

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

**TTY BIOPHARM COMPANY LIMITED
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)**

**Address : 3F., No. 3-1, Park St., Nangang Dist., Taipei City 115, Taiwan
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The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of TTY Biopharm Company Limited as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, TTY Biopharm Company Limited and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: TTY Biopharm Company Limited
Chairman: Hsiao-Ying Jun
Date: March 10, 2017



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Independent Auditors' Report

To the Board of Directors of TTY Biopharm Company Limited :

Opinion

We have audited the consolidated financial statements of TTY Biopharm Company Limited and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to the Other Matter section of our report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

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

1. Revenue recognition

Please refer to Notes 4(r) and 6(r) of the financial statements for the accounting principles on the recognition and explanation of revenue.

Key audit matters:

The main activities of the Group are the production and processing of pharmaceutical and chemical drugs. The operating performance of the Group has an effect on the distribution to their shareholders and stock price. Their financial performance will have an impact on the users of financial statements. Therefore, the accuracy and appropriateness of revenue recognition is a key matter when conducting our audit.

Auditing procedures performed:

Our principal audit procedures included: assessing and testing the design, as well as the effectiveness of the operation on the sales and payment collection control, manual control, and system control; assessing whether appropriate revenue recognition policies are applied through comparison with accounting standards; conducting substantive analytical procedure, reviewing external documents with records on ledger to confirm whether the sales transactions really exist, and the propriety of the timing for the recognition of revenue and cost is accurate; performing comparison analysis on sales of the current period to last period and the last quarter, and performing trend analysis on operating income from each top ten customer to assess the significant exceptions to further identify and analyze the reason, if any; and conducting test of details for sales and collection.

2. Impairment of accounts receivable

Please refer to Notes 4(g), 5(a) and 6(c) of the consolidated financial statements for the accounting principles on the impairment of accounts receivable, significant accounting assumptions and judgments, and major sources of estimation uncertainty, and explanation of allowance for impairment with respect to the receivable.

Key audit matters:

The Group judgment in determining the recoverable amounts of individual accounts receivable balances which were overdue is based on historical trend adjusted for certain current factors. Impairment assessment of accounts receivable is one of the key audit matters for our audit, as it requires management to exercise subjective judgment in making assumptions and estimations when calculating the impairment allowances on accounts receivable.

Auditing procedures performed:

Our principal audit procedures included: assessing the default rate, which was calculated by the Group's internal management, and the relevant internal data, and evaluating the reasonableness of parameters and assumption; assessing the assumptions and data used in the calculation for individual accounts receivable; testing the appropriateness and adequacy of provision for doubtful accounts made by the management and the subsequent collection of accounts receivable. Evaluating the adequacy of the disclosures; considering the historical accuracy of the provisions for allowance account, and using the information as evidence for evaluating the appropriateness of the assumptions made in the current year including how these compare to the experience in previous years.

3. Inventory valuation

Please refer to Notes 4(h), 5(b) and 6(d) of the consolidated financial statements for the accounting principles on the inventory valuation, significant accounting assumptions and judgments, and major sources of estimation uncertainty, and explanation of inventory.

Key audit matters:

The pharmaceutical industry in Taiwan is susceptible to the constant amendments of its law, resulting in an increase in the cost of pharmaceutical products, which will affect the carrying value of inventories to exceed its net value. Because of these uncertainties, the Group's revenue and income may be effected by the price fluctuations.

Auditing procedures performed:

Our principal audit procedures included: overviewing the stock ageing list, analyzing the movement of stock ageing by period; ensuring the allowance of inventory is in conformity with the accounting policies; realizing the differences between sales price and market price, and evaluating the reasonableness of net realizable price and the current selling price; overviewing the sales situation on and after the period of slow-moving inventory, testing and verifying the correctness about the allowance that was calculated by the Directors; considering the historical accuracy of the provisions for inventory allowance, and using the information as evidence for evaluating the appropriateness of the assumptions made in the current year compared to the previous years; evaluating the adequacy of the disclosures.

Other Matter

We did not audit the financial statements of Pharma Engine, 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 7.89% and 6.93% of the related consolidated total assets as of December 31, 2016 and 2015, respectively, and the related investment gains represented 8.80% and 4.99% of the consolidated profit before tax for the years ended December 31, 2016 and 2015, respectively.

We also audited the financial statements of TTY Biopharm Company Limited as of and for the years ended December 31, 2016 and 2015 and have issued an unqualified and a modified unqualified audit report, respectively, thereon.

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

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

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

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

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

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

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

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

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 10, 2017

Notes to Readers

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

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

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

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015			December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and Equity				
Current assets:					Current liabilities:				
1100 Cash and cash equivalents (note 6(a) and (v))	\$ 2,108,713	23	1,710,524	19	2100 Short-term loans (note 6(k) and (v))	\$ 1,249,010	13	1,200,000	14
1150 Notes receivable, net (note 6(c) and (v))	62,278	1	48,669	1	2150 Notes payable (note 6(v))	16,572	-	20,768	-
1161 Notes receivable due from related parties (note 6(c), (v) and 7)	-	-	461	-	2170 Accounts payable (note 6(v))	84,671	1	148,498	2
1170 Accounts receivable, net (note 6(c) and (v))	783,373	8	932,627	11	2180 Accounts payable to related parties (note 6(v) and 7)	-	-	4,814	-
1180 Accounts receivable due from related parties, net (note 6(c), (v) and 7)	13,668	-	22,839	-	2230 Current tax liabilities (note 6(o))	193,201	2	198,378	2
1200 Other receivables, net (note 6(c), (v) and 7)	46,309	-	488,470	6	2250 Current provisions	5,327	-	5,327	-
130X Inventories (note 6 (d))	565,683	7	532,137	6	2200 Other payables (note 6(v) and 7)	483,329	6	459,919	5
1410 Prepayments	26,884	-	44,828	1	2300 Other current liabilities (note 7)	48,548	1	31,230	-
1460 Non-current assets classified as held for sale, net (note 6(e))	-	-	27,791	-	2320 Long-term liabilities, current portion (note 6(l))	200,000	3	-	-
1476 Other current financial assets (note 6(a), (v) and 8)	1,057,186	12	492,075	6		<u>2,280,658</u>	<u>26</u>	<u>2,068,934</u>	<u>23</u>
1470 Other current assets	4,186	-	605	-	Non-Current liabilities:				
	<u>4,668,280</u>	<u>51</u>	<u>4,301,026</u>	<u>50</u>	2540 Long-term loans (note 6(l) and (v))	630,000	7	700,000	8
Non-current assets:					2570 Deferred tax liabilities (note 6(o))	314,729	3	316,485	3
1523 Non-current available-for-sale financial assets, net (note 6(b) and (v))	539,205	6	562,733	6	2640 Net defined benefit liability, non-current (note 6(n))	44,621	-	42,475	1
1550 Investments accounted for using equity method, net (note 6(f))	1,007,758	11	873,484	10	2645 Guarantee deposits received (note 6(v))	9,985	-	2,096	-
1600 Property, plant and equipment (note 6(h))	2,585,575	28	2,295,527	26		<u>999,335</u>	<u>10</u>	<u>1,061,056</u>	<u>12</u>
1760 Investment property, net (note (i) and 8)	77,999	1	78,354	1	Total liabilities	<u>3,279,993</u>	<u>36</u>	<u>3,129,990</u>	<u>35</u>
1780 Intangible assets (note 6(j))	29,648	-	50,780	1	Equity attributable to owners of parent (note 6(p)):				
1840 Deferred tax assets (note 6(o))	31,760	-	26,841	-	Share capital:				
1915 Prepayments for equipment	181,472	2	471,291	5	3100 Share capital	2,486,500	27	2,486,500	28
1920 Refundable deposits paid (note 6(v) and 7)	24,001	-	23,985	-	Capital surplus:				
1981 Cash surrender value of life insurance (note 6(v) and 8)	5,198	-	8,505	-	3200 Capital surplus	405,368	4	373,985	4
1984 Other non-current financial assets (note 6(a), (v) and 8)	126,816	1	125,737	1	Retained earnings:				
1990 Other non-current assets	12,593	-	6,677	-	3310 Legal reserve	603,613	6	482,511	6
	<u>4,622,025</u>	<u>49</u>	<u>4,523,914</u>	<u>50</u>	3320 Special reserve	110,154	1	110,154	1
					3350 Total unappropriated retained earnings	1,487,805	16	1,288,140	15
					3400 Other equity interest	285,088	3	360,011	4
					Equity attributable to the parent company:	<u>5,378,528</u>	<u>57</u>	<u>5,101,301</u>	<u>58</u>
					36XX Non-controlling interests (note 6(p))	631,784	7	593,649	7
					Total equity	<u>6,010,312</u>	<u>64</u>	<u>5,694,950</u>	<u>65</u>
Total assets	<u>\$ 9,290,305</u>	<u>100</u>	<u>8,824,940</u>	<u>100</u>	Total liabilities and equity	<u>\$ 9,290,305</u>	<u>100</u>	<u>8,824,940</u>	<u>100</u>

See accompanying notes to financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

	2016		2015	
	Amount	%	Amount	%
4000 Operating revenue (note 6(r) and 7)	\$ 3,760,717	100	3,195,218	100
5000 Cost of sales (note 6(d) and 7)	1,203,773	32	1,006,869	32
Gross profit	2,556,944	68	2,188,349	68
5910 Less: Unrealized profit (loss) from sales	4,132	-	6,408	-
5920 Add: Realized (profit) loss on from sales	6,408	-	1,203	-
Gross profit, net	2,559,220	68	2,183,144	68
6000 Operating expenses (note 7):				
6100 Selling expenses	726,935	19	771,557	24
6200 General and administrative expenses	310,913	8	281,511	9
6300 Research and development expenses	341,685	9	340,289	11
	1,379,533	36	1,393,357	44
Net operating income	1,179,687	32	789,787	24
Non-operating income and expenses (note 6(t) and 7):				
7010 Other income	26,310	1	21,403	1
7020 Other gains and losses, net	168,648	4	740,151	23
7050 Finance costs, net	(22,979)	(1)	(25,362)	(1)
7070 Share of profit (loss) of associates and joint ventures accounted for using equity method, net (note 6(f))	160,393	4	(384)	-
	332,372	8	735,808	23
Profit before tax	1,512,059	40	1,525,595	47
7950 Less: Income tax expense (note 6(o))	257,335	7	279,003	9
Profit of the year	1,254,724	33	1,246,592	38
8300 Other comprehensive income:				
8310 Components of other comprehensive income that will not be reclassified to profit or loss				
8311 Remeasurements effects of defined benefit plans	(2,282)	-	(4,056)	-
8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	(2,282)	-	(4,056)	-
8360 Other components of other comprehensive income that may be reclassified to profit or loss				
8361 Exchange differences on translation	(22,249)	(1)	(10,260)	-
8362 Unrealized gains (losses) on valuation of available-for-sale financial assets	(36,279)	(1)	476,184	15
8370 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss (note 6(u))	(8,361)	-	6,266	-
8399 Less: Other components of other comprehensive income that may be reclassified to profit or loss	(3,794)	-	(6,055)	-
Components of other comprehensive income that may be reclassified to profit or loss	(63,095)	(2)	478,245	15
8300 Other comprehensive income for the year, net of tax	(65,377)	(2)	474,189	15
Total comprehensive income for the year	\$ 1,189,347	31	1,720,781	53
Profit attributable to:				
Owners of parent	\$ 1,193,324	31	1,211,018	37
Non-controlling interests	61,400	2	35,574	1
	\$ 1,254,724	33	1,246,592	38
Comprehensive income attributable to:				
Owners of parent	\$ 1,116,119	29	1,532,070	47
Non-controlling interests	73,228	2	188,711	6
	\$ 1,189,347	31	1,720,781	53
Earnings per share, net of tax (note 6(q))				
Basic earnings per share	\$ 4.80		4.87	
Diluted earnings per share	\$ 4.79		4.86	

See accompanying notes to financial statements.

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

Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
	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 available-for-sale financial assets	Total other equity interest	Owners of parent company	Non-controlling interests	
Balance at January 1, 2015	\$ 2,486,500	378,007	404,547	110,154	780,767	45,724	(10,821)	34,903	4,194,878	437,562	
Profit for the year	-	-	-	-	1,211,018	-	-	-	1,211,018	35,574	1,246,592
Other comprehensive income for the year	-	-	-	-	(4,056)	(29,564)	354,672	325,108	321,052	153,137	474,189
Total comprehensive income for the year	-	-	-	-	1,206,962	(29,564)	354,672	325,108	1,532,070	188,711	1,720,781
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	77,964	-	(77,964)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(621,625)	-	-	-	(621,625)	(33,422)	(655,047)
Other changes in capital surplus:											
Changes in equity of associates and joint ventures accounted for using equity method	-	(4,022)	-	-	-	-	-	-	(4,022)	-	(4,022)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	798	798
Balance at December 31, 2015	2,486,500	373,985	482,511	110,154	1,288,140	16,160	343,851	360,011	5,101,301	593,649	5,694,950
Profit for the year	-	-	-	-	1,193,324	-	-	-	1,193,324	61,400	1,254,724
Other comprehensive income for the year	-	-	-	-	(2,282)	(18,522)	(56,401)	(74,923)	(77,205)	11,828	(65,377)
Total comprehensive income for the year	-	-	-	-	1,191,042	(18,522)	(56,401)	(74,923)	1,116,119	73,228	1,189,347
Appropriation and distribution of retained earnings:											
Legal reserve	-	-	121,102	-	(121,102)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(870,275)	-	-	-	(870,275)	(35,093)	(905,368)
Other changes in capital surplus:											
Changes in equity of associates and joint ventures accounted for using equity method	-	31,383	-	-	-	-	-	-	31,383	-	31,383
Balance at December 31, 2016	\$ 2,486,500	405,368	603,613	110,154	1,487,805	(2,362)	287,450	285,088	5,378,528	631,784	6,010,312

See accompanying notes to financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from operating activities:		
Profit before tax	\$ 1,512,059	1,525,595
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	100,691	96,776
Amortization expense	22,355	21,853
Provision (reversal of allowance) for uncollectable accounts	(13,300)	13,319
Interest expense	22,979	25,362
Interest income	(14,190)	(9,660)
Allowance for inventory market decline and obsolescence	38,191	(7,547)
Share of loss (profit) of associates and joint ventures accounted for using equity method	(160,393)	384
Loss on disposal of property, plant and equipment	121	59
Allocation of deferred income	(1,010)	(1,010)
Gain on disposal of investments	(104,924)	(655,796)
Unrealized profit (loss) from sales	4,132	6,408
Realized loss (profit) from sales	(6,408)	(1,203)
Total adjustments to reconcile profit (loss)	<u>(111,756)</u>	<u>(511,055)</u>
Changes in operating assets and liabilities:		
Notes receivable	(13,148)	1,272
Accounts receivable	170,778	(284,464)
Other receivable	(16,607)	15,638
Inventories	(71,902)	(47,857)
Other current assets	13,483	291
Other financial assets	(515,768)	(1,593)
Total changes in operating assets	<u>(433,164)</u>	<u>(316,713)</u>
Notes payable	(4,196)	5,650
Accounts payable	(68,016)	11,519
Other payable	25,788	14,181
Other current liabilities	17,374	(5,257)
Net defined benefit liability	(136)	(350)
Total changes in operating liabilities	<u>(29,186)</u>	<u>25,743</u>
Net changes in operating assets and liabilities	<u>(462,350)</u>	<u>(290,970)</u>
Total adjustments	<u>(574,106)</u>	<u>(802,025)</u>
Cash provided by operating activities	937,953	723,570
Interest received	14,190	9,721
Dividends received	47,280	25,540
Interest paid	(23,021)	(25,268)
Income taxes paid	(265,647)	(94,361)
Net cash flows from operating activities	<u>710,755</u>	<u>639,202</u>
Cash flows from (used in) investing activities:		
Proceeds from disposal of available-for-sale financial assets	64,028	60,022
Proceeds from disposal of financial assets at cost	83,748	-
Acquisition of investments accounted for using equity method	(25,059)	-
Proceeds from disposal of investments accounted for using equity method	455,398	959,598
Acquisition of property, plant and equipment	(90,262)	(63,571)
Proceeds from disposal of property, plant and equipment	220	143
Decrease (increase) in refundable deposits	(16)	4,823
Acquisition of intangible assets	(1,437)	(8,224)
Increase in other financial assets	(50,422)	(120,020)
Increase in prepayments for equipment	(12,070)	(113,370)
Increase in other non-current assets	(2,625)	(6,698)
Net cash flows from investing activities	<u>421,503</u>	<u>712,703</u>
Cash flows from (used in) financing activities:		
Increase in short-term loans	6,263,020	8,655,950
Decrease in short-term loans	(6,214,010)	(9,195,950)
Proceeds from long-term debt	630,000	1,000,000
Repayments of long-term debt	(500,000)	(300,000)
Increase in guarantee deposits received	7,889	635
Cash dividends paid	(870,275)	(621,625)
Change in non-controlling interests	-	798
Dividends paid to non-controlling interests	(35,093)	(33,422)
Net cash flows used in financing activities	<u>(718,469)</u>	<u>(493,614)</u>
Effect of exchange rate changes on cash and cash equivalents	(15,600)	(1,995)
Net increase in cash and cash equivalents	398,189	856,296
Cash and cash equivalents at beginning of period	<u>1,710,524</u>	<u>854,228</u>
Cash and cash equivalents at end of period	<u>\$ 2,108,713</u>	<u>1,710,524</u>

See accompanying notes to financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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

(1) Company history

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

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2017.

(3) New standards, amendments and interpretations adopted:

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014

(Continued)

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

Except for the following items, the Group believes that the adoption of the above IFRSs would not have a material impact on its consolidated financial statements:

(i) Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. In such cases, the amendments also require that the following be disclosed if the recoverable amount is based on fair value less costs of disposal:

- 1) the level of the fair value hierarchy within which the fair value measurement is categorized; and
- 2) the valuation technique(s) used for fair value measurements categorized within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made.

The Group expects the aforementioned amendments will result in a broader disclosure of the recoverable amount for non-financial assets.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 9 "Financial Instruments"	January 1, 2018
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 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019

(Continued)

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

<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
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" ("Applying IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

The Group is still currently determining the potential impact of the standards listed below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	<p>The new standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows:</p> <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Group 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 Group completes its evaluation.

(Continued)

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

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

The accompanying consolidated annual financial statements have been prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China (hereinafter referred to the Regulations), International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as “IFRS endorsed by the FSC”).

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Available-for-sale financial assets are measured at fair value; and
- 2) The net defined benefit liability is recognized as the present value of the defined benefit less the fair value of plan assets and the effect of the asset ceiling with reference to Note 4(s).

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The Group has control over an investee if and only if it has exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of its returns.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group transactions and balances, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Losses applicable to the controlling interests in a subsidiary are allocated to the ownership of the parent company and non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

Adjustments for financial statements of subsidiaries have been made, and their accounting policies are in accord with the Group's.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between adjustment for the non-controlling interest and the fair value of consideration received or paid is directly recognized in equity attributable to the owner.

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

Investor	Subsidiary	Nature of business	Shareholding ratio	
			December 31, 2016	December 31, 2015
The Company	Xudong Haipu International Co., Ltd.	Investing activities	100.00%	100.00%
The Company	American Taiwan Biopharma Phils Inc.	Selling Western medicine	87.00%	87.00%
The Company	TSH Biopharm Co., Ltd.	Selling Western medicine	56.48%	56.48%
The Company	Worldco International Co., Ltd.	Investing activities and selling Western medicine	100.00%	100.00%
Worldco International Co., Ltd.	Worldco Biotech Pharmaceutical Ltd.	Marketing consulting regarding Western medicine	100.00%	100.00%
Worldco International Co., Ltd.	Worldco Biotech (Chengdu) Pharmaceutical Ltd.	Selling Western medicine	100.00%	100.00%

- (d) Foreign currency

- (i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group 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 at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments during the period.

(Continued)

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at 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 translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available-for-sale equity investment, which are recognized in other comprehensive income.

(ii) Foreign operations

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

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of 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 is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising thereon form part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the exchange differences on translation of foreign financial statements in equity.

(e) Classification of current and noncurrent 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.

(Continued)

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

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.

(f) Cash and cash equivalents

Cash comprises cash balances and call deposits with maturities within three months. Cash equivalents are assets that are readily convertible into cash and are subject to an insignificant risk of changes in their fair value. Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose.

Bank overdrafts which are repayable immediately and are a part of the Group's overall cash management are considered to be a component of cash and cash equivalents in the statement of cash flows.

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

(i) Financial assets

Financial assets 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 revenue calculated by 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 is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

(Continued)

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

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

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in other income under non-operating income and expenses.

Interest income arising from debt investment is recognized in profit or loss, and is included in 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. Loans and receivables comprise trade receivables, other receivables, and investment in debt securities with no 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 shall be recognized and derecognized, as applicable, using trade-date accounting. Interest income is recognized in profit or loss, under other income of non-operating income and expenses.

3) Impairment of financial assets

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

(Continued)

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

All individually significant receivables are assessed for specific 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 Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than 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 is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for trade receivables, 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. Any subsequent recovery of a receivable written off is recorded in 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 the 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 impairment was recognized at the reversal date.

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

Impairment losses and recoveries of accounts receivable are recognized in profit or loss; impairment losses and recoveries of other financial assets are recognized in non-operating income and expenses.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
Notes to Consolidated 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 Group transfers substantially all the risks and rewards of ownership of the financial assets.

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

The Group 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.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

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

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

2) Other financial liabilities

Financial liabilities 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 non-operating income or expenses.

(Continued)

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

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

4) Offsetting of financial assets and liabilities

The Group presents its financial assets and liabilities on a net basis when the Group 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.

(h) Inventories

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

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

(i) Noncurrent assets held for sale

A noncurrent asset (or disposal group comprising assets and liabilities) is classified as held for sale or distribution to owners when the entity is committed to sell or distribute the asset (or disposal group) to the owners to recover its carrying amount. For this to be the case, the asset must be available for immediate distribution in its present condition and the distribution must be highly probable, and actions to complete the distribution should be expected to be within one year from the date of classification. Before classification as held for sale or distribution, the asset or components of a disposal group are re-assessed in accordance with the Group's accounting policies. Thereafter, generally the asset or disposal group is measured at the lower of its carrying amount and fair value, less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then the remaining balance of impairment loss is apportioned to assets and liabilities on a pro rata basis, except that no loss is allocated to assets not within the scope of IAS 36 "Impairment of Assets". Such assets will continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification of noncurrent assets held for sale or distribution and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held for sale or distribution, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(Continued)

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

(j) Investment in associates

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

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

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

When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in capital reserves in proportion to its ownership.

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

When the Group's share of losses exceeds its 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 Group has an obligation or has made payments on behalf of the associate.

(k) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for 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.

(Continued)

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

(l) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

Depreciation is calculated 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.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Buildings	10-55 years
Machinery and equipment	5-10 years
Transportation equipment	5 years
Office and other equipment	5-10 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.

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.

(m) 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.

(Continued)

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

(ii) Lessee

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

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

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

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

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

If an asset is sold and leased back, then the recognition of gain (loss) on sale of assets depends on the type of leaseback. If a leaseback transaction is classified as a capital lease, the Group defers and amortizes the amount by which the price exceeds its carrying amount during the leasing period. If a leaseback transaction is classified as an operating lease and the asset's price is equal to or less than its fair value, the gain (loss) on sale of assets shall be recognized when it occurs, except the loss could be compensated by future lease payments at below market price, and be deferred and amortized during the expected useful life. If an asset's price is higher than its fair value, the gain (loss) on sale of assets shall be deferred and amortized during the expected useful life.

When a sale-leaseback transaction is classified as an operating lease, the Group recognizes the amount by which its fair value is less than carrying amount as loss on sale of assets.

The Group 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 Group determines whether the lease is classified as a finance lease or an operating lease according to previous principles at inception or on reassessment of the arrangement.

If an arrangement contains both a lease and other elements, the Group 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 Group 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 Group's incremental borrowing rate.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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If, on the other hand, the Group 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.

(n) Intangible assets

(i) Research and development

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

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

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

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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(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 | 3.25-6 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 on the annual reporting date. Any change shall be accounted for as a change in accounting estimate.

(o) Impairment of non-financial assets

The Group assesses non-financial assets for impairment (except for inventories, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount.

If it is not possible to determine the recoverable amount (the higher of fair value, less cost 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 Group 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.

(p) 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 AND ITS SUBSIDIARIES
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(q) Provisions

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

(r) Revenue

(i) 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.

(ii) Service

The Group 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.

(iii) Commission

When the Group 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 Group.

(iv) 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 AND ITS SUBSIDIARIES
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(s) Employee benefits

(i) Defined contribution plan

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

(ii) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of the defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; 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 Group'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 Group, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When 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.

Re-measurement of a net defined benefit liability (asset) (including actuarial gains or losses, the return on plan assets or liabilities, and changes in the effect of the asset ceiling, excluding any amounts included in net interest) is recognized in other comprehensive income (loss). The effect of re-measurement of the defined benefit plan is charged 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.

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

(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.

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

(t) 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.

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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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 unused tax losses available 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.

(u) Earnings per share

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

(v) Operating segments

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

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

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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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:

(a) Impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding possible future credit losses) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. Refer to note 6(c) for further description of the impairment of trade receivable.

(b) Valuation of inventories

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Cash on hand	\$ 4,155	6,695
Cash in banks	1,687,420	1,658,241
Time deposits	<u>417,138</u>	<u>45,588</u>
	<u>\$ 2,108,713</u>	<u>1,710,524</u>

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

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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(b) Available-for-sale financial assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Investment:		
Lumosa Therapeutics Co., Ltd.	\$ 256,650	562,733
Pharmira Laboratories, Inc.	<u>282,555</u>	<u>-</u>
	<u>\$ 539,205</u>	<u>562,733</u>

- (i) 31.82% of Pharmira Laboratories, Inc. owned by TSH Biopharm Co., Ltd. was accounted for using the equity method. Pharmira Laboratories, Inc. was launched cash capital increase in February 2016, the Group's shareholding ratio in Pharmira Laboratories, Inc. was reduced to 5.93%, resulting in the Group's lost in its significant influence over the investments. Therefore, the investments were reclassified from investments accounted for using the equity method and noncurrent assets classified as held for sale to financial assets carried at cost. TSH Biopharm Co., Ltd. sold half of its ownership of Pharmira Laboratories, Inc. in June 2016, and recognized a gain of disposal of investments of \$57,498. Pharmira Laboratories, Inc. shares were listed on the emerging market in 28 December 2016, so the investments were reclassified from financial assets carried at cost to available-for-sale financial assets. Please refer to Note 6(e) and 6(f) details.
- (ii) Please refer to Notes 6(p) and 6(u) for recognition in other comprehensive income due to changes in fair value and further discussion on reclassification from equity to profit or loss.
- (iii) Please refer to Note 6(u) for gains on disposal of the investments in Lumosa Therapeutics Co., Ltd. of \$50,528.
- (iv) As of December 31, 2016 and 2015, the aforesaid available-for-sale financial assets were not pledged as collateral.
- (v) If the stock price changes at the reporting date, the changes in other comprehensive income of the Group are estimated as follows (The analysis was made on the same basis for both periods, assuming that all other variables remain constant, and any impact on forecasted sales and purchases was ignored.):

	<u>For the years ended December 31</u>			
	<u>2016</u>		<u>2015</u>	
<u>Stock Price</u>	<u>Other comprehensive income, net of tax</u>	<u>Profit, net of tax</u>	<u>Other comprehensive income, net of tax</u>	<u>Profit, net of tax</u>
Increase by 10%	\$ <u>53,921</u>	<u>-</u>	<u>56,273</u>	<u>-</u>
Decrease by 10%	\$ <u>(53,921)</u>	<u>-</u>	<u>(56,273)</u>	<u>-</u>

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Notes receivables	\$ 62,278	49,130
Accounts receivables	835,380	1,007,273
Other receivables	46,309	488,470
Less: Allowance for impairment	<u>(38,339)</u>	<u>(51,807)</u>
	<u><u>\$ 905,628</u></u>	<u><u>1,493,066</u></u>

The aging analysis of notes receivables, accounts receivables and other receivables which were overdue but not impaired was as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Past due less than 90 days	\$ 2,783	4,591
Past due 91-180 days	1,487	234
Past due 181-365 days	10	170
Past due more than 366 days	<u>-</u>	<u>170</u>
	<u><u>\$ 4,280</u></u>	<u><u>5,165</u></u>

The movements in the allowance for impairment with respect to the receivables during the period were as follows:

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance as of January 1, 2016	\$ 20,539	31,268	51,807
Amounts written off	(145)	(23)	(168)
Impairment loss reversed	<u>-</u>	<u>(13,300)</u>	<u>(13,300)</u>
Balance as of December 31, 2016	<u><u>\$ 20,394</u></u>	<u><u>17,945</u></u>	<u><u>38,339</u></u>
Balance as of January 1, 2015	\$ 17,558	22,635	40,193
Impairment loss recognized	2,981	10,338	13,319
Amounts written off	<u>-</u>	<u>(1,705)</u>	<u>(1,705)</u>
Balance as of December 31, 2015	<u><u>\$ 20,539</u></u>	<u><u>31,268</u></u>	<u><u>51,807</u></u>

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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- (i) The average credit terms granted for notes and accounts receivable pertaining to sales transactions ranged from one to six months. To determine the probability of collection, the Group considers any change in the credit quality from origination date to reporting date. Past experience indicates that notes receivable which have more than 180 days past due or accounts receivable which are not yet overdue, only when there is sufficient evidence that indicates accounts receivable was dishonored and uncollectible. Thus, a 100% impairment loss is recognized in the allowance account. For those notes and accounts receivable which are past due within 180 days, an allowance account is recognized after analyzing the payment history of customer accounts and the evaluating the uncollectible amounts.
- (ii) As of December 31, 2016 and 2015, notes receivable and accounts receivable were not pledged as collateral.
- (d) Inventories

	December 31, 2016	December 31, 2015
Merchandise	\$ 151,452	93,789
Finished goods	114,986	99,423
Work in process	102,487	112,586
Raw materials	207,832	202,377
Materials	<u>31,064</u>	<u>33,776</u>
Subtotal	607,821	541,951
Goods in transit	<u>16,689</u>	<u>10,822</u>
Total	624,510	552,773
Less: Allowance for inventory market decline and obsolescence	<u>(58,827)</u>	<u>(20,636)</u>
Net amount	<u>\$ 565,683</u>	<u>532,137</u>

The cost of inventories recognized as cost of goods sold and expense for the years ended December 31, 2016 and 2015, amounted to \$1,165,582 and \$1,014,416, respectively. The main item was the costs arising from selling goods. For the years ended December 31, 2016 and 2015, the inventory write-down to net realizable value or reversal of gain from valuation of inventories at net realizable value was recognized as an increase (decrease) in cost of goods sold of \$38,191 and \$(7,547), respectively.

As of December 31, 2016 and 2015, the aforesaid inventories were not pledged as collateral.

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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(e) Noncurrent assets classified as held for sale

On October 20, 2015, the Board of directors meeting resolved to sold half of its ownership of Pharmira Laboratories, Inc. totaling 2,625 thousand shares, and signed a share sales agreement on December 7, 2015. The book value of these investments amounted to \$27,791 for the years ended December 31, 2015. The aforesaid investments which were previously classified as held for sale were reclassified to noncurrent assets. The investment was sold in June 2016. Please refer to Notes 6(b) and 6(f) for details.

(f) Investments accounted for using equity method

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

	December 31, 2016	December 31, 2015
Associates	\$ 1,007,758	873,484

(i) Associates

- 1) As of December 31, 2016 and 2015, the carrying value of associates which had a quoted market price amounted to \$792,619 and \$610,352, respectively, while fair value amounted to \$4,545,226 and \$4,737,763, respectively.
- 2) Chuang Yi Biotech Co., Ltd.'s shares were listed on the emerging market in January 2016. For the years ended December 31, 2016 and 2015, Chuang Yi Biotech Co., Ltd. launched a cash capital increase. The Group invested \$25,059 for 626,465 shares in 2016, resulting in a decrease in ratio from 27.84% to 27.54%, and the Group did not subscribe on the initial shareholding basis in 2015, such ratio decreased from 29.27% to 27.84%. As the Group did not subscribe in proportion to the shareholding ratio for the year ended December 31, 2016 and 2015, such increase was credited to capital surplus of \$2,068 and \$8,352, respectively.
- 3) In the years ended December 31, 2016 and 2015, 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 (charged) credited to capital surplus of \$29,315 and \$(12,374), respectively. As the Group did not subscribe in proportion to the shareholding ratio for the year ended December 31, 2016 and 2015, such ratio decreased from 19.32% to 19.30% and 19.35% to 19.32%, respectively.
- 4) In the years ended December 31, 2015, CY Biotech Co., Ltd. launched a cash capital increase. The Group did not subscribe on the initial shareholding basis. Such increase was credited to capital surplus of \$8,352, respectively.

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(ii) 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, 2016</u>	<u>December 31, 2015</u>
PharmaEngine, Inc.	Research for new drugs and drug development especially for Asian diseases	Taiwan	19.30 %	19.32 %

1) Summary financial information on significant associates

The following is a 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, 2016</u>	<u>December 31, 2015</u>
Current assets	\$ 3,935,733	3,163,588
Noncurrent assets	23,528	74,994
Current liabilities	(150,038)	(66,340)
Noncurrent liabilities	(10,445)	(13,071)
Net assets	<u>\$ 3,798,778</u>	<u>3,159,171</u>
Net assets attributable to non-controlling interests	<u>\$ 733,329</u>	<u>610,352</u>
Net assets attributable to investee owners	<u>\$ 3,065,449</u>	<u>2,548,819</u>
	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Revenue	<u>\$ 1,134,782</u>	<u>507,244</u>
Profit for the year	\$ 689,625	394,022
Other comprehensive income	(253)	(42)
Comprehensive income	<u>\$ 689,372</u>	<u>393,980</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 133,049</u>	<u>76,145</u>
Comprehensive income attributable to investee owners	<u>\$ 556,323</u>	<u>317,835</u>

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	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Net assets attributable to the Company, January 1	\$ 610,352	566,282
Recognition of capital surplus due to change in associates	29,315	(12,374)
Comprehensive income attributable to the Company	133,049	76,145
Share dividends received from associates	<u>(39,387)</u>	<u>(19,701)</u>
Assets attributable to the Company, December 31	<u>733,329</u>	<u>610,352</u>
Carrying amount of interest in associates, December 31	<u><u>\$ 733,329</u></u>	<u><u>610,352</u></u>

2) Summary financial information on individually insignificant associates

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

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Carrying amount of interest in individually insignificant associates, December 31	<u>\$ 274,429</u>	<u>235,340</u>
	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Attributable to the Company:		
Profit for the year	\$ 27,276	21,937
Other comprehensive income	<u>(10,707)</u>	<u>24,917</u>
Comprehensive income	<u><u>\$ 16,569</u></u>	<u><u>46,854</u></u>

(iii) TSH Biopharm Co., Ltd. paid \$70,000 for the capital increase of Pharmira Laboratories, Inc. and acquired 31.82% of ownership in June 2014. Based on the evaluation of significant influence, such investment was accounted for using the equity method. The Group's shareholding ratio in Pharmira Laboratories, Inc. dropped to 5.93%, and the Group lost its significant influence over the investments because of a cash capital increase in February 2016 launched by Pharmira Laboratories, Inc. Therefore, the investments were reclassified from investments accounted for using the equity method and noncurrent assets classified as held for sale to financial assets carried at cost. The fair value of investments was re-measured during the reclassification. The difference between the fair value and the carrying amount of \$3,102 was recognized as disposal loss under other income and loss in the statement of comprehensive income.

(iv) Collateral

As of December 31, 2016 and 2015, the investments in the aforesaid equity-accounted investees were not pledged as collateral.

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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(g) Subsidiary with significant non-controlling interest

Subsidiary with significant non-controlling interest were as follows:

<u>Subsidiary</u>	<u>Country of registration</u>	<u>Ownership and voting rights ratio</u>	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
TSH Biopharm Co., Ltd.	Taiwan	56.48 %	56.48 %

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current assets	\$ 1,053,086	955,275
Non-current assets	514,148	505,955
Current liabilities	(116,872)	(98,741)
Net assets	<u>\$ 1,450,362</u>	<u>1,362,489</u>
Non-controlling interest	<u>\$ 631,189</u>	<u>592,948</u>
	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Operating revenue	<u>\$ 492,465</u>	<u>513,651</u>
Net income for the period	\$ 141,203	82,890
Other comprehensive loss	27,306	351,849
Comprehensive income	<u>\$ 168,509</u>	<u>434,739</u>
Net income attribute to non-controlling interest	<u>\$ 61,452</u>	<u>36,074</u>
Comprehensive income attribute to non-controlling interest	<u>\$ 73,336</u>	<u>189,199</u>
	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities	\$ 42,848	75,701
Cash flows from investing activities	95,617	57,026
Cash flows from financing activities	(80,636)	(76,796)
Net increase in cash	<u>\$ 57,829</u>	<u>55,931</u>
Dividends paid to non-controlling interests	<u>\$ 35,093</u>	<u>33,422</u>

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

(h) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the years ended December 31, 2016 and 2015, were as follows:

	<u>Land</u>	<u>Building and construction</u>	<u>Machinery and equipment</u>	<u>Transporta tion equipment</u>	<u>Office equipment</u>	<u>Other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost::								
Balance on January 1, 2016	\$ 816,169	783,796	403,143	4,371	358,038	6,298	546,098	2,917,913
Additions	-	32,277	15,790	-	11,709	686	29,800	90,262
Disposals	-	(5,346)	(635)	(1,200)	(4,509)	-	-	(11,690)
Reclassifications	-	463,923	246,388	-	40,488	-	(448,941)	301,858
Effect of changes in foreign exchange rate	-	(1,372)	-	-	(169)	(9)	-	(1,550)
Balance on December 31, 2016	<u>\$ 816,169</u>	<u>1,273,278</u>	<u>664,686</u>	<u>3,171</u>	<u>405,557</u>	<u>6,975</u>	<u>126,957</u>	<u>3,296,793</u>
Balance on January 1, 2015	\$ 816,169	780,691	398,911	4,408	342,194	6,298	486,231	2,834,902
Additions	-	2,874	7,016	-	10,231	-	43,450	63,571
Disposals	-	(1,614)	(3,005)	(37)	(2,178)	-	-	(6,834)
Reclassifications	-	1,845	221	-	7,820	-	16,417	26,303
Effect of changes in foreign exchange rate	-	-	-	-	(29)	-	-	(29)
Balance on December 31, 2015	<u>\$ 816,169</u>	<u>783,796</u>	<u>403,143</u>	<u>4,371</u>	<u>358,038</u>	<u>6,298</u>	<u>546,098</u>	<u>2,917,913</u>
Depreciation:								
Balance on January 1, 2016	\$ -	173,723	207,709	1,838	237,055	2,061	-	622,386
Depreciation for the year	-	36,641	33,153	396	29,497	649	-	100,336
Disposals	-	(5,343)	(628)	(1,000)	(4,378)	-	-	(11,349)
Reclassifications	-	-	-	-	(3)	-	-	(3)
Effect of changes in foreign exchange rate	-	(6)	-	-	(137)	(9)	-	(152)
Balance on December 31, 2016	<u>\$ -</u>	<u>205,015</u>	<u>240,234</u>	<u>1,234</u>	<u>262,034</u>	<u>2,701</u>	<u>-</u>	<u>711,218</u>
Balance on January 1, 2015	\$ -	142,897	177,800	1,478	208,955	1,487	-	532,617
Depreciation for the year	-	32,440	32,895	397	30,115	574	-	96,421
Disposals	-	(1,614)	(2,986)	(37)	(1,995)	-	-	(6,632)
Effect of changes in foreign exchange rate	-	-	-	-	(20)	-	-	(20)
Balance on December 31, 2015	<u>\$ -</u>	<u>173,723</u>	<u>207,709</u>	<u>1,838</u>	<u>237,055</u>	<u>2,061</u>	<u>-</u>	<u>622,386</u>
Carrying amounts:								
Balance on December 31, 2016	<u>\$ 816,169</u>	<u>1,068,263</u>	<u>424,452</u>	<u>1,937</u>	<u>143,523</u>	<u>4,274</u>	<u>126,957</u>	<u>2,585,575</u>
Balance on January 1, 2015	<u>\$ 816,169</u>	<u>637,794</u>	<u>221,111</u>	<u>2,930</u>	<u>133,239</u>	<u>4,811</u>	<u>486,231</u>	<u>2,302,285</u>
Balance on December 31, 2015	<u>\$ 816,169</u>	<u>610,073</u>	<u>195,434</u>	<u>2,533</u>	<u>120,983</u>	<u>4,237</u>	<u>546,098</u>	<u>2,295,527</u>

(i) Collateral

As of December 31, 2016 and 2015, the property, plant and equipment were not pledged as collateral.

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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(ii) Property, plant and equipment under construction

New plant is already under construction. As of the reporting date, expenditures incurred amounted to \$126,957, including capitalized loan cost.

(i) Investment property

	<u>Land</u>	<u>Building and construction</u>	<u>Total</u>
Cost or deemed cost:			
Balance on January 1, 2016	\$ <u>69,152</u>	<u>15,526</u>	<u>84,678</u>
Balance on December 31, 2016	\$ <u>69,152</u>	<u>15,526</u>	<u>84,678</u>
Balance on January 1, 2015	\$ <u>69,152</u>	<u>15,526</u>	<u>84,678</u>
Balance on December 31, 2015	\$ <u>69,152</u>	<u>15,526</u>	<u>84,678</u>
Depreciation and impairment loss:			
Balance on January 1, 2016	\$ -	6,324	6,324
Depreciation	<u>-</u>	<u>355</u>	<u>355</u>
Balance on December 31, 2016	\$ <u>-</u>	<u>6,679</u>	<u>6,679</u>
Balance on January 1, 2015	\$ -	5,969	5,969
Depreciation	<u>-</u>	<u>355</u>	<u>355</u>
Balance on December 31, 2015	\$ <u>-</u>	<u>6,324</u>	<u>6,324</u>
Carrying amount:			
Balance on December 31, 2016	\$ <u>69,152</u>	<u>8,847</u>	<u>77,999</u>
Balance on January 1, 2015	\$ <u>69,152</u>	<u>9,557</u>	<u>78,709</u>
Balance on December 31, 2015	\$ <u>69,152</u>	<u>9,202</u>	<u>78,354</u>
Fair value:			
Balance on December 31, 2016			\$ <u>129,395</u>
Balance on December 31, 2015			\$ <u>126,947</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, 2016, investment properties were not pledged as collateral. The Group's investment properties were pledged as collateral for the years ended December 31, 2015. Please refer to Note 8 for details.

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

(j) Intangible assets

The components of the costs of intangible assets, amortization, and impairment loss thereon for the years ended December 31, 2016 and 2015, were as follows:

	<u>Computer software</u>	<u>Patent and franchise</u>	<u>Total</u>
Cost:			
Balance on January 1, 2016	\$ 37,099	87,392	124,491
Additions	1,437	-	1,437
Disposals	(2,077)	(44,552)	(46,629)
Reclassifications	31	-	31
Effect of changes in foreign exchange rate	(1)	(454)	(455)
Balance on December 31, 2016	<u>\$ 36,489</u>	<u>42,386</u>	<u>78,875</u>
Balance on January 1, 2015	\$ 37,790	101,047	138,837
Additions	8,224	-	8,224
Disposals	(8,915)	(13,424)	(22,339)
Effect of changes in foreign exchange rate	-	(231)	(231)
Balance on December 31, 2015	<u>\$ 37,099</u>	<u>87,392</u>	<u>124,491</u>
Amortization and impairment loss:			
Balance on January 1, 2016	\$ 18,463	55,248	73,711
Amortization for the year	5,956	16,399	22,355
Disposals	(2,077)	(44,552)	(46,629)
Reclassifications	3	-	3
Effect of changes in foreign exchange rate	(1)	(212)	(213)
Balance on December 31, 2016	<u>\$ 22,344</u>	<u>26,883</u>	<u>49,227</u>
Balance on January 1, 2015	\$ 21,211	53,076	74,287
Amortization for the year	6,167	15,686	21,853
Disposals	(8,915)	(13,424)	(22,339)
Effect of changes in foreign exchange rate	-	(90)	(90)
Balance on December 31, 2015	<u>\$ 18,463</u>	<u>55,248</u>	<u>73,711</u>
Carrying amount:			
Balance on December 31, 2016	<u>\$ 14,145</u>	<u>15,503</u>	<u>29,648</u>
Balance on January 1, 2015	<u>\$ 16,579</u>	<u>47,971</u>	<u>64,550</u>
Balance on December 31, 2015	<u>\$ 18,636</u>	<u>32,144</u>	<u>50,780</u>

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

Amortization expenses for intangible assets for the years ended December 31, 2016 and 2015 were recorded as operating expenses and operating costs, respectively, were as follows:

	For the years ended December 31	
	2016	2015
Operating costs	\$ 347	29
Operating expenses	22,008	21,824
	\$ 22,355	21,853

As of December 31, 2016 and 2015, the aforementioned intangible assets were not pledged as collateral.

(k) Short-term loans

	December 31, 2016	December 31, 2015
Secured bank loans	\$ 1,249,010	1,200,000
Unused credit line	\$ 1,455,990	1,635,000
Range of interests rates	0.85%~1.05%	0.98%~1.15%

Please refer to Note 6(v) for relevant information about exposure to interest rate risk and liquidity risk.

(l) Long-term loans

	December 31, 2016			
	Currency	Interest rate	Maturity	Amount
Unsecured bank loans	NTD	1.135%~1.298%	2018	\$ 830,000
Less: Current portion				(200,000)
Total				\$ 630,000
Unused credit line				\$ -
	December 31, 2015			
	Currency	Interest rate	Maturity	Amount
Unsecured bank loans	NTD	1.21%~1.44%	2017	\$ 700,000
Less: Current portion				-
Total				\$ 700,000
Unused credit line				\$ -

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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(m) Operating leases

(i) Leases as lessee

Non-cancellable operating lease rentals payable were as follows:

	December 31, 2016	December 31, 2015
Less than one year	\$ 3,710	3,175
Between one and five years	8,530	656
	<u>\$ 12,240</u>	<u>3,831</u>

(ii) Leases as lessor

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

	December 31, 2016	December 31, 2015
Less than one year	\$ 7,894	4,240
Between one and five years	20,360	308
More than five year	110	-
	<u>\$ 28,364</u>	<u>4,548</u>

(n) Employee benefits

(i) Defined benefit plans

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

	December 31, 2016	December 31, 2015
Present value of defined benefit obligation	\$ 115,353	113,021
Fair value of plan assets	(70,732)	(70,546)
Net defined benefit liabilities (assets)	<u>\$ 44,621</u>	<u>42,475</u>

The Group's employee benefit liabilities were as below:

	December 31, 2016	December 31, 2015
Vacation liability	<u>\$ 13,880</u>	<u>11,921</u>

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

1) Composition of plan assets

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

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$70,732 as of December 31, 2016. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

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

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Defined benefit obligation, January 1	\$ 113,021	103,894
Current service costs and interest	3,019	2,777
Re-measurement of the net defined benefit liability (asset)		
– Return on plan assets excluding interest income	1,704	6,350
Benefits paid	<u>(2,391)</u>	<u>-</u>
Defined benefit obligation, December 31	<u>\$ 115,353</u>	<u>113,021</u>

(Continued)

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

3) Movements in the fair value of plan assets

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

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Fair value of plan assets, January 1	\$ 70,546	66,523
Re-measurement of the net defined benefit liability (asset)		
— Return on plan assets excluding interest income	499	1,762
Contributions made	2,078	2,261
Benefits paid	<u>(2,391)</u>	<u>-</u>
Fair value of plan assets, December 31	<u>\$ 70,732</u>	<u>70,546</u>

4) Expenses recognized in profit or loss

The Group's pension expenses recognized in profit or loss for the years ended December 31, 2016 and 2015, were as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Current service cost	\$ 1,289	1,246
Net interest of net liabilities for defined benefit obligation	1,730	1,531
Curtailment or settlement gains	<u>(1,077)</u>	<u>(866)</u>
	<u>\$ 1,942</u>	<u>1,911</u>
Operating costs	\$ 764	704
Selling expenses	394	439
Administrative expenses	470	481
Research and development expenses	<u>314</u>	<u>287</u>
	<u>\$ 1,942</u>	<u>1,911</u>

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The Group's re-measurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2016 and 2015, was as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Accumulated amount, January 1	\$ (5,346)	(10,800)
Recognized during the period	<u>2,282</u>	<u>5,454</u>
Accumulated amount, December 31	<u>\$ (3,064)</u>	<u>(5,346)</u>

- 6) Actuarial assumptions

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

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	1.30 %	1.58 %
Future salary increases	3.00 %	3.00 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is \$2,095.

The weighted-average duration of the defined benefit plan is 5 year.

- 7) Sensitivity analysis

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

	<u>Influence of defined defined benefit obligation</u>	
	<u>Increase by 0.50%</u>	<u>Decrease by 0.50%</u>
December 31, 2016		
Discount rate	\$ (5,447)	5,858
Future salary increase	5,179	(4,885)
December 31, 2015		
Discount rate	(5,533)	5,961
Future salary increase	5,306	(4,995)

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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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 2016 and 2015.

(ii) Defined contribution plans

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

The pension costs incurred from the contributions to the Bureau of Labor Insurance amounted to \$23,819 and \$22,529 for the years ended December 31, 2016 and 2015, respectively.

(o) Taxes

(i) Income tax expense (benefit)

The components of income tax in 2016 and 2015, were as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Current tax expense		
Current period incurred	\$ 254,420	187,330
Adjustment for prior periods	6,026	(1,802)
Deferred tax expense		
Origination and reversal of temporary difference	(3,111)	93,475
Income tax expense	<u>\$ 257,335</u>	<u>279,003</u>

The following are details of the income tax (expense) benefit recognized under other comprehensive income:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Items that may be reclassified subsequently to profit and loss:		
Foreign currency translation difference-foreign operations	\$ 3,773	1,746
Share of other comprehensive income of associates and joint ventures accounted for under equity method	21	4,309
Balance of December 31	<u>\$ 3,794</u>	<u>6,055</u>

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2016 and 2015, as follows:

	For the years ended December 31	
	2016	2015
Profit before income tax	\$ 1,512,059	1,525,595
Income tax using the company's domestic tax rate	\$ 270,406	290,472
Non-deductible expenses	5,951	6,341
Gains derived from securities transactions	(17,837)	(7,909)
Tax incentives	(7,248)	(8,370)
Change in provision in prior periods	6,026	1,802
Undistributed earnings additional tax at 10%	21,964	8,006
Basic income tax	9,930	2,812
Others	(31,857)	(14,151)
	<u>\$ 257,335</u>	<u>279,003</u>

(ii) Deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2016 and 2015, were as follows:

	Gain on foreign investments	Reserve for land revaluation increment tax	Total
Deferred tax liabilities:			
Balance, January 1, 2016	\$ 255,614	60,871	316,485
Recognized in profit or loss	2,038	-	2,038
Recognized in other comprehensive income	(3,794)	-	(3,794)
Balance as of December 31, 2016	<u>\$ 253,858</u>	<u>60,871</u>	<u>314,729</u>
Balance, January 1, 2015	\$ 169,127	60,871	229,998
Recognized in profit or loss	92,542	-	92,542
Recognized in other comprehensive income	(6,055)	-	(6,055)
Balance as of December 31, 2015	<u>\$ 255,614</u>	<u>60,871</u>	<u>316,485</u>

(Continued)

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

	Defined benefit plan	Gain or loss on valuation of inventory	Others	Total
Deferred tax assets:				
Balance, January 1, 2016	\$ 5,856	3,507	17,478	26,841
Recognized in profit or loss	(23)	6,493	(1,321)	5,149
Foreign currency translation differences for foreign operation	-	-	(230)	(230)
Balance as of December 31, 2016	<u>\$ 5,833</u>	<u>10,000</u>	<u>15,927</u>	<u>31,760</u>
Balance, January 1, 2015	\$ 5,915	4,791	17,088	27,794
Recognized in profit or loss	(59)	(1,284)	410	(933)
Foreign currency translation differences for foreign operation	-	-	(20)	(20)
Balance as of December 31, 2015	<u>\$ 5,856</u>	<u>3,507</u>	<u>17,478</u>	<u>26,841</u>

(iii) Examination and approval

The Company's income tax returns through 2012 have been examined and approved by the Tax Authority.

(iv) Stockholders' imputation tax credit account and tax rate

	December 31, 2016	December 31, 2015
Unappropriated earnings of 1998 and after	<u>\$ 1,487,805</u>	<u>1,288,140</u>
Balance of imputation credit account	<u>\$ 110,856</u>	<u>54,959</u>
	<u>For the years ended December 31</u>	
	<u>2016 (Estimated)</u>	<u>2015 (Actual)</u>
Creditable ratio for earnings distribution to R.O.C. residents	<u>19.15 %</u>	<u>12.93 %</u>

The above stated information was prepared in accordance with information letter No.10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

(p) Capital and other equity

As of December 31, 2016 and 2015, the authorized capital of the Company amounting to \$3,500,000 consisted of 350,000 thousand shares, with par value of \$10 per share. The paid-in capital was \$2,486,500. The outstanding shares consisted of 248,650 thousand common shares.

(Continued)

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

(i) Capital surplus

The components of capital surplus were as follows:

	December 31, 2016	December 31, 2015
Share capital	\$ 484	484
Long term investment	<u>404,884</u>	<u>373,501</u>
	<u>\$ 405,368</u>	<u>373,985</u>

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

(ii) Retained earnings

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

To enhance the Company's financial structure and maintain investors' equity, the Company adopts a stable dividends policy in which earnings distribution cannot be less than 50% of distributable earnings, and cash dividends payment has to be 10% of the distribution

1) Legal reserve

In accordance with the Company Act amended in 2012, 10 percent 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 percent of the actual share capital.

(Continued)

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

2) Special reserve

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

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a special reserve was appropriated from the undistributed earnings equivalent to the debit balance of cumulative translation differences of \$82,429 and unrealized revaluation increments of \$27,725. The special reserve appropriated can be reversed to the extent that the net debit balance reverses. As of December 31, 2016 and 2015, 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 2015 and 2014 was decided via the general meeting of shareholders held on 24 June 2016 and 16 June 2015, respectively. The relevant dividend distributions to shareholders were as follows:

	2015		2014	
	Amount per share (dollars)	Amount	Amount per share (dollars)	Amount
Dividends distributed to ordinary shareholders:				
Cash	\$ 3.50	<u>870,275</u>	2.50	<u>621,625</u>

(iii) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available- for-sale investments	Total
Balance, January 1, 2016	\$ 16,160	343,851	360,011
Share of exchange differences of subsidiaries and associates accounted for using equity method	(18,522)	-	(18,522)
Unrealized gains (losses) on available-for-sale financial assets	-	(48,162)	(48,162)
Unrealized gains (losses) on available-for-sale financial assets of associates accounted for using equity method	-	(8,239)	(8,239)
Balance, December 31, 2016	<u>\$ (2,362)</u>	<u>287,450</u>	<u>285,088</u>

(Continued)

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

	Exchange differences on translation of foreign financial statements	Available- for-sale investments	Total
Balance, January 1, 2015	\$ 45,724	(10,821)	34,903
Share of exchange differences of subsidiaries and associates accounted for using equity method	(29,564)	-	(29,564)
Unrealized gains (losses) on available-for-sale financial assets	-	323,060	323,060
Unrealized gains (losses) on available-for-sale financial assets of associates accounted for using equity method	-	31,612	31,612
Balance, December 31, 2015	<u>\$ 16,160</u>	<u>343,851</u>	<u>360,011</u>

(iv) Non-controlling interests

	For the years ended December 31	
	2016	2015
Balance, January 1	\$ 593,649	437,562
Attributable to non-controlling interests:		
Profit for the year	61,400	35,574
Foreign currency translation differences-foreign operations	(55)	13
Unrealized (loss) gain on available-for-sale financial assets	11,883	153,124
Issuance of common stock for cash	-	798
Cash dividends received	(35,093)	(33,422)
Balance, December 31	<u>\$ 631,784</u>	<u>593,649</u>

(q) Earnings per share

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

	For the years ended December 31	
	2016	2015
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ <u>1,193,324</u>	<u>1,211,018</u>
Weighted-average number of ordinary shares	<u>248,650</u>	<u>248,650</u>
	<u>\$ 4.80</u>	<u>4.87</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	\$ <u>1,193,324</u>	<u>1,211,018</u>
Weighted-average number of ordinary shares	<u>248,650</u>	<u>248,650</u>
Employee stock bonus	<u>259</u>	<u>281</u>
Weighted-average number of ordinary shares (diluted)	<u>248,909</u>	<u>248,931</u>
	<u>\$ 4.79</u>	<u>4.86</u>

(Continued)

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

(r) Revenue

The details of revenue of the years ended December 31, 2016 and 2015 were as follows:

	For the years ended December 31	
	2016	2015
Sale of goods	\$ 3,697,272	3,124,858
Rendering of service	63,445	70,360
	\$ 3,760,717	3,195,218

(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 1% to 8% and no more than 2%, respectively, of profit before tax. The Company should offset prior years' accumulated deficit before any appropriation of profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock.

For the year ended December 31, 2016 and 2015, remuneration of employees of \$22,048 and \$22,373, respectively, and of directors' and supervisors' of \$15,786 and \$21,468, respectively, was estimated and recognized as current expense. These amounts were calculated using the Company's profit before tax before remuneration of employees and of directors and supervisors for the year ended December 31, 2016. These benefits were charged to profit or loss under operating expenses for the year ended December 31, 2016. The differences, if any, between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements will be treated as changes in accounting estimates and charged to profit or loss.

(t) Non-operating income and expenses

(i) Other income

The details of other income for the year ended December 31, 2016 and 2015 were as follows:

	For the years ended December 31	
	2016	2015
Interest income	\$ 14,190	9,660
Rental income	12,120	11,743
	\$ 26,310	21,403

(Continued)

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

(ii) Other gains and losses

The details of other gains and losses for the year ended December 31, 2016 and 2015 were as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Foreign exchange gains (losses)	\$ (23,349)	27,568
Gain on disposal of investment	104,924	655,796
Losses on disposal of property, plant and equipment	(121)	(59)
Gain on reversal of uncollectable account	13,300	-
Other	73,894	56,846
	<u>\$ 168,648</u>	<u>740,151</u>

(iii) Finance costs

The details of finance costs for the year ended December 31, 2016 and 2015 were as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Interest expenses	<u>\$ 22,979</u>	<u>25,362</u>

(u) Reclassification adjustments of components of other comprehensive income

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for under equity method:		
Profit (loss) for the year	\$ (8,361)	31,577
Less: adjustment for gains recognized in profit	-	(25,311)
Net profit (loss) recognized in other comprehensive income	<u>\$ (8,361)</u>	<u>6,266</u>
Net fair value change in available-for-sale financial assets recognized in:		
Other comprehensive income	\$ 14,249	522,706
Profit or loss	(50,528)	(46,522)
Net fair value change recognized in other comprehensive income	<u>\$ (36,279)</u>	<u>476,184</u>

(Continued)

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

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Group's maximum credit exposure. Such maximum credit exposure on December 31, 2016 and 2015, amounted to \$4,766,747 and \$4,416,625, respectively.

2) Credit risk concentrations

In order to lower the credit risk on accounts receivable, the Group 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, 2016 and 2015, the accounts receivable from the Group's top ten customers represented 35% and 60%, respectively, of accounts receivable.

(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractu al cash flows</u>	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>
December 31, 2016					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 2,079,010	2,105,184	1,467,918	637,266	-
Non-interest-bearing liabilities (including related parties)	<u>584,572</u>	<u>584,572</u>	<u>584,572</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,663,582</u>	<u>2,689,756</u>	<u>2,052,490</u>	<u>637,266</u>	<u>-</u>
December 31, 2015					
Unsecured bank loans	\$ 1,900,000	1,925,437	1,218,061	707,376	-
Non-interest-bearing liabilities (including related parties)	<u>633,999</u>	<u>633,999</u>	<u>633,999</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,533,999</u>	<u>2,559,436</u>	<u>1,852,060</u>	<u>707,376</u>	<u>-</u>

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

(Continued)

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

	December 31, 2016			December 31, 2015		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 57,608	32.250	1,857,851	43,238	32.83	1,419,501
CNY	5,275	4.617	24,353	22,626	5.00	113,017
JPY	66,488	0.276	18,324	42,891	0.27	11,696
PHP	16,532	0.67	11,050	11,058	0.72	7,931
EUR	3,350	33.90	113,567	-	-	-
<u>Nonmonetary items</u>						
USD	750	32.250	24,173	556	32.83	18,259
CNY	52,206	4.617	241,037	50,550	5.00	252,497
THB	216,982	0.905	196,368	199,805	0.92	182,742
<u>Financial liabilities</u>						
<u>Monetary items</u>						
PHP	7,219	0.67	4,825	21,257	0.72	15,305

2) Sensitivity analysis

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

A 1% of appreciation of each major foreign currency against the Group's functional currency as of December 31, 2016 and 2015, would have increased or decreased the after-tax net income by \$20,600 and \$16,520, respectively. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange are summarized as a single amount. For the years ended December 31, 2016 and 2015, the foreign exchange gain, including both realized and unrealized, amounted to \$(23,349) and \$27,568, respectively.

(Continued)

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Notes to Consolidated Financial Statements

(iv) Interest rate analysis

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

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

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

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

If the interest rate had increased/decreased by 0.25%, the Group's after-tax net income would have decreased/increased by \$3,422 and \$2,170 for the years ended December 31, 2016 and 2015, respectively, assuming all other variable factors remained constant.

(v) Fair value of financial instruments

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

1) Categories of financial instruments

	December 31, 2016				
	Book Value	Fair Value			Total
	Level 1	Level 2	Level 3		
Available-for-sale financial assets	\$ 539,205	539,205	-	-	539,205
Loans and receivables					
Cash and cash equivalents	2,108,713	-	-	-	-
Notes receivable and accounts receivable (including related party)	859,319	-	-	-	-
Other receivables (including related party)	46,309	-	-	-	-
Other financial assets	1,184,002	-	-	-	-
Cash surrender value of life insurance	5,198	-	-	-	-
Refundable deposits	24,001	-	-	-	-
Total	<u>\$ 4,766,747</u>	<u>539,205</u>	<u>-</u>	<u>-</u>	<u>539,205</u>

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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2) Fair value hierarchy

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

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

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

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

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

4) Valuation techniques for financial instruments measured at fair value

Non-derivative financial instruments

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

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

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

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

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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5) Transfer between levels

There was no change in valuation techniques for financial instruments measured at fair value for the years ended in December 31, 2016 and 2015, so there was no transfer between levels.

(w) Financial risk management

(i) Overview

The nature and the extent of the Group's risks arising from financial instruments, which include credit risk, liquidity risk, and market risk, are discussed below. Also, the Group's objectives, policies and procedures of measuring and managing risks are discussed below.

For more quantitative information about the financial instruments, please refer to the other related notes to the consolidated financial statements.

(ii) Risk management framework

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

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

(iii) Credit risk

Credit risk means the potential loss of the Group if the counterparty involved in that transaction defaults. The primary potential credit risk is from financial instruments like accounts receivable and equity securities.

1) Accounts receivable and other receivables

The Group's credit policy is to transact with creditworthy customers and to obtain collateral to mitigate risks arising from financial loss due to default. The Group transacts with customers with credit ratings equivalent to investment grade, and such ratings are provided by independent rating agencies. Where it is not possible to obtain such information, the Group uses other publicly available financial information and the records of transactions with its customers. The Group continues to monitor the exposure to credit risk and counterparty credit ratings, and to evaluate the customers' credit ratings and credit limits via annual review by the finance department to manage the credit exposure.

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

(Continued)

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

2) Investment

The exposure to credit risk related to bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Group's finance department. As the Group 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 Group does not have compliance issues or significant credit risk.

3) Guarantees

The Group did not provide any endorsement or guarantee as of December 31, 2016 and 2015.

(iv) Liquidity risk

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

(v) Market risk

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

(x) Capital management

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

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

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

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

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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The Group's debt-to-equity ratios at the balance sheet date were as follows:

	December 31, 2016	December 31, 2015
Total liabilities	\$ 3,279,993	3,129,990
Less: cash and cash equivalents	<u>(2,108,713)</u>	<u>(1,710,524)</u>
Net debt	1,171,280	1,419,466
Total capital	<u>6,010,312</u>	<u>5,694,950</u>
Adjusted capital	<u>\$ 7,181,592</u>	<u>7,114,416</u>
Debt to equity ratio	<u>16.31 %</u>	<u>19.95 %</u>

(7) Related-party transactions:

(a) Ultimate parent company

The Company is the ultimate parent company.

(b) Significant transactions with related parties

(i) Operating revenue

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

	For the years ended December 31	
	2016	2015
Associates	\$ 44,252	61,331
Other related parties	<u>4,548</u>	<u>9,425</u>
	<u>\$ 48,800</u>	<u>70,756</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) There were no significant differences between the terms and pricing of sales transactions with related parties and those with distributors. The collection period was ninety days. If paid within one month, a cash discount of 1% was offered.
- 3) The Group sold products to other related parties and pledged \$5,000 of the certificates of deposit from those companies as collateral as of December 31, 2016.

(Continued)

TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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(ii) Service revenue

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Service revenue	Other related parties	\$ <u>3,815</u>	<u>6,990</u>

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

(iii) Purchase of goods from related parties

The amounts of significant purchase transactions between the Group and related parties and the outstanding balances were as follows:

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Purchases	Other related parties	\$ <u>20,743</u>	<u>32,703</u>
Processing costs	Other related parties	\$ <u>-</u>	<u>3,168</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.

(iv) Rental revenue

<u>Recognized item</u>	<u>Category</u>	<u>For the years ended December 31</u>	
		<u>2016</u>	<u>2015</u>
Rental revenue	Associates	\$ 2,645	1,924
	Other related parties	<u>172</u>	<u>2,038</u>
		\$ <u>2,817</u>	<u>3,962</u>

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

(v) Rent expense

<u>Recognized item</u>	<u>Category</u>	<u>For the years ended December 31</u>	
		<u>2016</u>	<u>2015</u>
Rental expense	Other related parties	\$ <u>2,628</u>	<u>3,131</u>

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

(Continued)

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(vi) Other income

<u>Recognized item</u>	<u>Category</u>	<u>For the years ended December 31</u>	
		<u>2016</u>	<u>2015</u>
Other income	Associates	\$ 14,350	7,845
	Other related parties	22,599	357
		<u>\$ 36,949</u>	<u>8,202</u>

- 1) Based on management services agreements, the associates should pay the Company for information services, daily accounting tasks, development in the Pharmaceutical Industry or registration of new pharmaceutical products.
- 2) The credit term for revenue from daily accounting tasks is three months.

(vii) Operating expense

<u>Recognized item</u>	<u>Category</u>	<u>For the years ended December 31</u>	
		<u>2016</u>	<u>2015</u>
Research expense	Other related parties	<u>\$ 18,004</u>	<u>19,972</u>

There was no significant differences between the terms with related parties and those with other research providers.

(viii) Other transactions

The Group sold investment in associates accounted for under the equity method of 3,600 thousand shares to other related parties, with total price amounting to \$118,348. As of December 31, 2015, the amount of \$59,174 of the total price which had not yet been received was recognized under other receivables.

(c) Liabilities with related parties

<u>Recognized item</u>	<u>Category</u>	<u>December 31,</u>	<u>December 31,</u>
		<u>2016</u>	<u>2015</u>
Notes receivable	Other related parties	<u>\$ -</u>	<u>461</u>
Accounts receivable	Associates	\$ 13,668	22,529
	Other related parties	-	310
		<u>\$ 13,668</u>	<u>22,839</u>
Other receivables	Associates	\$ 1,573	18,101
	Other related parties	17,126	60,089
		<u>\$ 18,699</u>	<u>78,190</u>

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TTY BIOPHARM COMPANY LIMITED AND ITS SUBSIDIARIES
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<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Refundable deposits paid	Other related parties	\$ <u>582</u>	<u>4,708</u>
Accounts payable	Other related parties	\$ -	<u>4,814</u>
Other payables	Associates	-	3,240
	Other related parties	<u>6,150</u>	<u>1,577</u>
		<u>\$ 6,150</u>	<u>4,817</u>

(d) Key management personnel compensation

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Salaries and other short-term employee benefits	\$ 79,821	72,179
Post-employment benefits	<u>1,010</u>	<u>1,122</u>
	<u>\$ 80,831</u>	<u>73,301</u>

(8) Pledged assets:

As of December 31, 2016 and 2015, pledged assets were as follows:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Investment property	Bank loans, letters of credit	\$ -	60,881
Other financial asset—current	Grants for research and development project	635	1,525
Other financial asset—noncurrent	Provisional guarantee	<u>120,010</u>	<u>120,010</u>
		<u>\$ 120,645</u>	<u>182,416</u>

(9) Commitments and contingencies:

- (a) The Group signed an agreement with Taiwan Liposome Company, Ltd. for Liposome research in October 1997. The Group obtained an exclusive license to produce and sell in 2001, and paid the royalty by a certain proportion of pre-tax net sales. The payment based on such agreement amounted to \$36,361 and \$33,922 for the years ended December 31, 2016 and 2015, respectively.
- (b) Due to the purchase of equipment, construction engineering, and entrusted research, the total price of unfinished contracts amounted to \$678,455 and \$906,331, and the unpaid amount was \$320,534 and \$188,084 as of December 31, 2016 and 2015, respectively.

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- (c) As of December 31, 2016 and 2015, performance bonds from financial institutions for the sale of medicine amounted to \$17,659 and \$31,106, respectively.
- (d) In June 2015, the Taipei District Prosecutors Office filed a lawsuit against the ex-chairman, Rong-Jin Lin, for the offense of breach of trust under the Securities and Exchange Act. This lawsuit is being heard by the Taipei District Court. The Company cannot predict the result of the lawsuit.
- (e) On January 19, 2016, the Securities and Futures Investors Protection Center filed a suit to discharge the Company's ex-chairman, Rong-Jin Lin, in accordance with Paragraph 1 of Article 10-1 of the Securities Investor and Futures Trader Protection Act. The lawsuit was withdrawn by the Securities and Futures Investors Protection Center in August 2016.
- (f) 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.
- (g) 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 AG. The case was suspended.
- (h) On July 1, 2016, Center Laboratories, Inc. filed a lawsuit against the Company in the Taipei District Court to confirm the validity of the agreement it had entered into with the Company regarding a generic drug called Risperidone. The Company cannot predict the result of the lawsuit.

(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					
	2016			2015		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 217,411	486,122	703,533	188,486	433,981	622,467
Health and labor insurance	15,525	29,383	44,908	13,580	29,754	43,334
Pension	8,392	17,369	25,761	7,239	17,228	24,467
Others	15,366	73,305	88,671	5,821	68,263	74,084
Depreciation	66,379	34,312	100,691	59,418	37,358	96,776
Amortization	347	22,008	22,355	29	21,824	21,853

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(b) Seasonality of operations:

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

(c) Others

- (i) The Group donated \$34,128 and \$51,446 to related medical foundations and associations to support non-profit organizations developing drugs and promoting disease prevention and correct dosage in the years ended December 31, 2016 and 2015, respectively.
- (ii) TSH Biopharm Co., Ltd. signed a grant agreement, “Industrial Technology Development Program-TUNEX Phase III Clinical Trial Program”, with the Institute for Information Industry in September 2013. The total budget for the program amounted to \$81,867, and the period was from May 1, 2013, to April 30, 2016. The grant for the program amounted to \$16,373. Grant funds of \$14,324 had been received, and the actual expenditure amounted to \$14,324 as of December 31, 2016.
- (iii) TSH Biopharm Co., Ltd. signed a grant agreement, “TRIA11 Osteoporosis Treatment Biopharmaceutical Program”, with the Institute for Information Industry in October 2014. The total budget for the program amounted to \$90,000, and the period was from May 1, 2014, to January 31, 2017. The grant for the program amounted to \$22,500. Grant funds of \$22,498 had been received, and the actual expenditure amounted to \$21,866, as of December 31, 2016.

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(13) Other disclosures:

(a) Information on significant transactions:

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

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period (Note 4)		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)
					CNY	USD							Item	Value		
1	Worldco International Co., Ltd.	Worldco Biotech Pharmaceutical Ltd.	Receivables from related parties	Yes	91,239 CNY 7,887 USD 1,700	54,825 USD 1,700	54,825 USD 1,700	0.5%	2	-	Operating capital	-	-	-	241,035 CNY52,206	241,035 CNY52,206
1	Worldco International Co., Ltd.	The Company	Receivables from related parties	Yes	96,750 USD 3,000	80,625 USD 2,500	-	0.9%	2	-	Operating capital	-	-	-	96,412 CNY 20,220	96,412 CNY 20,220
2	Xudong Haipu International Co., Ltd.	The Company	Receivables from related parties	Yes	548,250 USD 17,000	548,250 USD 17,000	-	0.9%	2	-	Operating capital	-	-	-	599,322	599,322

The exchange rate of USD to NTD as of the reporting date is 1:32.25, and the average exchange rate of USD to NTD as of the reporting date is 1:32.254.

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The exchange rate of CNY to NTD as of the reporting date is 1:4.617, and the average exchange rate of CNY to NTD as of the reporting date is 1:4.85.

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, 2016.

Note 5): The amounts were approved by the board of directors.

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

(ii) Guarantees and endorsements for other parties:None

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(iii) Securities held as of December 31, 2016 (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				Highest	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Percentage of ownership (%)	
The Company	Lumosa Therapeutics Co., Ltd.	Note	Available-for-sale financial assets – noncurrent	1,600	70,800	1.90 %	70,800	1.90 %	
TSH Biopharm Co., Ltd.	Lumosa Therapeutics Co., Ltd.	Note	"	4,200	185,850	4.46 %	185,850	4.46 %	
"	Pharmira Laboratories, Inc.	-	"	2,625	282,555	2.51 %	282,555	2.51 %	

Note : A director of the Group is its chairman, who resigned on March 24, 2016.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		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	124,159	3.71 %	30 days	-		14,143	1.93%	

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(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None

(ix) Trading in derivative instruments:None

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Xudong Haipu International Co., Ltd.	1	Interest expense	1,976	By contract	0.05%
0	"	Worldco International Co., Ltd.	1	Other receivables	12,062	"	0.13%
0	"	"	1	Commission revenue	23,848	"	0.63%
0	"	TSH Biopharm Co., Ltd.	1	Sale	124,159	"	3.30%
0	"	"	1	Service revenue	4,386	"	0.12%
0	"	"	1	Other receivables	3,763	"	0.04%
0	"	"	1	Rental revenue	3,651	"	0.10%
0	"	"	1	Other income	6,883	"	0.18%
0	"	"	1	Accounts receivable	14,143	"	0.15%
0	"	American Taiwan Biopharma Phils Inc.	1	Accounts receivable	7,617	"	0.08%
0	"	"	1	Other receivables	4,825	"	0.05%
0	"	"	1	Sale	5,412	"	0.14%
1	Worldco International Co., Ltd.	Worldco Biotech Pharmaceutical Ltd.	1	Other payables	11,687	"	0.13%
1	"	"	1	Other receivables	54,825	"	0.59%

Note 1): The numbering is as follows:

1. "0" represents the parent company.
2. Subsidiaries are sequentially numbered from 1 by company.

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Note 2): The types of transaction between the parent company and subsidiaries are as follows:

1. Transactions from parent company to subsidiary.
2. Transactions from subsidiary to parent company.
3. Transactions between subsidiaries.

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

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

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2016 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2016			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership	Carrying value				
The Company	Xudong Haiyu International Co., Ltd.	Cayman Is.	Investing activities	303,998	303,998	25,000	100.00 %	1,498,304	100.00 %	(25,883)	(25,883)	Subsidiary
"	Worldco International Co., Ltd.	Hong Kong	Selling chemical medicine	158,254	158,254	39,600	100.00 %	241,037	100.00 %	8,034	8,034	Subsidiary
"	American Taiwan Biopharma Phils Inc.	Philippines	Selling chemical medicine	32,904	32,904	459	87.00 %	1,893	87.00 %	(392)	(341)	Subsidiary
"	TSH Biopharm Co., Ltd.	Taiwan	Selling chemical medicine	227,449	227,449	21,687	56.48 %	817,869	56.48 %	141,203	79,751	Subsidiary
"	PharmaEngine, Inc.	Taiwan	Developing chemical medicine	371,070	371,070	23,640	19.30 %	733,329	19.32 %	689,625	133,097	Investments accounted for using equity method
"	American Taiwan Biopharm	Thailand	Selling chemical medicine	2,966	2,966	380	40.00 %	192,236	40.00 %	60,069	24,027	Investments accounted for using equity method
"	Gligio International Limited	Hong Kong	Selling chemical medicine	2,685	2,685	620	40.00 %	22,903	40.00 %	35,100	14,040	Investments accounted for using equity method
"	CY Biotech Co., Ltd.	Taiwan	Selling functional food	82,059	57,000	6,326	27.54 %	59,290	27.84 %	(41,047)	(10,791)	Investments accounted for using equity method
TSH Biopharm Co., Ltd.	Pharmira Laboratories, Inc.	Taiwan	Developing biotechnology	-	70,000	-	- %	-	- %	-	20	Note 1

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Note 1): The Group lost its significant influence over the Pharmira Laboratories, Inc. in February 2016, the investments were reclassified from investments accounts for using the equity method to financial assets carried at cost-noncurrent. Pharmira Laboratories, Inc. shares were listed on the emerging market in December 28, 2016, these investments were reclassified to available-for-sale financial assets.

(c) Information on investment in Mainland China:

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

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016	Net income (losses) of the investee	Percentage of ownership	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 328,950 10,200	(2)	323,433	-	-	323,433	32,592 CNY 6,720	100 %	- %	32,592 CNY 6,720	(70,674) CNY (15,304)	-
Worldco Biotech (Chengdu) Pharmaceutical Ltd.	Selling chemical medicine	CNY 54,942 11,900	(2)	92,940 CNY 20,130	-	-	92,940 CNY 20,130	(664) CNY (137)	100 %	- %	(664) CNY (137)	51,207 CNY 11,091	-

The exchange rate of USD to NTD as of the reporting date is 1:32.25, and the average exchange rate of USD to NTD as of the reporting date is 1:32.254.

The exchange rate of CNY to NTD as of the reporting date is 1:4.617, and the average exchange rate of CNY to NTD as of the reporting date is 1:4.85.

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

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

Note 2): The investment income (loss) is recognized on the following basis, and should be specified:

1. The financial report was audited by an international accounting firm in cooperation with an accounting firm registered in the R.O.C.
2. The financial report was audited by the CPA of the parent company 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, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
423,982	1,506,978 (USD 46,728)	3,227,117

(iii) Significant transactions:

Please refer to Note 7.

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(14) Segment information:

(a) General information

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

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

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

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

For the Year Ended December 31, 2016	Oncology Business Unit	TTP	Anti- Infection Business Unit	Domestic Cardiovascular and Gastrointestinal Drugs Business Unit	China Medicine Business Unit	Other Segment	Adjustment and elimination	Total
Revenue:								
Revenue from external customers	\$ 2,473,183	205,162	508,113	492,465	64,703	17,091	-	3,760,717
Intersegment revenues	154,676	3,128	-	-	-	-	(157,804)	-
Interest revenue	563	1,945	-	4,900	9,166	6	(2,390)	14,190
Total revenue	\$ 2,628,422	210,235	508,113	497,365	73,869	17,097	(160,194)	3,774,907
Interest expense	\$ 25,361	-	-	-	-	-	(2,382)	22,979
Depreciation and amortization	106,689	839	329	6,731	325	39	8,094	123,046
Share of profit of associates and joint ventures accounted for using equity method	122,306	38,067	-	20	-	-	-	160,393
Reportable segment profit or loss	\$ 1,167,414	71,155	193,468	158,591	(16,615)	(392)	(61,562)	1,512,059
Assets:								
Investments accounted for using equity method	\$ 792,619	215,139	-	-	-	-	-	1,007,758
Reportable segment assets	\$ 7,791,524	553,953	206,643	1,567,234	1,760,966	17,802	(2,607,817)	9,290,305
For the Year Ended December 31, 2015								
Revenue:								
Revenue from external customers	\$ 2,082,445	206,574	310,060	513,651	70,573	11,915	-	3,195,218
Intersegment revenues	129,933	4,667	-	-	5,256	-	(139,856)	-
Interest revenue	265	2,502	-	5,725	1,784	5	(621)	9,660
Total revenue	\$ 2,212,643	213,743	310,060	519,376	77,613	11,920	(140,477)	3,204,878
Interest expense	\$ 25,467	-	-	-	524	-	(629)	25,362
Depreciation and amortization	106,513	801	289	7,599	217	56	3,154	118,629
Share of profit of associates and joint ventures accounted for using equity method	65,904	32,184	-	(10,251)	(88,221)	-	-	(384)
Reportable segment profit or loss	\$ 750,837	54,208	77,861	97,204	549,026	(3,541)	-	1,525,595
Assets:								
Investments accounted for using equity method	\$ 652,371	193,322	-	27,791	-	-	-	873,484
Reportable segment assets	\$ 7,832,901	444,063	171,036	1,461,230	1,912,181	13,767	(3,010,238)	8,824,940

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(c) Information

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

<u>Product and Service</u>	<u>2016</u>	<u>2015</u>
Medical and functional food	\$ 3,697,272	3,124,858
Service revenue	63,445	70,360
Total	<u>\$ 3,760,717</u>	<u>3,195,218</u>

(d) Geographic information

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

(i) External sales

<u>Region</u>	<u>2016</u>	<u>2015</u>
Taiwan	\$ 2,729,908	2,552,682
China	12,784	70,573
Others	1,018,025	571,903
Total	<u>\$ 3,760,717</u>	<u>3,195,158</u>

(ii) Noncurrent assets

<u>Region</u>	<u>2016</u>	<u>2015</u>
Taiwan	\$ 2,689,782	2,448,095
China	27,371	511
Others	70	40
Total	<u>\$ 2,717,223</u>	<u>2,448,646</u>

The Group's segment revenue is calculated on the basis of the region in which payment is received. Noncurrent assets include property, plant and equipment, investment property, intangible assets, and refundable deposits.

(e) Major customer

The Group has no customer representing more than 10% of revenue in the consolidated income statement for the year ended December 31, 2016 and 2015. The Group's information about the major customer was as follows:

<u>Customer</u>	<u>2016</u>	<u>2015</u>
A	<u>\$ 864,563</u>	<u>458,561</u>