of 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 Company disposes of only part 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 Company 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.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

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

An asset is classified as current under one of the following criteria, and 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
- (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, and all other liabilities are classified as non-current:

- (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.

(e) 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.

(f) Financial instruments

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

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

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

1) Financial assets measured at amortized cost

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

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

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

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

3) Impairment of financial assets

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

The Company 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.

(Continued)



**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

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 Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company 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 Company's historical experience and informed credit assessment as well as forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if the contract payment is overdue. And the Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company 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 Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company 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 issues;
- 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;
- it is probable that the borrower will enter bankruptcy, or the financial reorganization;  
or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The Company 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 Company 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 Company's procedures for recovery of amounts due.

(Continued)

**TTY BIOPHARM COMPANY LIMITED****Notes to the Financial Statements**

## 4) Derecognition of financial assets

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

## (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 Company'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.

## 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.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the 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 includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company 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.

Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company 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

### Notes to the 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.

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

The Company separates the part that continues to be recognized and the part that is derecognized based on 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.

#### (iii) Financial liabilities and equity instruments

##### 1) Financial liabilities and equity instruments

###### a) Classification of debt or equity

Debt or equity instruments issued by the Company 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 is 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****Notes to the Financial Statements****b) Other financial liabilities**

Financial liabilities are not classified as held for trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, 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.

**c) Derecognition of financial liabilities**

The Company 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 other gain or losses of non-operating income or expenses.

**d) Offsetting of financial assets and liabilities**

The Company presents its financial assets and liabilities on a net basis when the Company has the legally enforceable right 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.

**(g) 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.

**(h) Investment in associates**

Associates are those entities in which the Company 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 financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align their accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. The Company 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.

(Continued)

## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

Unrealized profits resulting from the transactions between the Company and an associate are eliminated to the extent of the Company'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 Company's share of losses exceeds its interest 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 that the Company has an obligation or has made payments on behalf of the associate.

(i) Subsidiaries

The subsidiaries in which the Company holds a controlling interest are accounted for under the equity method in the non-consolidated financial statements. Under the equity method, the net income, other comprehensive income, and equity in the non-consolidated financial statements are the same as those attributable to the owners of the parent in the consolidated financial statements.

Changes in ownership of the subsidiaries are recognized as equity transactions.

(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.

(Continued)



**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

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 same as those of another significant part of that same item.

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 Company. 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 on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimate 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. The depreciation charge for each period shall be recognized in profit or loss.

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 and 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 systems, etc. They are amortized over their useful lives 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 the previous estimate, the changes are accounted for as a changes in accounting estimate.

(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.

(Continued)

**TTY BIOPHARM COMPANY LIMITED****Notes to the 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 Company 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 Company's 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 Company shall evaluate an arrangement at inception. If the fulfillment of the arrangement is dependent on the use of a specific asset or the shift of the use of an asset, such an arrangement is or contains a lease. The Company 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.

If an arrangement contains both a lease and other elements, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payment reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made, and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

If, on the other hand, the Company concludes for an operating lease that it is impractical to separate the payment reliably, then it treats all payments under the arrangement as lease payments, and discloses the situation accordingly.

(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 Company 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**

**Notes to the 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) | Patent and franchise   | 10 years   |
| 2) | Computer software cost | 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 annually at each fiscal year end. Any changes shall be accounted for as a change in accounting estimates.

(n) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from inventories, 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 Company will have to determine the recoverable amount for the asset's cash generating unit (CGU).

The recoverable amount for an individual asset or a cash-generating unit 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. Such is deemed as an impairment loss, which shall be recognized immediately in profit or loss.

The Company assesses at the end of each reporting period 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 any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In that case, the carrying amount of the asset shall be increased to its recoverable amount by reversing an impairment loss.

(o) Cash surrender value of life insurance

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

(p) Provisions

A provision is recognized if, as a result of a past event, the Company 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) Revenue recognition

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

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company 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 Company's main types of revenue are explained below.

1) Sale of goods

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

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

2) Authorization revenue

Authorization revenue gains from medicine developing and selling. The Company 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.

(Continued)

**TTY BIOPHARM COMPANY LIMITED****Notes to the Financial Statements**

## 3) Financing components

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

## (ii) Revenue (policy applicable before January 1, 2018)

## 1) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns, trade discounts, and 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 discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

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

## 2) Service

The Company provides consulting and management services for 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 surveys of work performed.

## 3) Commissions

When the Company plays the role of an agent rather than a principal in a transaction, the revenue recognized is the net amount of commission made by the Company.

## 4) Lease revenue

Lease revenue which arises from investment property is recognized on a straight-line basis over the lease term. Lease incentives are considered to be a part of the whole lease revenue and treated as a reduction of lease revenue on a straight-line basis over the lease term. The income from subleasing is recognized as lease revenue, under "non-operating income and expenses".

(Continued)



**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

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

1) Incremental costs of obtaining a contract

The Company recognizes as an asset the incremental costs of obtaining a contract with a customer if the Company expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Company 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.

The Company 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 Company 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 Company can specifically identify;
- (ii) the costs generate or enhance resources of the Company 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 Company cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Company 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.

(Continued)

**TTY BIOPHARM COMPANY LIMITED****Notes to the Financial Statements****(ii) Defined benefit plan**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company'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; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on (market yields of high-quality corporate bonds or government bonds) bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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 Company, 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 Company. An economic benefit is available to the Company 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 portion of the increased benefit relating to past service by employees is recognized in profit or loss immediately.

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. The Company reclassify the amounts recognized in other comprehensive income to 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.

**(iii) Other long-term employee benefits**

The net obligations are calculated using the projected unit credit method. The amount of future benefit that employees have earned in return for their service in the current or prior period is discounted to determine its fair value. The discount rate is determined based on the market interest rate of high-quality bonds with similar conditions or government bonds.

All the actuarial gains and losses are recognized in profit or loss in the current period.

**(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.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company 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.

(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 taxes 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**

**Notes to the Financial Statements**

(t) Earnings per share

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

(u) Operating segments

Please refer to the consolidated financial statements of TTY Biopharm Company Limited for the years ended December 31, 2018 and 2017.

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

The preparation of the 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 Company 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. Please refer to Note 6(e) for further description of the valuation of inventories.

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	\$ 2,382	1,956
Cash in banks	503,233	560,267
Time deposits	-	196,820
	\$ 505,615	759,043

(i) The above cash and cash equivalents were not pledged as collateral.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

- (ii) Time deposits which do not meet the definition of cash equivalents are accounted for under other financial assets—current and noncurrent.
- (iii) Please refer to Note 6(u) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

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

	<b>December 31, 2018</b>
Equity instrument measured at fair value through other comprehensive income:	
Listed common shares—Lumosa Therapeutics Co., Ltd.	\$ <b>48,720</b>

- (i) The Company intends to hold the equity instrument for the long term for strategic purposes, and has designated these investments at the date of initial application as measured at FVOCI. The investment is recognized as available-for-sale financial assets on December 31, 2017; please refer to Note 6(c).
- (ii) No strategic investments were disposed and there were no transfers of any cumulative gain or loss within equity relating to these investments for the year ended December 31, 2018.
- (iii) For credit risk and market risk, please refer to Note 6(u).
- (iv) As of December 31, 2018, the financial assets at fair value through other comprehensive income of the Company were not pledged as collateral.

(c) Available-for-sale financial assets

	<b>December 31, 2017</b>
Stocks listed on domestic markets:	
Lumosa Therapeutics Co., Ltd.	\$ <b>47,200</b>

- (i) The investment is recognized as financial assets at fair value through other comprehensive income on December 31, 2018, please refer to Note 6(c).
- (ii) The amount of other comprehensive income or loss due to changes in fair value, please refer to Note 6(o).
- (iii) For credit risk and market risk, please refer to Note 6(u).
- (iv) As of December 31, 2017, the available-for-sale financial assets of the Company were not pledged as collateral.

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**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

(d) Notes receivable and accounts receivable (including related parties)

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Notes receivables — operating	\$ 18,579	46,045
Notes receivables — non-operating	1,595	1,595
Accounts receivables	762,410	829,269
Accounts receivables —related parties	32,103	52,641
Less: Allowance for impairment (expected credit loss)	<u>(26,284)</u>	<u>(26,284)</u>
	<u><b>\$ 788,403</b></u>	<u><b>903,266</b></u>

The Company applied the simplified approach to its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, notes and accounts receivables have been grouped based on credit risk characteristics and the days past due, as well as incorporated forward-looking information, including macroeconomic and relevant industry information. The allowance for expected credit loss as of December 31, 2018 was determined as follows:

	<b>Face value of notes and accounts receivable</b>	<b>Weighted average loss rate</b>	<b>Allowance for expected credit losses</b>
Not yet overdue	\$ 790,080	0%~1%	5,920
Past due less than 90 days	4,327	4%~6%	216
Past due 91-180 days	306	55%~60%	174
Past due more than 181 days	<u>19,974</u>	100%	<u>19,974</u>
	<u><b>\$ 814,687</b></u>		<u><b>26,284</b></u>

As of December 31, 2017, the Company applied the incurred loss model to estimate the loss allowance provision of notes and accounts receivable, and the aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	<b>December 31, 2017</b>
Past due less than 90 days	<u><b>\$ 3,884</b></u>

(Continued)



**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

The movement of allowance for impairment are as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017	
		Individually assessed of loss reduction	Collectively assessed impairment
Beginning balance (IAS39)	\$ 26,284	20,394	10,890
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	26,284		
Impairment losses reversed	-	-	(5,000)
Balance on December 31, 2018 and 2017	<u>\$ 26,284</u>	<u>20,394</u>	<u>5,890</u>

The aforementioned notes and accounts receivable of the Company were not pledged as collateral.

(e) Inventories

	December 31, 2018	December 31, 2017
Merchandise	\$ 188,493	154,605
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	649,907	577,248
Goods in transit	<u>90,602</u>	<u>97,919</u>
Total	740,509	675,167
Less: Allowance for inventory market decline and obsolescence	<u>(37,376)</u>	<u>(49,664)</u>
Net amount	<u>\$ 703,133</u>	<u>625,503</u>

The cost of inventories recognized as operating cost for the years ended December 31, 2018 and 2017, amounted to \$1,253,118 and \$1,297,756, respectively. The main item was the costs from selling good. For the years ended December 31, 2018 and 2017, the reversal of allowance amounted to \$12,288 and \$8,349 respectively.

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

(f) Investments accounted for using equity method

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries	\$ 2,314,503	2,298,985
Associates	<u>901,819</u>	<u>1,024,430</u>
	<u>\$ 3,216,322</u>	<u>3,323,415</u>

(i) Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2018 and 2017.

(ii) Associates

- 1) As of December 31, 2018 and 2017 the carrying value of associates which 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 treasury shares, which led to a change in the shareholding ratio, and such change was (debited) credited to capital surplus of \$(10,703) and \$5,070, respectively. For the years ended 2018 and 2017, the Company sold the shares of PharmaEngine, Inc. and recognized a gain on disposal investment of \$495,569 and \$222,174, respectively, which were under "other gain or losses". The gain on disposal included the related amount which were recognized through in comprehensive income and capital surplus. The voting interest percentage for the years ended 2018 and 2017, decreased from 18.22% to 15.52% and 19.30% to 18.22%, respectively.
- 3) Associates that had materiality were as follows:

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

(Continued)

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

- Summary financial information on PharmaEngine, Inc.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets	\$ 3,820,100	4,071,199
Non-current assets	26,685	39,732
Current liabilities	<u>(152,671)</u>	<u>(199,899)</u>
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>
	<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 year	\$ 129,362	387,063
Other comprehensive income	<u>(46)</u>	<u>187</u>
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 Company, January 1	\$ 712,642	733,329
Effects of recognition of retained earnings while adopting new standards	(41)	-
Recognition of capital surplus due to change in associates	(10,703)	5,070
Comprehensive income attributable to the Company	20,497	68,640
Cash dividends received from associates	(45,734)	(59,086)
Disposal of investment of associates	<u>(103,199)</u>	<u>(35,311)</u>
Net assets attributable to the Company, 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>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
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4) 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:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Carrying amount of interest in individually insignificant associates	<b>\$ 328,357</b>	<b>311,788</b>
	<b>For the years ended December 31, 2018</b>	<b>2017</b>
Attributable to the Company:		
Profit for the year	\$ 32,422	45,088
Other comprehensive income	(8,737)	480
Comprehensive income	<b>\$ 23,685</b>	<b>45,568</b>

5) Collateral

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

(g) Property, plant and equipment

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

	<b>Land</b>	<b>Building and construction</b>	<b>Machinery and equipment</b>	<b>Transporta tion equipment</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost:</b>							
Balance on January 1, 2018	\$ 810,323	1,268,367	656,691	5,755	431,241	156,434	3,328,811
Additions	-	6,353	5,035	-	20,718	9,406	41,512
Disposals	-	(1,194)	(2,671)	-	(1,354)	-	(5,219)
Reclassifications	-	17,107	1,920	-	5,654	(16,929)	7,752
Balance on December 31, 2018	<b>\$ 810,323</b>	<b>1,290,633</b>	<b>660,975</b>	<b>5,755</b>	<b>456,259</b>	<b>148,911</b>	<b>3,372,856</b>
Balance on January 1, 2017	\$ 810,323	1,238,924	655,763	3,171	400,206	126,957	3,235,344
Additions	-	11,902	1,548	2,584	19,022	47,971	83,027
Disposals	-	(4,233)	(620)	-	(10,021)	-	(14,874)
Reclassifications	-	21,774	-	-	22,034	(18,494)	25,314
Balance on December 31, 2017	<b>\$ 810,323</b>	<b>1,268,367</b>	<b>656,691</b>	<b>5,755</b>	<b>431,241</b>	<b>156,434</b>	<b>3,328,811</b>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

	<u>Land</u>	<u>Building and construction</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Depreciation:</b>							
Balance on January 1, 2018	\$ -	257,778	276,192	1,712	279,488	-	815,170
Depreciation for the year	-	58,657	36,228	894	27,354	-	123,133
Disposals	-	(1,194)	(1,818)	-	(989)	-	(4,001)
Balance on December 31, 2018	<u>\$ -</u>	<u>315,241</u>	<u>310,602</u>	<u>2,606</u>	<u>305,853</u>	<u>-</u>	<u>934,302</u>
Balance on January 1, 2017	\$ -	203,771	235,682	1,234	258,399	-	699,086
Depreciation for the year	-	58,186	41,101	478	29,141	-	128,906
Disposals	-	(4,179)	(591)	-	(8,052)	-	(12,822)
Balance on December 31, 2017	<u>\$ -</u>	<u>257,778</u>	<u>276,192</u>	<u>1,712</u>	<u>279,488</u>	<u>-</u>	<u>815,170</u>
<b>Carrying amounts:</b>							
Balance on December 31, 2018	<u>\$ 810,323</u>	<u>975,392</u>	<u>350,373</u>	<u>3,149</u>	<u>150,406</u>	<u>148,911</u>	<u>2,438,554</u>
Balance on January 1, 2017	<u>\$ 810,323</u>	<u>1,035,153</u>	<u>420,081</u>	<u>1,937</u>	<u>141,807</u>	<u>126,957</u>	<u>2,536,258</u>
Balance on December 31, 2017	<u>\$ 810,323</u>	<u>1,010,589</u>	<u>380,499</u>	<u>4,043</u>	<u>151,753</u>	<u>156,434</u>	<u>2,513,641</u>

## (i) Collateral

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

## (i) Property, plant and equipment under construction

As of the reporting date, expenditures of new plants which were under construction incurred amounted to \$148,911, and there was no capitalized loan cost for the years ended December 31, 2018 and 2017.

## (h) Investment property

	<u>Land</u>	<u>Building and construction</u>	<u>Total</u>
<b>Cost or deemed cost:</b>			
Balance on January 1, 2018	<u>\$ 69,152</u>	<u>15,526</u>	<u>84,678</u>
Balance on December 31, 2018	<u>\$ 69,152</u>	<u>15,526</u>	<u>84,678</u>
Balance on January 1, 2017	<u>\$ 69,152</u>	<u>15,526</u>	<u>84,678</u>
Balance on December 31, 2017	<u>\$ 69,152</u>	<u>15,526</u>	<u>84,678</u>
<b>Depreciation and impairment loss:</b>			
Balance on January 1, 2018	\$ -	7,034	7,034
Depreciation	-	355	355
Balance on December 31, 2018	<u>\$ -</u>	<u>7,389</u>	<u>7,389</u>
Balance on January 1, 2017	\$ -	6,679	6,679
Depreciation	-	355	355
Balance on December 31, 2017	<u>\$ -</u>	<u>7,034</u>	<u>7,034</u>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

	<u>Land</u>	<u>Building and construction</u>	<u>Total</u>
<b>Carrying amount:</b>			
Balance on December 31, 2018	\$ <u>69,152</u>	<u>8,137</u>	<u>77,289</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>8,492</u>	<u>77,644</u>
<b>Fair value:</b>			
Balance on December 31, 2018			\$ <u>178,586</u>
Balance on December 31, 2017			\$ <u>103,193</u>

- (i) The fair value of investment property was evaluated based on the recent market transactions on arm's-length terms.
- (ii) As of December 31, 2018 and 2017, the Company's investment properties were not pledged as collateral.

(i) 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>
<b>Cost:</b>			
Balance on January 1, 2018	\$ 31,358	-	31,358
Additions	1,221	10,896	12,117
Disposals	(1,876)	-	(1,876)
Reclassifications	-	16,956	16,956
Balance on December 31, 2018	\$ <u>30,703</u>	<u>27,852</u>	<u>58,555</u>
Balance on January 1, 2017	\$ 35,269	-	35,269
Additions	700	-	700
Disposals	(4,611)	-	(4,611)
Balance on December 31, 2017	\$ <u>31,358</u>	<u>-</u>	<u>31,358</u>
<b>Amortization and impairment loss:</b>			
Balance on January 1, 2018	\$ 22,169	-	22,169
Amortization for the year	4,397	1,393	5,790
Disposals	(1,876)	-	(1,876)
Balance on December 31, 2018	\$ <u>24,690</u>	<u>1,393</u>	<u>26,083</u>
Balance on January 1, 2017	\$ 21,333	-	21,333
Amortization for the year	5,447	-	5,447
Disposals	(4,611)	-	(4,611)
Balance on December 31, 2017	\$ <u>22,169</u>	<u>-</u>	<u>22,169</u>

(Continued)



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**Notes to the Financial Statements**

	<u>Computer software</u>	<u>Patent and franchise</u>	<u>Total</u>
<b>Carrying amount:</b>			
Balance on December 31, 2018	\$ <u>6,013</u>	<u>26,459</u>	<u>32,472</u>
Balance on January 1, 2017	\$ <u>13,936</u>	<u>-</u>	<u>13,936</u>
Balance on December 31, 2017	\$ <u>9,189</u>	<u>-</u>	<u>9,189</u>

Amortization expenses for intangible assets for the years ended December 31, 2018 and 2017 were recorded under statements of comprehensive income, were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Operating costs	\$ 322	347
Operating expenses	<u>5,468</u>	<u>5,100</u>
	<u>\$ 5,790</u>	<u>5,447</u>

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

(j) Short-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Secured bank loans	\$ <u>1,150,000</u>	<u>1,650,000</u>
Unused short-term credit lines	\$ <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 to Note 6(u) for relevant information about exposure to interest rate risk and liquidity risk.

(k) Long-term borrowings

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

	<u>December 31, 2018</u>			
	<u>Currency</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount</u>
Unsecured bank loans	NTD	1.115%~1.180%	2020	\$ 350,000
Less: Current portion				<u>-</u>
Total				<u>\$ 350,000</u>
Unused long-term credit lines				<u>\$ 400,000</u>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

	December 31, 2017			
	Currency	Interest rate	Maturity	Amount
Unsecured bank loans	NTD	1.115%~1.298%	2020	\$ 550,000
Less: Current portion				(300,000)
Total				\$ 250,000
Unused long-term credit lines				\$ 430,000

(l) 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	3,825	6,017
	\$ 6,812	8,625

(ii) Leases as lessor

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

	December 31, 2018	December 31, 2017
Less than one year	\$ 13,037	11,536
Between one and five years	16,069	5,974
	\$ 29,106	17,510

(m) 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	(64,496)	(63,295)
Net defined benefit liabilities (assets)	\$ 58,459	54,310

The Company's employee benefit liabilities were as below:

	December 31, 2018	December 31, 2017
Vacation liability	\$ 10,719	10,719

(Continued)

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The Company 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 Company 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 of the Company was \$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 movements in the present value of the defined benefit obligations of the Company were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Defined benefit obligation, January 1	\$ 117,605	115,353
Current service costs and interest costs	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 obligations, December 31	<u>\$ 122,955</u>	<u>117,605</u>

3) Movements in the present value of defined benefit plan assets

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

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

## 4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	<b>For the years ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Current service cost	\$ 1,264	1,145
Net interest of net liabilities for defined benefit obligation	1,308	1,500
Curtailement or settlement gains	<u>(693)</u>	<u>(933)</u>
	<b>\$ 1,879</b>	<b>1,712</b>
Operating costs	\$ 626	655
Selling expenses	572	472
Administrative expenses	291	265
Research and development expenses	<u>390</u>	<u>320</u>
	<b>\$ 1,879</b>	<b>1,712</b>

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

The Company'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:

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

## 6) Actuarial assumptions

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Discount rate	1.03 %	1.15 %
Future salary increases rate	3.00 %	3.00 %

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

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

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**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

7) Sensitivity analysis

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

	<b>Influence of defined defined benefit obligation</b>	
	<b>Increase by 0.50%</b>	<b>Decrease by 0.50%</b>
December 31, 2018		
Discount rate	\$ (5,335)	5,711
Future salary increase	4,988	(4,626)
December 31, 2017		
Discount rate	\$ (5,364)	5,757
Future salary increase	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.

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 Company allocates 6% of each employee's monthly wages to the personal pension account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company 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 \$23,088 and \$22,147 for the years ended December 31, 2018 and 2017, respectively.

(n) Income Tax

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, the corporate income tax rate increases from 17% to 20%.

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**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

## (i) Income tax expense

The components of income tax expense were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Current tax expense		
Current period	\$ 226,516	223,074
Adjustment for prior periods	<u>2,362</u>	<u>(7,894)</u>
	<u>228,878</u>	<u>215,180</u>
Deferred tax expense		
Origination and reversal of temporary difference	(63,707)	3,787
Adjustment in tax rate	<u>41,260</u>	<u>-</u>
Income tax expense	<u>\$ 206,431</u>	<u>218,967</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 may be reclassified subsequently to profit and loss:		
Share of other comprehensive income of associates and joint ventures accounted for under equity method	\$ <u>(6,252)</u>	<u>19,943</u>

Reconciliation of income tax and profit before tax for 2018 and 2017 were as follows:

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Profit before income tax	\$ <u>1,667,812</u>	<u>1,563,698</u>
Income tax using the Company's domestic tax rate	\$ 333,562	265,829
Adjustment in tax rate	41,260	-
Share of profit of investments accounted for using equity method	62,697	(21,004)
Change in unrecognized temporary differences	(78,010)	-
Non-deductible expenses	12,910	7,542
Tax exemption	(4,000)	(3,825)
Change in provision in prior periods	2,362	(7,894)
Undistributed earnings additional tax at 10%	8,163	12,684
Gains derived from securities transactions	(99,114)	(37,770)
Others	<u>(73,399)</u>	<u>3,405</u>
	<u>\$ 206,431</u>	<u>218,967</u>

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**TTY BIOPHARM COMPANY LIMITED**  
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(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

The Company 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:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
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>

The movements in deferred tax assets and liabilities recognized for the years ended December 31, 2018 and 2017 were as follows:

	<u>Gain on foreign</u> <u>investments</u>	<u>Reserve for land</u> <u>revaluation</u> <u>increment tax</u>	<u>Total</u>
<b>Deferred tax liabilities:</b>			
Balance on January 1, 2018	\$ 237,265	60,871	298,136
Recognized in profit or loss	(25,688)	-	(25,688)
Recognized in other comprehensive income	6,252	-	6,252
Balance on December 31, 2018	\$ <u>217,829</u>	<u>60,871</u>	<u>278,700</u>
Balance on January 1, 2017	\$ 253,858	60,871	314,729
Recognized in profit or loss	3,350	-	3,350
Recognized in other comprehensive income	(19,943)	-	(19,943)
Balance on December 31, 2017	\$ <u>237,265</u>	<u>60,871</u>	<u>298,136</u>

	<u>Defined</u> <u>benefit plan</u>	<u>Gain or loss on</u> <u>valuation of</u> <u>inventory</u>	<u>Others</u>	<u>Total</u>
<b>Deferred tax assets:</b>				
Balance on January 1, 2018	\$ 5,830	8,443	11,051	25,324
Recognized in profit or loss	1,038	(968)	(3,311)	(3,241)
Balance on December 31, 2018	\$ <u>6,868</u>	<u>7,475</u>	<u>7,740</u>	<u>22,083</u>
Balance on January 1, 2017	\$ 5,833	9,862	10,066	25,761
Recognized in profit or loss	(3)	(1,419)	985	(437)
Balance on December 31, 2017	\$ <u>5,830</u>	<u>8,443</u>	<u>11,051</u>	<u>25,324</u>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

(iii) Examination and approval

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

(o) Capital and other equity

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

(i) Capital surplus

The ending balance of capital surplus were as follows:

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

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.

(Continued)



**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

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.

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 the contra accounts in shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

Earnings distribution for 2017 and 2016 had been resolved at the general meeting of shareholders held on June 20, 2018 and June 16, 2017 respectively. The information of dividends distributions to shareholders were 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	Investments in 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
Share of exchange differences of subsidiaries and associates accounted for using equity method	43,034	-	-	43,034
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	-	1,520	-	1,520
Disposal of investments in equity instruments at fair value through other comprehensive income	-	(20)	-	(20)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income, associates and joint ventures accounted for using equity method	-	(20,152)	-	(20,152)
Balance on December 31, 2018	<u>\$ (56,694)</u>	<u>103,515</u>	<u>-</u>	<u>46,821</u>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Investments in available- for-sale financial assets	Total
Balance on January 1, 2017	\$ (2,362)	-	287,450	285,088
Share of exchange differences of subsidiaries and associates accounted for using equity method	(97,372)	-	-	(97,372)
Unrealized gains (losses) on available-for-sale financial assets	-	-	(23,600)	(23,600)
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries accounted for using equity method	-	-	(141,685)	(141,685)
Balance on December 31, 2017	<u>\$ (99,734)</u>	<u>-</u>	<u>122,165</u>	<u>22,431</u>

## (p) Earnings per share

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

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

## (q) Revenue from contracts with customers

## (i) Disaggregation of revenue

	For the year ended December 31, 2018			
	Oncology Business Unit	Health Care Unit	Anti- Infection Business Unit	Total
Primary geographical markets:				
Taiwan	\$ 1,947,082	207,219	707,112	2,861,413
European countries	450,794	-	-	450,794
Other countries	215,162	27,674	577	243,413
	<u>\$ 2,613,038</u>	<u>234,893</u>	<u>707,689</u>	<u>3,555,620</u>
Major products/services lines				
Medicine and health food	\$ 2,458,362	234,893	707,689	3,400,944
Services	67,042	-	-	67,042
Royalty	87,634	-	-	87,634
	<u>\$ 2,613,038</u>	<u>234,893</u>	<u>707,689</u>	<u>3,555,620</u>

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

## (ii) Contract balances

	December 31, 2018	January 1, 2018
Contract liability balances	<u>\$ 5,337</u>	<u>21,552</u>

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

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balances at the beginning of the period was \$20,292.

## (r) Revenue

The details of revenue of the year ended December 31, 2017 was as follow:

	For the year ended December 31, 2017
Sale of goods	\$ 3,545,283
Rendering of service	14,545
License	112,212
	<u>\$ 3,672,040</u>

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

(s) 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.

(t) Non-operating income and expenses

(i) Other income

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

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Interest revenue	\$ 2,406	3,408
Rental revenue	14,239	16,650
	<b>\$ 16,645</b>	<b>20,058</b>

(ii) Other gains and losses

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

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange gains (losses)	\$ 4,829	(29,121)
Losses on disposal of property, plant and equipment	(1,100)	(1,938)
Gain on disposal of investment	495,569	222,174
Gain on reversal of allowance of doubtful accounts	-	5,000
Others	28,684	29,531
	<b>\$ 527,982</b>	<b>225,646</b>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

## (iii) Finance costs

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

	<b>For the years ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Interest expenses	<b>\$ 17,202</b>	<b>25,191</b>

## (u) Financial instruments

## (i) Credit risk

## 1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum credit exposure. Such maximum credit exposure on December 31, 2018 and 2017, amounted to \$1,620,792 and \$1,946,113, respectively.

## 2) Concentrations of credit risk

In order to lower the credit risk on accounts receivable, the Company continually evaluates clients' financial situation and also assesses the possibility of collecting accounts receivable and recognizes an "allowance for doubtful accounts". Bad debt losses are always within the administrative personnel's expectations. As of December 31, 2018 and 2017, the accounts receivable from the Company's top ten customers represented 26% and 38%, respectively, of accounts receivable.

## 3) Credit risk of receivables

For credit risk exposure of note and accounts receivables, please refer to Note 6(d).

Other financial assets at amortized cost includes other receivables and time deposits. All of these financial assets are considered to have low risk, thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to Note 4(f).

## (ii) Liquidity risk

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

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>
<b>December 31, 2018</b>					
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)	555,329	555,329	555,329	-	-
Guarantee deposit received	3,119	3,119	3,119	-	-
	<b>\$ 2,058,448</b>	<b>2,065,507</b>	<b>1,713,738</b>	<b>351,769</b>	<b>-</b>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

	Carrying amount	Contractu al cash flows	Within 1 year	2-3 years	4-5 years
<b>December 31, 2017</b>					
Unsecured bank loans	\$ 2,200,000	2,211,658	1,959,046	252,612	-
Non-interest-bearing liabilities (including related parties)	527,682	527,682	527,682	-	-
Guarantee deposit received	<u>10,759</u>	<u>10,759</u>	<u>10,759</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,738,441</u>	<u>2,750,099</u>	<u>2,497,487</u>	<u>252,612</u>	<u>-</u>

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

	December 31, 2018			December 31, 2017		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 12,865	30.72	395,151	29,887	29.76	889,450
RMB	4,151	4.47	18,562	4,438	4.57	20,257
JPY	62,702	0.28	17,444	59,592	0.26	15,744
EUR	778	35.20	27,372	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
RMB	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

2) Sensitivity analysis

The Company'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 Company does not treat them as a hedge.

A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2018 and 2017, would have increased or decreased the after-tax net income by \$3,668 and \$8,455, respectively. The analysis is performed on the same basis for both periods.

(Continued)

## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

#### 3) Gains or losses on monetary item

As the Company 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 gain, including both realized and unrealized, amounted to \$4,829 and \$(29,121), 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 Company mainly borrows capital at floating interest rates, so the cash flow risk arises from changes in interest rates. The Company's main source of borrowed capital is bank loans.

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

For variable-rate instruments, the sensitivity analysis assumes the variable-rate liabilities are outstanding for the whole year on the reporting date. The Company'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 Company's after-tax net income would have increased/decreased 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

Except for the financial assets measured at fair value through other comprehensive income (available for sale financial assets) is measured on a recurring basis, the carrying amount and fair value of the Company's other financial assets and liabilities were as follows:

##### 1) Categories and fair value of financial instruments

	Book Value	December 31, 2018			Total
		Fair Value			
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Shares of listed company at over-the-counter market	\$ 48,720	48,720	-	-	48,720
Financial assets measured at amortized cost					
Cash and cash equivalents	\$ 505,615	-	-	-	-
Notes and accounts receivable (including related parties)	788,403	-	-	-	-
Other receivables (including related parties)	81,401	-	-	-	-
Other financial asset	160,974	-	-	-	-
Cash surrender value of life insurance	13,357	-	-	-	-
Refundable deposits paid	22,322	-	-	-	-
	<u>1,572,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>1,620,792</u>	<u>48,720</u>	<u>-</u>	<u>-</u>	<u>48,720</u>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

		December 31, 2018				
		Fair Value				
	Book Value	Level 1	Level 2	Level 3	Total	
Financial liabilities measured at amortized cost						
Bank loans	\$ 1,500,000	-	-	-	-	
Notes and accounts payable (including related parties)	142,337	-	-	-	-	
Other payables (including related parties)	412,992	-	-	-	-	
Guarantee deposit received	3,119	-	-	-	-	
Total	<u>\$ 2,058,448</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
		December 31, 2017				
		Fair Value				
	Book Value	Level 1	Level 2	Level 3	Total	
Available-for-sale financial assets						
	<u>\$ 47,200</u>	<u>47,200</u>	<u>-</u>	<u>-</u>	<u>47,200</u>	
Loans and receivables						
Cash and cash equivalents	759,043	-	-	-	-	
Notes and accounts receivable (including related parties)	903,266	-	-	-	-	
Other receivables (including related parties)	82,383	-	-	-	-	
Other financial assets	124,007	-	-	-	-	
Cash termination value of life insurance	7,275	-	-	-	-	
Refundable deposits paid	22,939	-	-	-	-	
Total	<u>\$ 1,946,113</u>	<u>47,200</u>	<u>-</u>	<u>-</u>	<u>47,200</u>	
Financial liabilities measured at amortized cost						
Bank loans	\$ 2,200,000	-	-	-	-	
Notes and accounts payable (including related parties)	95,437	-	-	-	-	
Other payables (including related parties)	432,245	-	-	-	-	
Guarantee deposit received	10,759	-	-	-	-	
Total	<u>\$ 2,738,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	

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).

(Continued)



## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

- c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

4) Valuation techniques for financial instruments measured at fair value

Non-derivative financial instruments

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

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

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

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

5) Transfer between levels

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

(v) Financial risk management

(i) Overview

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

- 1) credit risk
- 2) liquidity risk
- 3) market risk

(Continued)

**TTY BIOPHARM COMPANY LIMITED****Notes to the Financial Statements**

For more disclosures about the quantitative effects of risks mentioned above, please refer to the respective notes in the 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 Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investments in debt securities.

1) Accounts and other receivables

The Company established a credit policy to obtain the necessary collateral to mitigate risks arising from financial loss due to default risk. The Company 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 Company will assess the ratings based on other publicly available financial information and records of transactions with its major customers. The Company 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 Company did not have any collateral or other credit enhancements to avoid credit risk of financial assets.

2) Investment

The exposure to credit risk related to bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Company's finance department. As the Company deals with banks and other external parties with good credit standing and with financial institutions, corporate organizations, and government agencies which are graded above investment level, management believes that the Company does not have compliance issues or significant credit risk.

3) Guarantees

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

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## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

(iv) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company'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 Company'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.

(w) Capital management

The Company's objectives in managing capital are to safeguard the Company'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.

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

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

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Total liabilities	\$ 2,564,718	3,269,903
Less: cash and cash equivalents	<u>(505,615)</u>	<u>(759,043)</u>
Net debt	2,059,103	2,510,860
Total capital	<u>5,804,033</u>	<u>5,496,776</u>
Adjusted capital	<u>\$ 7,863,136</u>	<u>8,007,636</u>
Debt to equity ratio	<u>26.19 %</u>	<u>31.36 %</u>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

**(7) Related-party transactions:**

(a) Ultimate parent company

The Company is the ultimate parent company.

(b) Names and relationship with related parties

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

<u>Name of related party</u>	<u>Relationship with the Company</u>
TSH Biopharm Co., Ltd.	A Subsidiary
Xudong Haipu International Co., Ltd.	A Subsidiary
Worldco International Co., Ltd.	A Subsidiary
American Taiwan Biopharma Phils Inc.	A Subsidiary
EnhancX Inc.	A Subsidiary (Note)
American Taiwan Biopharm (Thailand)	An associate
Chuang Yi Biotech Co., Ltd.	An associate

Note: In August 2017, the Company and 2-BBB Medicines BV, registered in Netherlands, established EnhancX Inc., the Company holds more than one half of its directors' position, so EnhancX Inc. became a subsidiary of the Company.

(c) Significant transactions with related parties

(i) Operating revenue

	<u>For the years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Subsidiaries	\$ 114,089	118,074
Associates	62,145	64,257
	<u>\$ 176,234</u>	<u>182,331</u>

- 1) Prices charged for sales transactions with offshore subsidiaries and associates were calculated at 100% of the annual cost. If the collection was past due three months, then 5% interest was charged.
- 2) Prices charged for sales transactions with domestic subsidiaries were based on market quotation. The average credit term for notes and accounts receivable pertaining to such sales transactions was 1-3 months.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

## (ii) Service revenue

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Service revenue	Subsidiaries	\$ <u>102</u>	<u>2,516</u>

The transaction terms were discussed and agreed by both sides, and revenue was collected by the stage of completion of the contract.

## (iii) Royalty revenue

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
License revenue	Subsidiaries-Worldco International Co., Ltd.	\$ <u>74,786</u>	<u>39,200</u>

## (iv) Purchase of goods

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Purchases	Subsidiaries	\$ <u>7,856</u>	<u>8,388</u>

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other vendors. The average payment period for notes and accounts payable pertaining to such purchase transactions was sixty days or one month, which is similar to that of other vendors.

## (v) Rental revenue

<u>Recognized item</u>	<u>Category</u>	<u>For the years ended December 31</u>	
		<u>2018</u>	<u>2017</u>
Rental revenue	Subsidiaries-TSH Biopharm Co., Ltd.	\$ 4,167	4,167
	Subsidiaries	180	60
	Associates-Chuang Yi Biotech Co., Ltd.	3,137	3,137
		<u>7,484</u>	<u>7,364</u>

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

(vi) Other income

<u>Recognized item</u>	<u>Category</u>	<u>For the years ended December 31</u>	
		<u>2018</u>	<u>2017</u>
Other income	Subsidiaries-TSH Biopharm Co., Ltd.	\$ 5,393	6,388
	Subsidiaries	361	67
	Associates-American Taiwan Biopharm (Thailand)	11,765	13,242
	Associates	101	329
		<u>\$ 17,620</u>	<u>20,026</u>

- 1) The revenue from subsidiaries included warehouse fees, technology service fees, commissioned research expense and bookkeeping fees. Warehouse fees are determined by industry rates, and the payment is received within 60 days after the invoice date. The Company uses cost-plus pricing for technology service fees and commissioned research expense, and the payment is received within 60 days after the invoice date. For the bookkeeping fees, the credit term is 3 months.
- 2) Based on management services agreements, the associates should pay the Company for development in the pharmaceutical industry or registration of pharmaceutical products. The credit term for revenue from development in the pharmaceutical industry or registration of pharmaceutical products is three months. For the bookkeeping fees, the credit term is 3 months.

(d) Assets and liabilities with related parties

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable	Subsidiaries	\$ 15,947	43,668
	Associates	16,156	8,973
		<u>\$ 32,103</u>	<u>52,641</u>
Other receivables	Subsidiaries-American Taiwan Biopharma Phils Inc.	\$ 9,757	8,444
	Subsidiaries	1,874	6,392
	Associates-American Taiwan Biopharm (Thailand)	12,241	7,868
	Associates	315	315
		<u>\$ 24,187</u>	<u>23,019</u>
Contract liabilities-current	Subsidiaries-EnhanX Inc.	<u>\$ 921</u>	<u>-</u>

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**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Guarantee deposit received	Subsidiaries-TSH Biopharm Co., Ltd.	\$ 693	693
	Subsidiaries	30	30
	Associates-Chuang Yi Biotech Co., Ltd.	522	522
		<u>\$ 1,245</u>	<u>1,245</u>

Analysis of expected credit loss of accounts receivables; please refer to Note 6(d).

(e) Key management personnel compensation

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 75,504	65,274
Post-employment benefits	652	645
	<u>\$ 76,156</u>	<u>65,919</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 Company signed an agreement with Taiwan Liposome Company, Ltd. for Liposome research in October 1997. The Company obtained an exclusive license to produce and sell Liposome product 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 \$284,208 and \$279,077, and the unpaid amount was \$48,335 and \$56,803 as of December 31, 2018 and 2017, respectively.
- (c) As of December 31, 2018 and 2017, performance bonds from financial institutions 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 September 6, 2017. Further on April 23, 2018, the Taipei District Prosecutors Office requested the

(Continued)

## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

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 Company and Center Laboratories, Inc. together with the aforementioned case in a consolidated procedure. As of June 29, 2018, the Group supplemented and raised the amount of its damage claim against the ex-chairman in the incidental civil action of the second appeal.

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

**(10) Losses Due to Major Disasters: None**

**(11) Subsequent Events: None**

**(12) Other:**

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

By item	For the years ended December 31,					
	2018			2017		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 206,134	435,843	641,977	211,569	397,445	609,014
Health and labor insurance	16,362	29,431	45,793	16,607	27,225	43,832
Pension	8,666	16,292	24,958	8,688	15,171	23,859
Director's remuneration	-	32,206	32,206	-	22,240	22,240
Others	14,239	45,437	59,676	12,203	52,343	64,546
Depreciation	100,343	23,145	123,488	103,482	25,779	129,261
Amortization	322	5,468	5,790	347	5,100	5,447

The Company had total employees of 530 and 520 in 2018 and 2017, respectively. And there were both 8 directors who were not hired as employee of the Company in 2018 and 2017.

- (b) The Company donated \$43,531 and \$40,520 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.

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**TTY BIOPHARM COMPANY LIMITED**  
Notes to the 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 Company:

(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	Allowance 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	USD 52,216 USD 1,700	USD 52,216 USD 1,700	USD 52,216 USD 1,700	0.5%	2	-	Operating capital	-	-	-	CNY 52,386	234,270 CNY 52,386
1	Worldco International Co., Ltd.	The Company	Receivables from related parties	Yes	USD 76,788 USD 2,500	USD 76,788 USD 2,500	-	0.9%	2	-	Operating capital	-	-	-	CNY 93,706 CNY 20,954	93,706 CNY 20,954
2	Xudong HaiPu International Co., Ltd.	The Company	Receivables from related parties	Yes	USD 522,155 USD 17,000	USD 522,155 USD 17,000	-	0.9%	2	-	Operating capital	-	-	-	USD 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.

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**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the 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

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**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

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

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance			Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	
The Company	Lumosa Therapeutics Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income-non-current	1,600	48,720	1.37 %	48,720

- (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 (thousands)	Amount	Shares	Amount	Shares (thousands)	Price (Note)	Cost	Gain (loss) on disposal	Shares (thousands)	Amount (Note2)
The Company	PharmaEngine, Inc.	Investment accounted for using equity method	-	-	26,809	712,642	-	-	3,942	562,183	103,199	495,569	22,867	573,462

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

Note 2: The amount includes gain or losses recognized in current period and changes in 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

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**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

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

(In Thousands of New Taiwan Dollars)

(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

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2018 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Shares (thousands)	Balance as of December 31, 2018	Percentage of ownership	Carrying value	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017							
The Company	Xudong Haipei International Co., Ltd.	Cayman Is.	Investing activities	303,998	303,998	23,000	100.00 %	1,411,196	2,504	2,504	2,504	Subsidiary
"	Worldco International Co., Ltd.	Hong Kong	Selling chemical medicine	158,254	158,254	39,600	100.00 %	234,272	5,585	5,585	5,585	Subsidiary
"	American Taiwan Biopharmatics Inc.	Philippines	Selling chemical medicine	32,904	32,904	481	87.00 %	(4,148)	107	107	93	Subsidiary
"	TSH Biopharm Co., Ltd.	Taiwan	Selling chemical medicine	227,449	227,449	21,687	56.48 %	631,435	57,784	57,784	32,772	Subsidiary
"	EnhanX Inc.	Taiwan	Developing chemical medicine	50,000	50,000	5,000	20.83 %	41,748	(34,462)	(10,144)	(10,144)	Subsidiary
"	PharmaEngine, Inc.	Taiwan	Developing chemical medicine	299,098	350,659	22,867	15.52 %	573,462	129,362	129,362	20,504	Investments accounted for using equity method
"	American Taiwan Biopharm	Thailand	Selling chemical medicine	2,966	2,966	380	40.00 %	229,244	45,077	45,077	18,031	Investments accounted for using equity method
"	Giglio International Limited	Hong Kong	Selling chemical medicine	2,685	2,685	620	40.00 %	41,022	37,964	37,964	15,186	Investments accounted for using equity method

(In Thousands of New Taiwan Dollars)

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**TTY BIOPHARM COMPANY LIMITED**  
**Notes to the Financial Statements**

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2018		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	Chuang Yi Biotech Co., Ltd.	Taiwan	Selling functional food	82,059	82,059	6,326	27.54 %	(2,885)	(795)	Investments accounted for using equity method
Xudong Hapu International Co., Ltd.	EhbanX Inc.	Taiwan	Developing chemical medicine	-	-	7,000	29.17 %	(34,462)	36	Subsidiary
"	TTY Biopharm Korea Co., Ltd.	Korea	Selling chemical medicine	-	-	318	100.00 %	(2,081)	(2,081)	Subsidiary
"	TTY Biopharm Mexico S.A. de C.V.	Mexico	Selling chemical medicine	-	-	8,750	50.00 %	(2,418)	(1,209)	Subsidiary
Worldco International Co., Ltd.	TTY Biopharm Mexico S.A. de C.V.	Mexico	Selling chemical medicine	-	-	8,750	50.00 %	(2,418)	(1,209)	Subsidiary

(c) Information on investment in Mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from January 1, 2018	Investment flows		Accumulated outflow of investment from December 31, 2018	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) (Note 2)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
Worldco Biotech Pharmaceutical Ltd.	Marketing consulting regarding chemical medicine	USD 313,293	(2)	323,433	-	-	323,433	CNY (3,397)	100 %	CNY (746)	(69,557)	-
Worldco Biotech (Chengde) Pharmaceutical Ltd.	Selling chemical medicine	CNY 11,900	(2)	90,021	-	-	90,021	CNY (319)	100 %	CNY (70)	48,852	-

(In Thousands of New Taiwan Dollars)

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.

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**TTY BIOPHARM COMPANY LIMITED**

**Notes to the 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 1:4.554.

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.

(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

**(14) Segment information:**

Please refer to the consolidated financial report for the years ended December 31, 2018 and 2017.